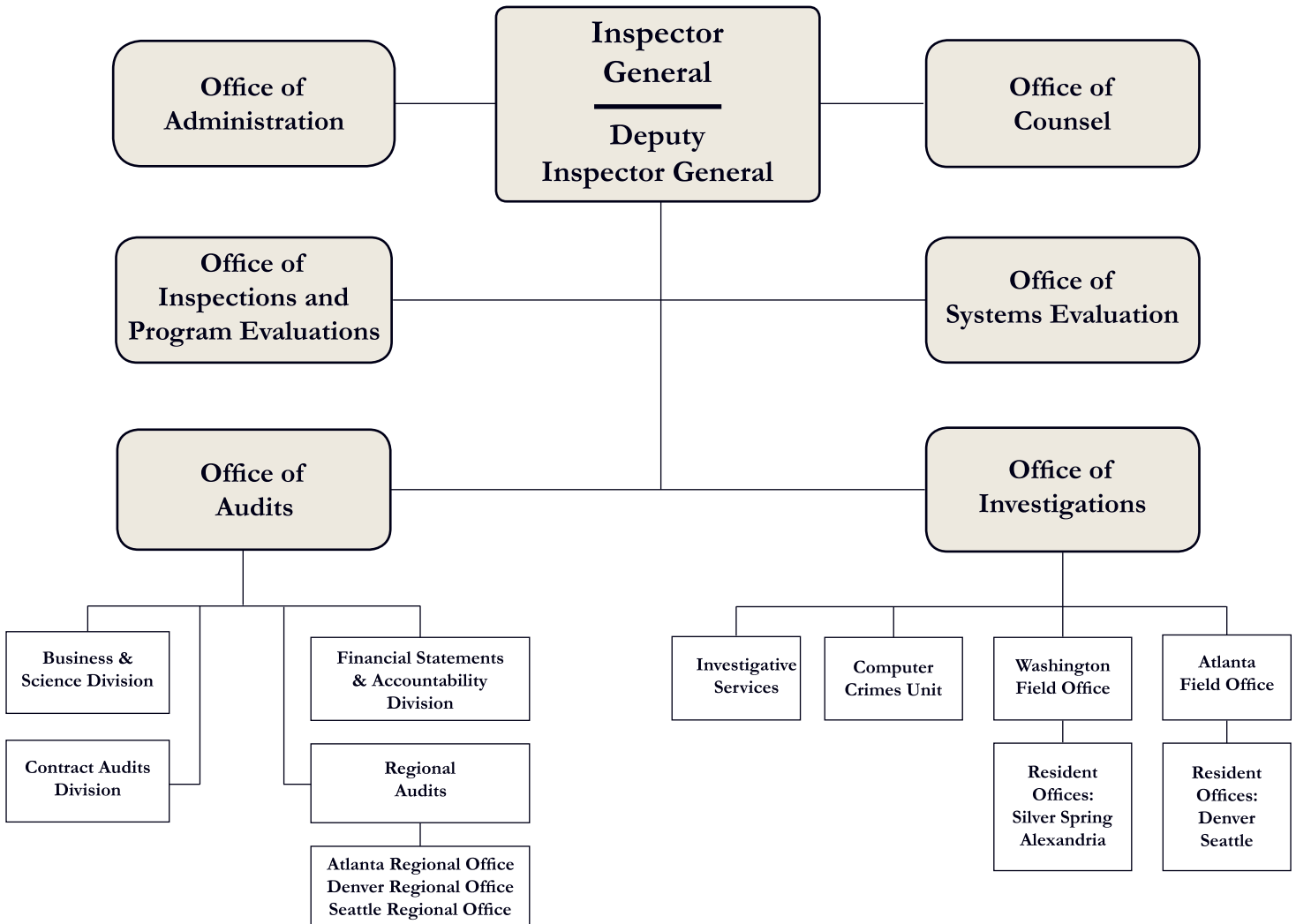




**SEMIANNUAL
REPORT TO CONGRESS
SEPTEMBER 2007**

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**IG's
Semiannual
Report
to Congress**

September 2007



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

September 30, 2007

The Honorable Carlos M. Gutierrez
Secretary of Commerce
Washington, D.C. 20230

I am pleased to submit this *Semiannual Report to Congress*, which details the work and activities of the Office of Inspector General for the 6-month period April 1, 2007, through September 30, 2007. The Inspector General Act of 1978 requires that we prepare this report twice each year to summarize our assessments of Commerce operations and that you transmit it, with any comments you may wish to add, to Congress within 30 days of receiving it.

On June 29, 2007, Johnnie Frazier retired after 37 years at the Department of Commerce, including nearly three decades with the Office of Inspector General and nine years as Inspector General. OIG would like to acknowledge Mr. Frazier's extraordinary dedication to public service during his lengthy federal career, and express our appreciation for the many valuable contributions he made to this organization, the Department, and the inspector general community. The office is continuing its efforts to promote integrity, efficiency, and effectiveness in departmental programs and operations as we await the confirmation of a new inspector general.

Consistent with prior reporting periods, our work over the last six months addressed a number of the major operational and programmatic priorities of the Department. We maintained our focus on information security – a top challenge for Commerce and the federal government as a whole – completing assessments under the Federal Information Security Management Act, as well as reviews of the Census Bureau's IT security controls and property management policies for the thousands of laptop computers used in its field and headquarters operations.

During this period, we also began to escalate our oversight of Census's preparations for the 2010 decennial, completing a review of update/enumerate test operations on the Cheyenne River Reservation in South Dakota and an evaluation of the bureau's progress in readying its workers' compensation program for the decennial. In addition, we have initiated reviews of several aspects of the 2008 dress rehearsal and performance audits of two multimillion-dollar contracts that are integral to decennial operations.

I thank you and your staff for your continued support of the work of this office, and the generous assistance provided by senior managers throughout the Department during this period of transition.

Sincerely,

A handwritten signature in black ink that reads "Elizabeth T. Barlow". The signature is fluid and cursive.

Elizabeth T. Barlow
Acting Inspector General



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Photo by OIG

This lighted vault is one of the Herbert C. Hoover Building's many beautiful architectural features.

ACTING INSPECTOR GENERAL'S MESSAGE TO CONGRESS

On behalf of the Department of Commerce Office of Inspector General, I am pleased to submit our *Semiannual Report* for the second half of fiscal year 2007.

A considerable amount of the work completed during this period was dictated by the Federal Information Security Management Act, which requires that we annually assess Commerce's efforts to safeguard data processed by its computer systems and networks. Meeting FISMA standards has proven a difficult and costly challenge for many federal agencies. In FY 2007, the government spent \$5.2 billion to secure its total IT investment of approximately \$64 billion.¹ Yet progress has been uneven across the board, and Commerce—while making significant headway—has been among those

prevent unauthorized data access. On the latter point, we determined they did not.

We also found that Census property management personnel gave inadequate attention to the laptop inventory, a situation the bureau has since rectified. Likewise, the Department's recent initiative to equip all Commerce computers with "full disk" encryption, which secures all of a computer's data, should ensure that information on Census laptops is now protected.

Oversight of Census 2010 Activities

With roughly 2 years remaining until the 2010 decennial census, we have escalated our oversight of the bureau's preparations, with reviews under way of the 2008 dress rehearsal and of two multimillion-

We await the confirmation of a new inspector general and look forward to continuing the productive partnership we have enjoyed with the Department and the improvements in Commerce operations it has yielded.

that continue to struggle to adequately protect systems and information from compromise. Our annual FISMA work has been important in gauging the nature and extent of problems and progress at the various operating units, and for offering solutions to achieve the Department's full compliance with the law. (See pages 30, 36, and 41.)

Complementing our FISMA evaluations during this semiannual period were our reviews of IT security and property management at the Census Bureau in relation to the loss of several hundred Census laptop computers, many of which contained sensitive data. (See page 21.) Initiated at the request of Secretary Gutierrez, our reviews sought to determine how the breakdown in property management occurred and whether the laptops had adequate security controls to

dollar IT contracts. During this semiannual period, we completed an evaluation of the bureau's 2006 update/enumerate test on the Cheyenne River Reservation and Off-Reservation Trust Land in South Dakota (see page 25). We found, among other things, that poor maps and incorrect address lists made it difficult for enumerators to find housing units and that changes to the questionnaire designed to improve the count had little impact on the final numbers.

We also followed up on Census's efforts to develop a workers' compensation strategy that addresses the unique challenges posed by temporary decennial hires who are hurt on the job—a strategy we recommended in a 2006 Department-wide review of workers' compensation. We found that the bureau as yet has no such strategy in place. (See page 29.) With dress rehearsal activities already under way, Census runs the risk of seeing its injured, short-term decennial employees become long-term benefits recipients unless it quickly implements a program

¹ <http://www.whitehouse.gov/omb/egov/documents/FY07ITBudgetRollout.pdf>

that offers suitable job opportunities for those who are able to return to work.

Other Areas of Focus

Finally, audits of Commerce financial assistance recipients identified millions of dollars in questioned costs and funds to be put to better use. (See pages 17-19 and 39.) And our evaluation of the *National Export Strategy*—which the Department takes the lead in developing—determined that it lacks the specificity required to foster integrated government-wide trade promotion activities. (See page 33).

Work under way in other areas—such as oversight of the GOES-R satellite program and NOAA's management of the Fisheries Finance Loan Program—is pointing to a number of actions needed to improve program operations and protect the federal investments at stake. We are consulting with

senior Department officials as these reviews progress to facilitate their efforts to address any shortcomings that may be deemed critical.

OIG Leadership in Transition

It has been a privilege to serve as acting inspector general during the final 3 months of this reporting period, following the retirement of Johnnie Frazier—our IG for the past 9 years, and a highly regarded Commerce employee for his entire 37-year career in public service. I wish to acknowledge with gratitude the spirit of collaboration that has marked our interactions with Commerce officials as we've conducted our work during this time of transition. We await the confirmation of a new inspector general and look forward to continuing the productive partnership we have enjoyed with the Department and the improvements in Commerce operations it has yielded.

MAJOR CHALLENGES FOR THE DEPARTMENT

This section highlights the Top 10 Management Challenges that faced the Department at the close of this semiannual period. Each challenge meets one or more of the following criteria: (1) it is important to the Department's mission or the nation's well-being, (2) it is complex, (3) it involves sizable resources or expenditures, or (4) it requires significant management improvements. Because of the diverse nature of Commerce activities, these criteria sometimes cut across bureau and program lines. Experience has shown that by aggressively addressing these challenges, the Department can enhance program efficiency and effectiveness; eliminate serious operational problems; decrease fraud, waste, and abuse; and achieve substantial savings.

TOP 10 MANAGEMENT CHALLENGES

1. Control the cost and improve the accuracy of the decennial census.
2. Strengthen Department-wide information security.
3. Effectively manage departmental and bureau acquisition processes.
4. Strengthen internal controls over financial, programmatic, and business processes.
5. Ensure that USPTO uses its authorities and flexibilities as a performance-based organization to achieve better results.
6. Effectively manage the development and acquisition of environmental satellites.
7. Promote U.S. exports and fair competition in international trade.
8. Effectively manage NOAA's stewardship of ocean and living marine resources.
9. Aggressively monitor emergency preparedness, safety, and security responsibilities.
10. Enhance export controls for dual-use commodities.

Challenge 1

Control the Cost and Improve the Accuracy of the Decennial Census

The Census Bureau's redesigned decennial plan, established after the 2000 census, is heavily dependent on automating critical field operations to accurately count the nation's population within budget. After conducting a series of tests throughout the decade, the bureau has begun a "dress rehearsal" or dry run of the upcoming 2010 census, which will produce an unofficial count for two sites: San Joaquin County, California, and eight counties surrounding Fayetteville, North Carolina. The local census office for each site opened in April 2007.

During the past year, we monitored various aspects of the bureau's decennial operations: we completed our evaluation of the 2006 test of update/enumerate at the Cheyenne River Reservation and conducted a follow-up review of the bureau's progress in readying its workers' compensation program for the 2010 decennial (see pages 25 and 29). We also have initiated two reviews of the 2008 dress rehearsal, one assessing the effectiveness of address canvassing procedures in improving the accuracy of the address list and maps, and the other evaluating the capabilities and performance of the technology that supports this operation. And we are auditing two multimillion-dollar contracts: Field Data Automation Collection (FDCA) and the Decennial Response Integration System (DRIS), which are being used to acquire IT devices and services that are critical to the success of the reengineered census.

Counting American Indians on Reservations

Counting American Indians living on reservations such as the one selected for the 2006 test of update/enumerate can be challenging because these sites often contain many unnamed streets and unnumbered houses and encompass large, rural areas punctuated by small communities. In addition, multiple families often share a single housing unit, and getting an accurate count of the entire household is difficult. In update/enumerate census-takers go door to door to collect population information and update address lists and maps. We evaluated the test's conduct and outcomes, particularly with regard to the impact of a new query on the census form designed to improve the count of all household members ("within-household coverage"). We looked at the success of the overall operation in accurately enumerating the reservation population.

Overall, we found the new query had little impact on reservation enumerations. We also found many problems caused by the poor quality of Census maps and address list information collected during the address canvassing operation, which preceded update/enumerate, and Census's decision not to equip enumerators with GPS navigation tools in this geographically challenging environment. Given that Census did little to test alternative enumeration methods, we question whether the bureau devoted adequate time and attention to the 2006 effort.

With the countdown to the 2010 census accelerating, the bureau's time for modifying plans and ensuring an accurate, cost-effective count of all Americans is growing short. We recommended that Census, at the very least, give enumerators usable, legible maps and sufficiently detailed address lists on a consistent basis and consider giving enumerators a GPS device for navigation—either the handheld computer slated for Census 2010 or an inexpensive off-the-shelf model. This latter step would go a long way toward improving the accuracy and efficiency of update/enumerate. We further recommended assigning a senior headquarters official specific responsibility for improving 2010 American Indian enumeration efforts. (See page 25.)

Improving the Workers' Compensation Program at Census



www.census.gov/2010census/dx-261-cafinalnr.pdf

In our March 2006 *Semiannual Report* (page 39-41), we discussed the results of our review of Commerce's workers' compensation program,² which included recommendations that the Census Bureau and the Department develop a comprehensive workers' compensation program for the 2008 dress rehearsal and the 2010 decennial. The bureau paid almost \$14.2 million in workers' compensation benefits during the 2000 census and continues to pay millions of dollars to decennial workers still on the

rolls. The unique nature of intermittent work at Census complicates administration of the program, so we urged the bureau and the Department to develop a strategy to contain these costs for the upcoming decennial.

During this semiannual period we assessed the bureau's progress in implementing our 2006 recommendations for developing a program, identifying ways to contain related costs for the 2008 dress rehearsal and 2010 decennial operations, returning current claimants to work, when feasible, and implementing training and other management controls and oversight to minimize unnecessary workers' compensation costs.

We found the bureau had yet to implement a strategy for returning current claimants to work or for managing a workers' compensation program tailored specifically to the staffing challenges posed by decennial operations. Census officials have recently advised us they've taken preliminary steps to return some claimants to work and have reached internal agreement on a regionally based return-to-work

² *Management of Commerce's Federal Workers' Compensation Program Needs Significant Improvement*, IPE-17536

program and an integrated program strategy. The bureau must now work with the Department's human resources office and with Labor Department officials to finalize and implement its strategy. It must also identify the resources needed to handle the anticipated caseload of workers injured during 2010 decennial operations. (See page 29.)

Assessing the 2008 Address Canvassing Dress Rehearsal

The dress rehearsal is a final opportunity to ensure that decennial components work together as planned. We are currently evaluating the address canvassing portion of dress rehearsal, which took place from May through June 2007.

During address canvassing, temporary staff equipped with handheld computers go into the field to verify, update, add, or remove addresses; add and delete streets to correct computer maps; and annotate address locations on the maps. The operation produces an updated, comprehensive file of addresses and physical locations where people live or stay. We are assessing whether fieldworkers consistently followed procedures and made appropriate corrections on the handheld computer, and whether the redesigned quality control component improved the quality of the address list.

In a separate review, we are looking at the technology supporting the operation. Our observations thus far suggest that key automation capabilities have greatly improved since the 2004 and 2006 site tests. But we observed other problems. For example, handheld computer functions frequently froze, processing of large address lists was slow, and help desk support for resolving users' computer problems was inadequate. The bureau and its FDCA contractor are aware of these problems and are working to resolve them. We will detail our findings and recommendations in the next semiannual report.

Challenge 2

Strengthen Department-Wide Information Security

The continuing expansion of information technology means federal agencies face ever-increasing challenges in performing their missions while providing for the security of their sensitive information. Since enactment of FISMA in 2002, agencies have spent millions of dollars to improve the security of information on their computer systems and shared via the Internet. Yet weaknesses persist and breaches continue. At the Department of Commerce, IT security has been reported as a material weakness under the Federal Managers Financial Integrity Act since 2001.

The system security certification process is supposed to provide officials with complete, accurate, and trustworthy information on a system's security status so they can make timely, credible, risk-based decisions on whether to authorize operation. Our reviews of the Department's certification and accreditation (C&A) packages continue to find a process that does not adequately identify and assess needed security controls. As a result, authorizing

Why Is C&A Important?

Certification is a comprehensive assessment of security controls implemented in a computer system. It determines whether controls are implemented correctly, operating as intended, and meeting the security requirements for the system. Through the formal assessment of controls, the system certifier identifies any vulnerabilities that have not been eliminated by security controls.

Accreditation is management's formal authorization to allow a system to operate. It includes an explicit acceptance of the risks posed by any identified remaining vulnerabilities. Through accreditation, senior agency officials take responsibility for the security of systems they manage and for any adverse impacts should a breach in security occur.

officials do not have the information they need to make sound accreditation decisions.

Beginning in FY 2005, Commerce's Office of the Chief Information Officer (OCIO) instituted a quality assurance process that involved reviewing C&A packages for agency (as opposed to contractor) systems, working with the bureaus to eliminate noted deficiencies, and forwarding to OIG packages considered acceptable for FISMA review. For FY 2007, we received packages for eight agency systems reviewed by OCIO as of our cutoff date in early June.

FY 2007 FISMA Review

We looked at a total of six C&A packages—three of which had been reviewed by OCIO in FY 2007; one reviewed in FY 2006 but sent to us late in the fiscal year; and two contractor systems, which had not undergone OCIO's quality review. We assessed all components of each package and met with agency and contractor staff to discuss apparent omissions or clarify discrepancies in the documentation and gain further insight into the extent of the security controls assessment. We gave particular weight in our review to evidence supporting the rigor and completeness of the assessment.

We concluded that only two of the six packages adequately complied with FISMA, OMB policy, NIST guidelines, and agency IT security policy. Both were for agency systems. But we noted continued improvement in security plans for all the systems, particularly in the identification of system components. We also found improvement in the assessment of security controls in the two compliant systems. However, the remaining four systems had serious deficiencies in their controls assessment, particularly in the testing of operational and technical controls. (See pages 30, 31, and 41.) That being the case, we again recommended IT security be reported as a material weakness within Commerce.

Two USPTO packages were included in our review sample—one for an agency system and one for a contractor system. Both lacked sufficient evidence to confirm that operational and technical controls are in place and operating as intended, leaving the

certification agents and the authorizing official without adequate information about remaining vulnerabilities. (See page 45.) Therefore, we also recommended that USPTO, which submits its performance and accountability report separately, again report IT security as a material weakness.

Senior management officials in the Department and USPTO are keenly aware and supportive of the need for improving the IT security program. The Department CIO has placed a great deal of emphasis on improving C&A and is taking significant actions to improve the process. Likewise, USPTO's CIO has devoted considerable personal attention and resources to improving C&A. These efforts demonstrate a high level of commitment; unfortunately, their benefits have yet to translate into C&A processes that consistently produce packages showing adequate implementation of the required baseline level of security for the Department's more than 300 IT systems.

Lost Laptops Prompt Assessment of IT Security at Census

The widely publicized loss of hundreds of Census laptops between 2001 and 2006 prompted our office, at the request of Secretary Gutierrez, to assess the bureau's IT security controls for protecting personally identifiable information, along with the bureau's property management policies and practices (see page 21). Our assessment of the security controls focused on the laptop computers used by about 5,500 Census field representatives to conduct censuses and surveys prior to implementation of full disk encryption. We found that personally identifiable information could be recovered from Census's lost or stolen laptops using software tools available on the Internet. Given how the laptops are used in the field, it is likely that some were not encrypted when lost or stolen, leaving confidential information readily accessible. Our report identifies additional IT security weaknesses that further increase risk to personally identifiable information.

Census has taken significant steps to improve IT security and better protect its sensitive information, and has been extremely responsive in correcting the

IT security weaknesses we identified. However, in an era of increasing IT security requirements and highly constrained resources, the bureau faces considerable challenges in carrying out its IT security program.

The Department has also taken several significant steps to secure personally identifiable information: it required that all Commerce laptops be fully encrypted during FY 2007 and selected a product for implementing two-factor authentication, which uses a randomly generated pass code, along with the user's password, to control access to Commerce networks from remote locations. In addition, it established an Identity Theft Task Force of senior officials to ensure rapid, appropriate response to actual or potential data breaches involving personally identifiable information.

Challenge 3

Effectively Manage Departmental and Bureau Acquisition Processes

Commerce spends nearly \$2 billion a year to procure goods and services so management and oversight of the processes used must be superior. Past OIG audits and evaluations have identified improvements the Department needs to implement to fortify the acquisition process. These include documenting program needs, validating requirements, fully

funding contracts, preparing and maintaining cost estimates, performing effective market research, ensuring full and open competition whenever possible, using earned value management to measure progress, establishing effective award fee plans, and selecting the appropriate contract types.

Continuity and consistency in acquisition management and oversight are essential to ensuring the government timely and cost-effectively gets what it pays for especially when making complex and costly acquisitions. With that in mind, Commerce must ensure that high turnover in upper management and other key acquisition positions at the Department and several of its agencies does not affect the quality of the procurement process.

In addition, the Department has had a difficult time achieving discipline in the acquisition process over the past few years. Senior management must take a serious look at the planning and execution processes for procurements and ensure agencies have the ability to promptly hire and adequately train qualified acquisition staff.

OIG's Efforts to Improve Contracting Oversight

In FY 2006, OIG established a contract audits division to oversee Commerce's acquisition activities. The division will monitor the Department's most significant procurements on a continuing basis and conduct audits of those contracts as appropriate. The contract audits team will also scrutinize the Department's revision of departmental and bureau procurement policies to ensure they mirror current federal acquisition regulations and Office of Management and Budget circulars. In its reports, the team will recommend best practices and innovative approaches the Department should adopt.

The contract audits division's initial area of emphasis has been the Census Bureau's procurement of products and services to support the 2010 decennial census. In April 2007, we began the first of a series of audits of the FDCA and DRIS contracts. FDCA is an effort to automate field data collection and provide logistics, training, and help desk support for

<http://oam.ocs.doc.gov/>

12 regional centers, more than 450 local census offices, and up to 500,000 field staff who will conduct the decennial census. DRIS is intended to standardize and integrate data collected via paper census forms, handheld computers, telephone interviews, and other methods. These two contracts have a combined value of \$1.1 billion, representing about 9.5 percent of the \$11.5 billion in total estimated costs for the 2010 decennial census. The first audit of these contracts will determine whether (1) the prime contractors' data deliverables were on time and of acceptable quality, (2) the contracting officers can promptly adjust the contract cost estimate to account for changes in cost and schedule, and (3) both contracts contain effective award fee plans. In future audits, we will review the contractors' costs for equipment and materials, their management of subcontractors, and contractor surveillance.

In addition to its audit of the FDCA and DRIS contract, the contract audits division is currently monitoring several high-profile contracts within the Department, including the \$200 million 2010 Census Communications Campaign contract. In anticipation of conducting an audit, we are evaluating the bureau's contract administration, focusing on whether the contractor charges appropriate labor rates and submits status reports on costs and its progress against the program's schedule. In June 2007, division staff met with the contracting officer for that procurement to informally review the processes the bureau used to solicit proposals and make the award.

National Data Buoy Center

OIG is also examining a large contract administered by the National Data Buoy Center, a part of the National Weather Service that designs, develops, operates, and maintains a network of data-collecting ocean buoys and coastal stations. In 2005, the center awarded a 5-year contract with potential for five 1-year extensions worth up to \$500 million for technical services support for its marine observation network. Currently, an OIG inspection team is reviewing the contract's structure and management by the National Oceanic and Atmospheric Administration, including oversight of the associated

tasks performed to maintain and repair data buoys and other observation platforms for marine weather forecasting. We expect to issue a report on this review during the next semiannual period.

Challenge 4

Strengthen Internal Controls over Financial, Programmatic, and Business Processes

To ensure operations are effective, efficient, and in compliance with laws and regulations, agencies implement internal controls. These steps also make certain that financial reporting is reliable and assets are safeguarded from waste, loss, or misappropriation.

In the years since passage of the 1990 Chief Financial Officers Act, Commerce has been working to fix financial management problems, including overhauling accounting practices and consolidating several financial systems into one. The result has been a more integrated system designed to give agency managers current, accurate information.



<http://home.commerce.gov/ofin/>

In FY 2006, agencies began implementing new internal accounting controls required by OMB's revised Circular A-123, and since FY 2004 they have had to issue audited financial statements within 45 days of the fiscal year's close. Commerce has met this deadline each year since 2004, and has continued to receive a clean opinion on its consolidated statements.

However, despite positive efforts made by the Department, the FY 2006 financial statement audit found that continued improvements are needed in its IT general control environment. Commerce also needs to ensure that the internal controls for programs

and business practices provide reasonable assurance that operations are effective and efficient and are consistent with applicable laws and regulations.

Establishing a Blueprint for Sound Management of New NTIA Programs

The Digital Television Transition and Public Safety Act of 2005 requires the Federal Communications Commission to auction recovered analog spectrum and deposit the proceeds into a special fund. A portion of the proceeds will be used to fund several new programs within the National Telecommunications and Information Administration (NTIA). Under the act, NTIA, one of the Department's smaller agencies, is slated to manage up to nine new programs, two of which have potential combined budgets totaling \$2.5 billion (a grant program for public safety interoperable communications and a converter box coupon program).

Successfully implementing these new programs is a significant management challenge for the Department. We are sharing our expertise with NTIA to help it design strong, well-structured programs that minimize the opportunities for fraud. During this period, we presented information on federal audit requirements, cost principles, and matching share requirements at a June NTIA public meeting and at September workshops for the 56 states and territories receiving more than \$968 million in grants to improve interoperable communications of public safety agencies, including fire and police departments and emergency medical teams. In addition, Congress has enacted a new statute requiring OIG to conduct an annual assessment of the management of the public safety interoperable communications program and to conduct financial audits over the next 4 years of a representative sample of at least 25 states or territories receiving the public safety grants.

In August 2007, NTIA awarded a contract to IBM for digital-to-analog converter box coupon program services. In the next semiannual period we plan to review the contract and develop audit plans to help us evaluate the implementation of this program.

Evaluating Program and Accountable Property Controls

Because the design and implementation of program and property controls can significantly impact the effectiveness of departmental operations, these areas are an important focus of our audit and inspection work.

Our recent audit of EDA's revolving loan fund program revealed weak agency oversight, persistent problems, and millions in funds to be put to better use. EDA management responded with an action plan that assigns responsibility of the program to a single individual who can be held accountable for its operations, lays out a time frame with specific milestones addressing known problems as well as establishing performance metrics that will allow senior management to better monitor the program. Since the report was issued, EDA has partnered with OIG to provide single audit training for EDA staff involved in the management of revolving loan funds.

During this semiannual period, we completed an audit of the Census Bureau's accountable property management policies and practices. We found the bureau had made considerable progress in correcting weaknesses by implementing initiatives directed by Commerce and on its own but still needs to make further improvements. (See page 23.)

We recently initiated a review of accountable personal property at USPTO. We plan to issue a report of our findings during the next semiannual period.

Challenge 5

Ensure that USPTO Uses Its Authorities and Flexibilities as a Performance-Based Organization to Achieve Better Results

Since the Patent and Trademark Office Efficiency Act transformed USPTO into a performance-based organization over 7 years ago, OIG has devoted sig-

nificant resources to oversight of the agency. We have issued nearly a dozen reports examining USPTO program, operational, and administrative issues.



USPTO

USPTO Director Jon Dudas and Secretary of Commerce Carlos Gutierrez (back row) look on as Dean Harts of 3M, April Saunders-Fuller of Fish & Richardson, and Felicia Metz of the University of Maryland (front row) file patent documents electronically at the March 16, 2006, launch of EFS-Web USPTO's new electronic filing system.

While USPTO plays a critical role in promoting the nation's technological progress and protecting intellectual property rights, its task is often viewed as daunting given the increasing number and complexity of patent applications. The agency's *21st Century Strategic Plan*, issued in 2002 and later revised, outlined numerous initiatives to help reduce its large backlog of applications, ensure the quality of granted patents, and improve the productivity of its examiner corps. An earlier OIG report on USPTO's patent examiner production goals, performance appraisal plans, and awards highlighted actions that the agency could take to stimulate and reward examiner production. A recent GAO report on USPTO's recruitment and retention efforts also called on agency managers to reassess examiner production goals, but noted that examiners often cited those goals as a primary reason for leaving the agency. GAO also reported that attrition is continuing to offset USPTO's hiring progress even with the use of many incentives and flexibilities to retain the workforce for longer periods.

One of those workplace incentives has been USPTO's expansion of its telework program, allowing examiners to use laptops to work at offsite locations. Lost laptops and data security problems at other Commerce bureaus underscore the need for strong policies, procedures, and controls at USPTO to avoid similar problems and the potential compro-

mise of sensitive patent information. Thus, we have initiated an audit of accountable property at the agency.

The long-standing and growing backlog highlights other issues for USPTO and OIG attention: the need to expedite a fully electronic patent examination process and to carefully monitor the agency's billion-dollar investment in high-risk time and materials and award fee contracts for related information technology services. OIG may conduct reviews of selected USPTO contracts to ensure vendors are complying with contract terms and conditions, containing costs, and delivering the required services on time.

Clearly, recruitment, attrition, and information technology remain serious challenges for the agency. We will continue to monitor USPTO's progress in those areas as well as its training programs and human resources or personnel operations, where we earlier found some questionable practices and the need for improved management controls. We also plan to conduct follow-up work on the agency's new overseas attaché program and some of its other initiatives, such as the new patent peer review process.

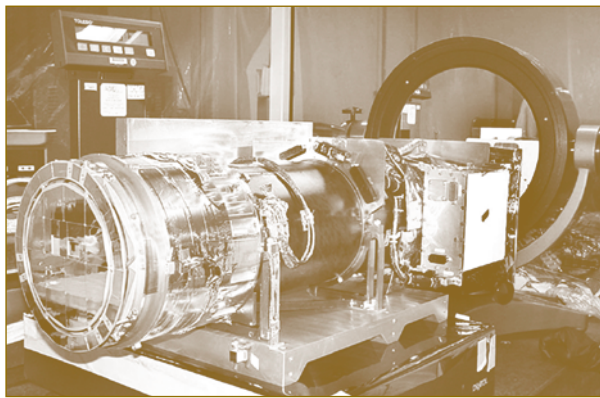
Challenge 6

Effectively Manage the Development and Acquisition of Environmental Satellites

NOAA is in the midst of a major overhaul of its environmental monitoring capabilities, spending several billion dollars on contracts for the purchase, construction, and modernization of satellite systems that collect data to produce short- and long-range weather forecasts and a variety of other critical information. Satellite programs are highly complex and risky, and they historically have been plagued by substantial cost increases and schedule delays. They are also extremely important to public safety and defense operations, and therefore have been a continuing focus of our work.

Acquiring Geostationary Weather Satellites

In the next decade, GOES-R will replace the existing GOES satellites. The new series will offer an uninterrupted flow of high-quality data to support weather forecasting, severe storm detection, and climate research vital to public safety. GOES-R is a multicontract, multiyear program wholly funded by Commerce, though the new satellites will be developed and acquired with help from NASA Goddard Space Flight Center. Planning for the new series has been under way for the past 7 years. The Department's investment for GOES-R for fiscal years 2008 to 2012 is projected to be about \$2.4 billion.



<http://goes.gsfc.nasa.gov/text/goesimbroch.html>

This solar imager, which is carried on the GOES satellites currently in orbit, observes the sun's X-ray emissions and allows early detection of flares and other solar phenomena that may affect the Earth and its atmosphere. GOES-R will feature an enhanced solar imaging suite that permits even more varied and precise readings.

In acquiring GOES-R jointly with NASA, NOAA will have the lead management role for the first time, giving the Department direct oversight authority for both the ground and space segments. In June 2007, NOAA and NASA signed a memorandum of agreement defining their separate authorities and responsibilities for managing, developing, acquiring, and integrating GOES-R. Because these are new roles for both the Department and NOAA, we evaluated whether they have established effective mechanisms for handling their expanded responsibilities.

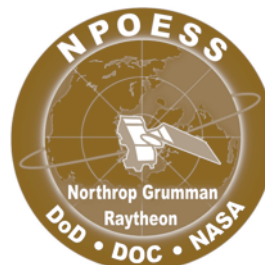
Our draft report, issued to the Department and NOAA in September, identifies a life-cycle process

for GOES-R that omits key features of accepted satellite acquisition management practices. And we concluded these omissions had negative impacts on the program. We made recommendations to Commerce and NOAA to help bring GOES-R oversight and management practices in line with those used by NASA and the Department of Defense in satellite acquisitions. NOAA agreed with our recommendations specific to its role in the acquisition, stating it is working with NASA on changes that will implement them. We recently received the Department's response, which will be considered in developing our final conclusions and recommendations regarding management of the GOES-R program.

NPOESS Acquisition Restructured

We described the troubled National Polar-orbiting Operational Environmental Satellite System (NPOESS) in our September 2006 *Semiannual Report* (page 29). This joint project of NOAA, NASA, and the Department of Defense will be a critical element in the nation's ability to provide continuous weather and environmental data for civilian and military needs through the coming 2 decades. In November 2005, Defense reported that NPOESS costs had grown by 25 percent over original estimates, largely because of problems developing a key sensor, the Visible/Infrared Imager Radiometer Suite (VIIRS). The 25 percent overrun triggered congressional recertification under the Nunn-McCurdy provision of the FY 1982 National Defense Authorization Act. In June 2006, the House Science

Committee accepted a triagency proposal to continue the program, but with four satellites instead of six, and with fewer sensors. Total acquisition costs were revised by \$5 billion.



http://eic.ipc.noaa.gov/IPOarchive/ED/graphics_kit/NPOESS_teamLogo.jpg

This past July, the NPOESS Program Office executed a \$4.2 billion modification to the development and production contract after a year-long effort

to restructure the satellite program following recertification. The revamped program calls for more rigorous management controls and oversight, and a more objective incentive payment plan for the contractor. It covers development, delivery, and launch of two NPOESS satellites through 2016, and includes delivery of sensors to support the NPOESS Preparatory Project, which is to be launched in 2009 for the purpose of demonstrating and validating new instruments, algorithms, and other capabilities. The last phase of development is now proceeding. Program executives have identified VIIRS and the Cross-track Infrared Sounder (CrIS) as the highest risk components.

We will continue to monitor cost, schedule, and technical progress on both GOES-R and NPOESS and report our findings in future semiannual reports.

Challenge 7

Promote U.S. Exports and Fair Competition in International Trade

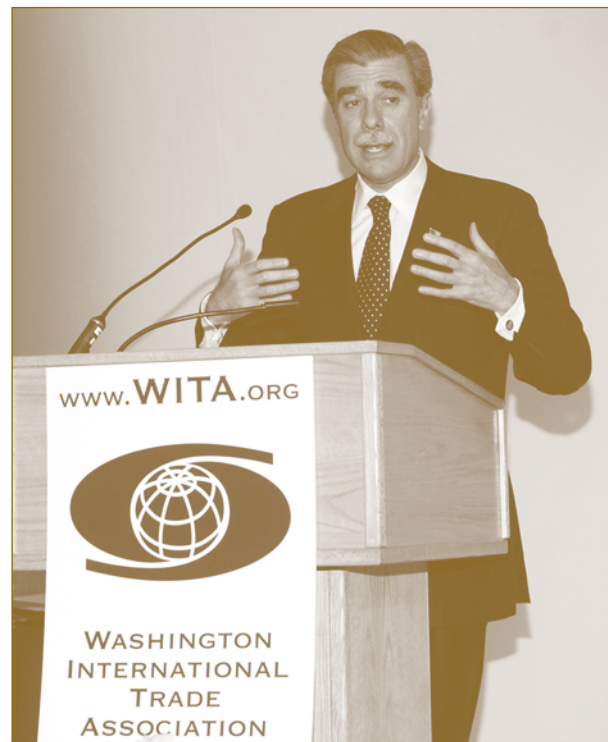
The Department of Commerce accomplishes its goals of promoting trade, opening overseas markets to American firms, and protecting U.S. industry from unfair trade practices primarily through the work of the International Trade Administration (ITA). ITA also works with USPTO and NIST to advise U.S. companies on intellectual property rights and standards issues.

During this semiannual period, OIG decided to revise the title of the challenge facing the Department. Although Commerce has a primary role in enforcing U.S. antidumping and countervailing duty laws and countering foreign unfair trade practices, greater emphasis and resources are focused on promoting U.S. exports and ensuring access to world markets for U.S. companies. Hence, we have modified this challenge to better reflect the Department's and ITA's responsibilities for promoting exports and reducing trade barriers.

Over the past several years, OIG has conducted several reviews of the Department's efforts to increase U.S. market opportunities, provide assistance to U.S. exporters, and overcome trade barriers in difficult foreign markets. A number of these reviews have also included evaluations of ITA's process for reporting export success claims resulting from its assistance to U.S. businesses. Our findings have prompted ITA to strengthen its controls related to export success reporting.

Interagency Trade Coordination

In March 2007, OIG released a report reviewing various aspects of Commerce's trade promotion efforts and the coordination of those efforts among various offices within the Department and with other federal and state trade agencies and other trade partners. We found effective collaboration on trade promotion in many instances, but we also identified areas where Commerce and other members of the federal inter-



Commerce Photographic Services

Commerce Secretary Carlos M. Gutierrez announced the release of the 2007 National Export Strategy and highlighted the need for congressional action on the Peru, Colombia, Panama, and Korea Free Trade agreements at the 25th annual Washington Trade Gala in July.

agency Trade Promotion Coordinating Committee could enhance their cooperation on specific activities, such as trade finance assistance, Internet resources for exporters, and trade assistance at overseas posts that do not have a commercial officer. Many of the recommendations in that report require long-term efforts and/or interagency cooperation for completion, so none of them has yet been fully implemented. (See March 2007 *Semiannual Report*, pages 37-40.)

During the course of working on the trade coordination report, OIGs at several agencies raised issues about the process Commerce uses to prepare the *National Export Strategy* and the involvement of other federal agencies in that effort. We reviewed the 2002 to 2006 *National Export Strategy* reports and found that the annual report often outlines useful strategies and initiatives—such as the promotion of public-private partnerships. The strategy does not, however, establish consistent goals for promoting exports, align agency-specific strategic objectives with government-wide export promotion strategic goals, or measure progress toward meeting those goals. Nor is it a coordinated government-wide strategy, as envisioned by the Export Enhancement Act of 1992. The 2007 *National Export Strategy* report, released in June, contained several improvements that are responsive to our recommendations, but further action is warranted. (See page 33.)

U.S. Trade Promotion in Latin America and China

During this semiannual period, we followed up on recommendations made in our reports on Commercial Service (CS) operations in Brazil, Argentina, Uruguay, and China. ITA and CS have made progress on many of the recommendations in our CS Brazil review, and we have closed 18 of our 43 recommendations. Those that remain open include recommendations for improving coordination with other embassy sections, clarifying export success reporting, and developing a strong marketing plan and financial management practices. In addition, we have closed the 2 recommendations made to USPTO but have kept open a recommendation to NIST regarding coordination with CS on regional

activities. (See September 2006 *Semiannual Report*, pages 33-37.)

CS and ITA each have 3 open recommendations out of a total of 20 in our 2006 review of CS operations in Argentina and Uruguay. The open recommendations involve financial management improvements and effective coordination with the Department of State's partnership posts. (See September 2006 *Semiannual Report*, pages 25-27.)

Finally, only 3 recommendations remain open of the 35 originally made in our review of CS China, although we recently received information indicating additional action may be required on one of the closed recommendations. The open recommendations deal with the American Trading Center initiative and an evaluation of language proficiency requirements for CS officers assigned to China. (See March 2006 *Semiannual Report*, pages 23-26.)

During the next semiannual period, we will continue to monitor Commerce's response to recommendations made in our recent reports on CS operations at Asian and South American posts and on trade coordination. Future OIG reviews may focus on the Department's efforts to oversee U.S. foreign trade zones or to increase exports to countries that have recently signed free trade agreements with the United States. We will also continue our periodic inspections of CS' overseas posts, as mandated by the 1988 Omnibus Trade and Competitiveness Act.

Challenge 8

Effectively Manage NOAA's Stewardship of Ocean and Living Marine Resources

NOAA spends billions of dollars each year supporting a vast array of programs designed to protect and enhance the resources in 3.5 million square miles of coastal and deep ocean waters and the Great Lakes. These programs require long-term commitments and years of funding to show their full effect. And they must operate in balance with the economic interests

of the nation: one of every six jobs is marine related and more than one-third of the gross national product is generated by economic activity tied to coastal areas.

NOAA offers several financial assistance programs to support the commercial fishing industry's viability while working to reduce overfishing and rebuild compromised fisheries. The Fisheries Finance Loan Program is one such initiative. Operated by the National Marine Fisheries Service, the program provides direct loans to refinance or refurbish fishing vessels, shoreside processing facilities, and aquaculture facilities. Program regulations and congressional appropriation language restrict the program from making loans for vessel construction or refurbishing loans that increase a vessel's fishing capacity. Since 1998, NMFS has made approximately 200 loans, for a total of nearly \$300 million. We are currently evaluating the agency's management of the loan program to determine if it affects NOAA's ability to help end overfishing and rebuild fisheries. Also under way are reviews of NOAA's National Marine Sanctuary Program and the National Data Buoy Center's ocean observation system.



Greg McFall/Grey's Reef National Marine Sanctuary

Coral reefs are some of the most biologically rich and economically valuable ecosystems on Earth. They are found in five National Marine Sanctuaries, such as Grey's Reef (pictured above), off the coast of Georgia.

The sanctuary program manages and protects 13 sanctuaries and a marine national monument in northwestern Hawaii, which is the largest protected marine area in the world. The entire sanctuary system encompasses 158,000 square miles of U.S. ocean and Great Lakes marine habitat that have conservation, historical, or scientific importance—their protected

waters offer safe breeding grounds for threatened species and harbor underwater archeological sites. The program's primary mission is resource protection, but it must also facilitate compatible public and commercial uses along with conservation and research activities. The sanctuary program coordinates its efforts with the U.S. Coast Guard, Environmental Protection Agency, Department of the Interior, and a broad range of other federal, state, local, and private partners. We are evaluating whether the program is meeting its core objectives, with a primary focus on marine conservation and research.

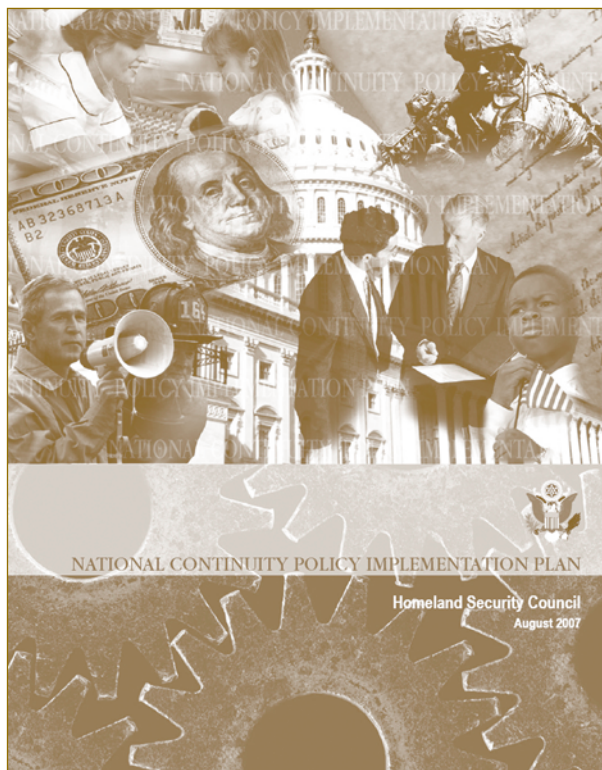
The National Data Buoy Center manages four marine observation systems: weather buoys, coastal marine observing stations, tsunami detection buoys, and climate monitoring buoys. Weather forecasting depends on the reliability and accuracy of these systems. In addition, the Tropical Atmosphere and Ocean buoys and weather buoys with oceanographic sensors provide climate data and information for researchers. We are assessing the quality and availability of data generated by the observational buoys and coastal stations and the center's management of them. We anticipate that the sanctuary and data buoy reviews will be completed in December or early 2008.

In planning for future OIG work on this challenge, we are considering reviews of NOAA's offshore aquaculture program, its coral reef program and coastal zone management, among other issues vital to the stewardship of ocean and living marine resources.

Challenge 9

Aggressively Monitor Emergency Preparedness, Safety, and Security Responsibilities

The Department of Commerce has more than 35,000 employees and hundreds of facilities it must keep safe. As a cabinet-level Department, it also has a number of programs critical to national preparedness and recovery efforts, and it must support U.S. efforts to prepare for, respond to, and recover from major disasters.



Homeland Security Council

The National Continuity Implementation Plan provides comprehensive guidance for maintaining essential operations during emergencies.

We continue to monitor Commerce's progress in resolving weaknesses in emergency preparedness and security. As of August 2007, the Department had addressed virtually all outstanding recommendations from our 2002 and 2005 reviews of its preparedness programs. But a dynamic security environment continues to challenge the nation: Commerce, like all federal agencies, must be vigilant in maintaining effective oversight of emergency plans and programs, identifying and mitigating new security vulnerabilities, and protecting critical assets. It must be able to continue essential operations under all circumstances.

In May 2007, President George W. Bush issued National Security Presidential Directive 51 (also known as Homeland Security Presidential Directive 20) that updates long-standing continuity directives to ensure that governing entities are able to recover from operational disruptions, thus maintaining continuity of operations. We will keep a close watch on the Department's efforts to comply with this directive, as well as on its ongoing oversight of preparedness procedures, its response to emerging

threats, and the broad range of public safety responsibilities inherent in its mission.

Our in-progress review of NOAA's ocean monitoring system, mentioned previously, is an example of our broader focus. Data buoys—the primary components of the system—record a variety of critical marine readings, such as wind and wave measurements and air and sea temperatures, giving forecasters an additional tool for predicting and tracking hurricanes and other potential weather emergencies. For the coming year, we are also considering reviews of the Department's new identity/badging system, personnel security, and information document security.

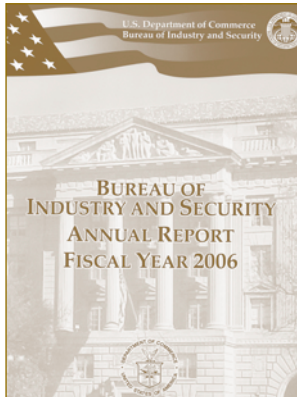
Challenge 10

Enhance Export Controls for Dual-Use Commodities

Commerce's Bureau of Industry and Security (BIS) is responsible for the federal government's export licensing and enforcement system for goods and technologies with both civilian and military uses. Because of the importance of export controls to national security, OIG has consistently devoted a great deal of time and resources to challenges facing BIS.

For the past 8 years, OIG has been working to fulfill the requirements of the National Defense Authorization Act (NDAA) for FY 2000, as amended, which directed the inspectors general of Commerce, Defense, Energy, and State, in consultation with the directors of Central Intelligence and the Federal Bureau of Investigation, to report to Congress each year through 2007 on the adequacy of current export controls and whether they are effectively preventing entities of concern from acquiring sensitive U.S. technologies. The Department of Homeland Security's OIG has also participated in these reviews since that agency was formed. The group of OIGs is currently completing the eighth and final NDAA interagency review of export controls.

During this semiannual period, we continued to monitor BIS' progress in implementing NDAA recommendations detailed in our March 2004



BIS

the transfer within the United States of controlled U.S. technologies and technical information to foreign nationals from countries or entities of concern. We look forward to the committee's report by the end of this calendar year and hope its findings and recommendations will enable BIS to increase deemed export compliance rates, assist enforcement efforts, and ensure that the regulations have the intended effect of protecting national security interests without unnecessarily burdening exporters and the scientific community (see March 2004 *Semiannual Report*, pages 14-17).

Semiannual Report (pages 14-17). For example, we have closely followed the activities and deliberations of the Deemed Export Advisory Committee, which is reviewing BIS' deemed export control policy and relevant recommendations made by this office.

Deemed export controls are designed to prevent

We also followed up on our reviews of U.S. export controls for India and China. (See March 2007 *Semiannual Report*, page 19, and March 2006 *Semiannual Report*, page 13.) In June 2007, BIS implemented a final rule that clarifies U.S. policy on the export to China of items controlled for national security reasons and implements new controls on exports of certain otherwise uncontrolled items when the exporter knows they are destined for a military end use in China.

Finally, although questions remain about the overall effectiveness of the Committee on Foreign Investment in the United States (CFIUS) process, in this year's NDAA follow-up report we noted that both BIS and ITA are working toward implementing our recommendations related to CFIUS activities within Commerce. (See March 2007 *Semiannual Report*, pages 23-25.) We believe these improvements will allow greater coordination and transparency in Commerce's decision-making process. However, we continue to question whether CFIUS' voluntary foreign investment reporting process allows the Committee to receive timely information about all acquisitions and mergers that pose potential security concerns, especially those involving small or medium-sized U.S. companies that manufacture or conduct research on sensitive U.S. technologies.



ECONOMIC DEVELOPMENT ADMINISTRATION

The **Economic Development Administration** was established by the Public Works and Economic Development Act (PWEDA) of 1965 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, as amended by the Economic Development Reauthorization Act of 2004. 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, the closure of military installations and other federal facilities, changes in trade patterns, and the depletion of natural resources. EDA provides eligible recipients with technical assistance, as well as grants for public works, planning, training and research, and economic adjustment assistance.

Nevada County Fails to Complete \$6.7 Million Public Works Project

We conducted an audit of a public works grant awarded to a county to offset the economic impacts of defense downsizing at the Nevada Test Site. Total estimated costs for the project—which targeted high-tech development in the state's south central region—were \$6.7 million, consisting of a \$3 million federal share, with the county's match making up the balance.

The grant was to fund three activities: planning and project management, creation of a technology center to provide distance education to rural communities along the targeted development corridor, and construction of a science and technology park for private high-tech firms.

Our audit, which covered the full grant term—September 30, 1999, through August 15, 2004—sought to determine whether the county had achieved award objectives, claimed allowable costs, maintained adequate administrative and program controls, and complied with grant terms and conditions. The county claimed total project costs of \$6,746,652, which exceeded the approved award budget.

Our review disclosed that the county failed to execute numerous responsibilities it had committed to when it applied for the award. It could not finance the local share, implement the project components as intended, or properly oversee the project to ensure it was administered according to federal cost principles, uniform administrative requirements, and award terms and conditions. In addition, the county did not provide and maintain the necessary engineering supervision to ensure that the work on the science

and technology park conformed to approved plans and specifications and resulted in a functional development. More than a year after construction was completed and the grant had expired, the park remained without water and other infrastructure and had no prospects for use.



OIG

The grantee completed the proposed technology center knowing that the county did not have the infrastructure needed to link the center with outlying communities and establish a long-distance learning network. The building remains unusable for its intended purpose.

We questioned the entire \$6,746,652 in claimed costs and recommended that the EDA regional director (1) conduct a technical assessment of the county's performance and determine the value of work not completed or not operational; (2) disallow all claimed costs pending the results of the assessment and recover the federal share of \$3 million; (3) require the county to report on its efforts to provide water to the park and establish a time line and budget for completing the park as originally conceived or otherwise integrating it into alternative economic development plans; and (4) accurately identify the amount of equipment acquired under the award and the government's interest in that equipment. We also recommended that EDA declare the county a high-risk recipient should it ever be considered for future federal awards.

County officials concurred with some of our findings and disagreed with others, but offered no compelling evidence to cause us to modify our conclusions and recommendations. (*Seattle Regional Office of Audits: STL-17802*)

EDA Should Consider Terminating Grant to California City and Water District

In February 2005, EDA awarded a California city and water district a \$7.9 million grant consisting of a 48 percent federal share of \$3,800,000 and a 52 percent local match of \$4,137,000 to increase water and sewer capacity and service to both the city and the adjoining service area. In August 2005, EDA suspended the award because the recipients had not executed a joint agreement to administer the grant. The water district subsequently asked to withdraw from the grant but agreed to continue to provide \$2 million toward the local share. EDA has yet to decide on the water district's request to withdraw. The award remains suspended, and no federal funds have been disbursed by EDA.

We conducted an audit to assess the city's ability to effectively manage the grant project. As the grant recipient, the city is responsible for responding to our requests for records and making staff available for interviews and inquiries. Despite this fact, we encountered numerous difficulties obtaining access to the documentation and key personnel we needed. Among other things, the city refused to

- schedule an entrance conference until shown the audit access clause contained in the city's award;
- provide requested documentation relating to its procurement of consulting and architectural engineering services, claiming that California record retention laws do not require such documentation to be maintained in perpetuity, despite the fact that grant terms clearly required them to have retained the relevant documents at the time of our request; and
- schedule interviews with two key personnel.

We were ultimately able to arrange a meeting with one after obtaining contact information from outside sources. We were never able to schedule the second interview.

After 2 weeks of thwarted attempts to obtain the information and documentation necessary to conduct the audit, we concluded that we were at an impasse. The city's denial of access constituted a material breach of the EDA grant. We recommended EDA consider terminating the award for cause, deobligating the federal share, and putting \$3.8 million to better use. (*Seattle Regional Office of Audits: STL-18499*)

More than \$2 Million in RLF Grant Funds Questioned

In September 1985, EDA awarded an \$800,000 sudden and severe economic dislocation adjustment implementation grant to a Wisconsin county. The grant required a \$623,870 match, bringing the initial project value to \$1,423,870. EDA later deobligated \$2,812 of grant funds, leaving total capitalization of \$1,421,058.



The grant was originally to be combined with private financing to make a loan to a local hardwood die company. Repayments of the loan were to be used to create a revolving loan fund (RLF). The initial loan defaulted in 1990, but the local economic development corporation that

administers the grant has rebuilt the fund over the past 17 years.

At the request of the EDA Chicago Regional Office, we conducted an audit of this award. We found that the grant administrator inappropriately combined the accounting records for the RLF with its accounting for two subsequent state grants into a single account. As a result, the EDA RLF funds were indistinguishable from the state grant funds and therefore unauditible. During our fieldwork in November 2006, we notified the grant administrator that the RLF fund and corresponding matching share needed to be separated from its other grant funds.

After our fieldwork was complete, the grant administrator separated the RLF fund and its corresponding match from other grant funds and claimed the fund totaled \$2,051,404 as of September 30, 2006. However, the administrator did not provide documentation supporting its claim. We questioned the entire amount claimed because the allowability and accuracy of each line item was not documented.

We recommended the EDA Chicago regional director require the grant administrator to provide supporting documentation for its claimed RLF balance. If the administrator cannot adequately support the claimed RLF balance, EDA may terminate the grant and recover \$797,188 of federal funds awarded (the \$800,000 EDA award less the \$2,812 deobligation). The grant administrator has filed an appeal, which is currently under consideration. (*Denver Regional Office of Audits: DEN-18388*)



Photo Courtesy U.S. Census Bureau

A Census Bureau enumerator shows an official badge before beginning a survey.



ECONOMICS AND STATISTICS ADMINISTRATION

The **Economics and Statistics Administration** analyzes economic developments, 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 agencies:

U.S. Census Bureau is the country's preeminent statistical collection and dissemination agency. It 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 the national income and product accounts (summarized by the gross domestic product), as well as aggregate measures of international, regional, and state economic activity.

Census Bureau Needs to Strengthen Personal Property Controls and Laptop Security

In May 2006, the Department of Veterans Affairs announced that computer equipment containing the personal information of approximately 26.5 million veterans and active duty members of the military had been stolen from the home of an employee. The ramifications of this theft, including the high cost of protecting the identities of the individuals whose data had been stolen, emphasized the importance of ensuring that controls are in place to prevent future data breaches at federal agencies.

In September 2006, following both a congressional and a Freedom of Information Act request regarding the compromise of sensitive personal information

and lost laptops, the Department issued a press release stating that 1,138 laptops had been lost Department-wide. Of that number, 672 belonged to Census. Commerce subsequently received a second congressional request relating to information on missing laptop computers, thumb drives, handheld devices, and computer data disks dating back to January 2001. In response to the large number of laptops lost by Census, the Secretary of Commerce asked the Office of Inspector General to determine the extent of problems in protecting sensitive personal information at the Census Bureau and to assess the bureau's property management policies and practices.

Our Office of Audits reviewed the Census Bureau's policies and procedures and assessed internal controls over accountable personal property. Its emphasis was on the missing/lost/stolen laptops reported to Congress for the period 2001 to 2006. In a separate

report, our Office of Systems Evaluation reviewed the IT security controls protecting sensitive information on laptop computers during the time frame of the reported losses.

We identified the weaknesses that existed during the time the laptops went missing and the corrective actions that had been taken or were planned to prevent future losses, and determined which weaknesses still remained. We examined internal controls such as physical control over vulnerable assets, segregation of duties, and execution, recording, and documentation of transactions and events.

We also examined six laptops used by Census field representatives to collect and store survey information. Census's technology management office obtained the laptops for us from regional Census offices. The encryption software on these laptops was the product used prior to the recent installation of a full disk encryption product.

Lax IT Security Leaves Sensitive Census Information at Risk of Compromise

To foster public participation in the bureau's data collection activities, Title 13³ requires Census to maintain the confidentiality of information it receives. Yet each of the six laptops we examined using tools readily available on the Internet had serious IT security weaknesses that left Title 13 information at risk of compromise. This data included personally identifiable information such as Social Security numbers, addresses and phone numbers, financial data, and medical information. We also found a lack of enforcement of Department and bureau IT security policy.

Information on Census field representatives' laptops was only encrypted when the computer user execut-

ed a full system shutdown. The laptop's hard drive was not encrypted in standby or hibernation modes,⁴ if a laptop was manually turned off without executing the system shutdown command, or if it lost power. Even after a full system shutdown, Social Security numbers, names, addresses, phone numbers, and medical and financial information remained unencrypted in some specific types of files on Census field representatives' laptops. Given how the laptops are used in the field, it is likely that some were in an unencrypted state when lost or stolen, leaving Title 13 information readily accessible. However, Census reported that as of June 2007 it had completed its implementation of full disk encryption on all field representative laptops currently in use, which resolved the encryption problems we had identified.

Unnecessary User Privileges Introduced Significant Risks

Our laptop evaluation found that field representatives had more privileges than necessary to perform their duties, including privileges to create and manage local user accounts and groups, install applications, and stop and start system services. Such privileges introduce significant risk of information compromise because they can be used to reduce the security controls on the laptops and increase exposure to threats.

Other Weaknesses Increased Risk

At the time of our fieldwork, violations included sharing of a single Windows operating system account username and password—both published in Census's laptop user guide—on approximately 11,000 field laptops, laptops not configured to create security event audit logs, and laptops lacking current antivirus software. These violations greatly increase the possibility that an attacker—either external or internal—could gain unauthorized access; make it impossible to reconstruct security incidents in the event of a breach (including determining if Title 13

³ 13 U.S.C. § 1 et seq.

⁴ Hibernation mode allows computer users to save the contents of their computer's memory to disk before shutting down. Standby mode conserves laptop battery power by turning off unnecessary devices until the laptop is needed again. Users must reauthenticate to restore the laptop from these modes.

data had been accessed); and increase the risk of a laptop being infected by computer viruses, which can compromise Title 13 information, destroy vital files, and infect other devices connected to the laptop.

Lax IT Security Support Allowed Problems to Persist

Before the laptop losses became public, no in-depth analysis of the security controls had been performed, even when the bureau's system was certified and accredited in 2004. As we reported in 2004, the bureau's C&A process failed to provide accurate and complete information on remaining vulnerabilities to authorizing officials, but system operations were approved nonetheless. Despite the inadequacies in the assessment of controls on the laptops, significant security vulnerabilities were known by the bureau's senior IT security officer but remained uncorrected. In addition, although an information system security officer is assigned to each Census system and is charged with implementing appropriate security controls, the security officer for the laptops—like nearly all other system security officers at Census—is not an IT security specialist, and system security officer is a part-time duty. Since the time the laptop losses were publicized, senior Census management has taken significant steps to improve protection of Title 13 information throughout the bureau, and the laptop system owner has taken quick action to correct many of the weaknesses we identified in our review. Also, our FY 2006 and FY 2007 independent FISMA evaluations found Census has made significant improvements to its C&A process. The improved process is being used for C&A of the field representative laptops.

IT Security Function Should Be Strengthened

We recommended the Census Bureau examine recovered laptops to identify unencrypted personally identifiable information and notify Commerce's Identity Theft Task Force of each instance where it is found. We also recommended the bureau evaluate whether its CIO office has adequate resources and technical expertise to ensure compliance with IT security requirements and to assist system owners and authorizing officials in carrying out their IT security responsibilities. We recommended that system own-

ers be provided the necessary senior management and technical support and IT security resources to fulfill their IT security responsibilities, including support for assessing and making appropriate trade-offs between operational needs and IT security considerations. Further, we recommended that all information system security officer positions be filled by personnel who have appropriate IT security skills, have IT security as their primary duty, and receive close oversight from the senior IT security officer. We also made recommendations for correcting the specific IT security violations we identified in our evaluation.

In its response to our report, Census identified the internal initiatives being implemented to improve the bureau's IT security program. The bureau agreed with our recommendation to examine recovered laptops for unencrypted personally identifiable information and notify the Identity Theft Task Force if found. The bureau did not say whether it concurred with our other recommendations, although it did provide some general discussion of actions that were partially responsive to them. The difficulty of meeting ever-increasing IT security requirements without additional funding was a major theme of the response. (*Office of Systems Evaluation: IG-18387-2*)

Census Has Improved Accountability for Laptops and Other Personal Property, but Additional Improvements Are Needed

From January 2001 until September 2006, personal property management at Census suffered from a number of weaknesses, including insufficient attention to property management, inactive property boards of review, and inadequate procedures for recovery of laptops. During our review, we were told by various Census officials that prior to 2006 the recovery of lost/stolen laptops and other accountable property had not been a priority.

By the time we began our review, Census had taken or planned a number of actions to address the existing weaknesses in personal property management. In an October 3, 2006, memorandum, the Deputy

Secretary assigned the offices of the Chief Information Officer and the Chief Financial Officer and Assistant Secretary for Administration responsibility for coordinating a Department-wide corrective action plan to address lax management of personal property and protect sensitive information. Census had been implementing the Department-wide corrective action plan and had also initiated corrective actions of its own. Increased management efforts resulted in the recovery of about 120 laptops at headquarters and the regional offices since September 2006.

But despite the actions already taken, we found Census needs to further strengthen internal controls over its accountable property, and we recommended a number of additional actions to improve its management of personal property.

Transactions Should Be Recorded Promptly

Our review found the property management system was not always current because transactions involving property were often not recorded in the Automated Property Management System (APMS) promptly. We recommended that all such transactions be promptly recorded; all accountable property on hand at the time of an inventory be recorded in APMS; the backlog of Personal Property Control forms (CD-50s) be eliminated; and equipment no longer in use be properly and promptly excessed.

Execution of Inventory Procedures Needs Improvement

We found that regional offices did not always have a member of the inventory team responsible for ensuring that all items are scanned and marked during their inventories. Headquarters also encountered difficulties performing inventories. We recommended Census issue appropriate guidance on conducting inventories, emphasizing the need for segregation of duties.

Property Management Policies and Inventory Procedures Need to Be Consolidated

We found that Census's guidance on conducting inventories, recovering laptops, and disposing of

excess equipment is contained in a number of different memorandums issued over many years. We recommended that the internal policies and procedures for handling accountable property be consolidated into a single cohesive guiding document that is routinely updated and readily accessible.



U.S. Census Bureau

Above, a storage room full of equipment no longer in use that has been identified as excess and is waiting to be removed from the premises at a regional office.

Property Boards of Review Need to Be Convened to Prevent Buildup of Case Backlog

During our audit, Census reinstated property boards of review to eliminate its backlog of approximately 400 missing, lost, or stolen laptops and 400 other missing items. Census told us new cases resulting from its April/May 2007 inventory were being reviewed. We recommended property boards of review be convened as necessary to ensure that no future backlog of cases accumulates.

Property Management Officer's Responsibilities Should Be Evaluated

Although the large volume and value of its geographically dispersed property poses a significant control challenge for Census, the bureau does not have a full-time property management officer. We recommended the bureau assess whether to create a full-time position solely dedicated to property management.

Census agreed with our property management recommendations and stated that it had already taken or initiated actions to address them. (*Office of Audits: IG-18387-1*)

Preparing for Census 2010: Test of Update/Enumerate Process Reveals Flaws in Maps, Address Information, and Approach

In spring 2006, the Census Bureau tested the update/enumerate process it plans to use in the 2010 decennial census to count American Indians living on reservations, Alaska Natives, and other hard-to-count rural populations. During update/enumerate, Census staff go door to door to collect population data. They are also instructed to make any needed corrections to the bureau-generated maps and address lists they use to locate housing units. Census chose South Dakota’s Cheyenne River Reservation as the site for the test—a choice we believe was a good one because it posed many of the challenges that have long hindered efforts to accurately count reservation populations: a severe housing shortage and expansive, rural geography punctuated by small communities that have mostly unnamed streets and unnumbered houses. Update/enumerate is an extremely labor-intensive operation that, in the 2000 decennial, counted 1.1 million households (of 116 million nationwide) at a cost of \$32 million.

American Indians have historically been undercounted in decennial censuses. Enumerating those who live on large, rural reservations is especially difficult

because—in addition to having unmarked streets and houses—they often have high numbers of households in which several families share a single residence. When enumerators come knocking on Census Day, family members may be unwilling or unable to accurately report how many people actually reside at the address. To prompt a fuller accounting of such cases in 2010, Census revised the coverage question on the enumeration questionnaire by adding a new query that specifically asks if other individuals or families reside in the home. It also used a separate, downstream operation, called coverage follow-up, for collecting information from households identified through the coverage question as potentially having additional members. These modifications were put to the test on the Cheyenne River Reservation.

We evaluated the conduct and early outcomes of the update/enumerate test, taking a specific look at the impact of the new query on improving “within-household coverage”—that is, counting all members of reservation households—and the success of the overall operation in accurately counting the reservation population. We also assessed whether enumerators updated maps and address lists correctly and quality control staff provided an effective quality check of these revisions. Our findings are as follows:

Flawed Update/Enumerate Process and Failure to Complete the Operation Undercut the Bureau’s Ability to Improve the Reservation Count in 2010

Cheyenne River Reservation, with about 3,000 housing units, was divided into 215 assignment areas, each of which needed to be enumerated and then

Address Canvassing	Update/Enumerate	Coverage Follow-up
<i>July – September 2005</i>	<i>March – May 2006</i>	<i>May – August 2006</i>
Collects address and geographic location information for all housing units. This information is used in the subsequent update/enumerate operation.	Collects census information by conducting personal interviews at every housing unit. The operation also updates maps and address lists, and conducts various quality control checks.	Collects additional information to improve the population count. Staff telephone or visit individuals from selected housing units (e.g., all households that answered “yes” to a coverage question during update/enumerate).

pass quality control within a 12-week time frame. But 84 areas (39 percent) had not passed quality control by the operation’s end and could not produce reliable counts. Most tellingly, our analysis of all enumerations recorded during both update/enumerate and the subsequent coverage follow-up identified a significant number of test enumerators—all residents of the reservation—who were unaccounted for in either operation.

We identified three primary problems that caused frequent errors and kept the operation from finishing: (1) The unclear, inaccurate maps and incomplete address lists generated during address canvassing and supplied to update/enumerate staff prevented enumerators from finding a significant number of housing units and quality control staff from completing their follow-up checks. (2) Update/enumerate staff did not have GPS technology to compensate for the poor maps and address lists. (3) The multitude of errors made during enumeration overwhelmed the quality control check, causing a higher than expected number of areas to fail quality control and require recanvassing—both of which further crippled the progress of the operation.

Changes Designed to Improve Coverage Yielded Negligible Increase in the Count

Disappointed with the results from the 2000 decennial coverage question, the bureau decided to revise the 2010 update/enumerate questionnaire to better identify all household members. It did so by adding a query about “other individuals or families staying” in the household (see figure below) and assessing the impact of the revision in the 2006 test. It also decided to enumerate individuals identified by this new query in the later coverage follow-up operation rather than on the spot, as had been the practice.

Census identified only 16 households with additional residents because of the new query, and only one person in those households was added to the 2006 count.

One factor in the poor outcome may have been a failure to properly test the revised questionnaire: The majority of enumerators we observed never even asked respondents the new query. Because Census decennial managers did not adequately monitor enumerators conducting interviews in the field or their incoming questionnaires, the bureau did not realize

Coverage Question Asked by Enumerators

Census 2000 Questionnaire

- C1. I need to make sure I have counted everyone who lived or stayed here on April 1, 2000. Did I miss -**
- any children, including foster children?
 - anyone away on business or vacation?
 - any roomers or housemates?
 - anyone else who had no other home?
- Yes - Add persons(s) to question 1, mark the “Add” box and ask questions 2-5. Correct the POP count in question 55 on the front cover.
- No - Continue with C2.

2006 Census Test Questionnaire

C1. We do not want to miss any people who might have been staying here on April 1, 2006. Were there any additional people staying here that you did not include, for example:

- Children, such as newborn babies or foster children? Yes No
- Relatives, such as adult children, cousins, or in-laws? Yes No
- Nonrelatives, such as roommates or live-in baby sitters? Yes No
- Other individuals or families staying here? Yes No**
- People staying here temporarily? Yes No



enumerators were for the most part not asking the question or that few households were being identified as having additional people. The bureau also did not have benchmarks against which to evaluate test results and identify problems as the operation progressed. And the timing of the coverage follow-up operation—which continued for 3 months after update/enumerate had concluded—was another likely factor in the understated results, as respondents may not have recalled who was in the household so many weeks, or even months, earlier.

Leadership Devoted to Transforming Census’s Approach Is Needed to Improve the Count on American Indian Reservations

Despite the difficult challenges to improving the count of reservation populations, the Census Bureau did not have any headquarters official whose principal responsibility was to plan and implement the 2006 update/enumerate test for American Indian reservations. Although many employees work on American Indian issues, no headquarters official was assigned leadership responsibility for the operation or charged with the singular task of improving enumeration on reservations for 2010.

Our Recommendations

To improve the count of reservation populations in 2010, we recommended that Census give a senior headquarters official specific responsibility for leading the effort to identify, implement, and monitor changes to the update/enumerate process on American Indian reservations. This effort should, at a minimum, generate actions designed to improve the address canvassing operation so that it produces better maps and address lists for update/enumerate staff. We offered several options for Census to consider in accomplishing this objective, such as

- adding current landmark information and community names to maps, and

- giving update/enumerate staff handheld computers or inexpensive off-the-shelf GPS devices so they can utilize the housing unit GPS coordinate information obtained during address canvassing.

We also recommended that Census

- modify quality control procedures to better identify missed or duplicated housing units on reservations,
- enhance enumerator training, supervision, and quality control to ensure that the coverage question is asked as intended, and
- reconsider the decision to delay additional enumerations identified via the coverage question to coverage follow-up.

(Office of Systems Evaluation: OSE-18027)

Funding Problems Lead to Backlog at Federal Audit Clearinghouse

The Single Audit Act of 1984 established uniform entitywide audit requirements for state and local government and nonprofit organizations receiving federal financial assistance. In 1996, Congress amended the act to streamline and improve its effectiveness. Currently, all entities expending \$500,000 or more in federal funds are required to have an annual single audit.

Reports required under the act provide valuable information on how federal dollars are spent and whether the funds are spent in accordance with applicable laws and regulations. The information contained in these reports is used by grant-making agencies to manage more than \$450 billion in grants to states, local governments, universities and other nonprofits. In FY 2006, approximately \$1 trillion in federal expenditures were included in single audit reports sent to the Federal Audit Clearinghouse, the repository for all single audit reports.

The clearinghouse receives between 30,000 and 40,000 reports each year to process into a government-wide database available to the public. Clearinghouse management and programming staff are part of the Census Bureau's Governments Division located in Suitland, Maryland. Reports are processed at a Census Bureau facility in Jeffersonville, Indiana.

The clearinghouse's database goes back to 1997 and is accessible on its web site. This web-based system allows the public access to audit findings for most federal grant programs and also provides government managers with information that can be used to identify major flaws in a program's administration.

The Census Bureau is required by federal law, regulation, and departmental policy to recover full costs for work performed under certain agreements. As a result, the clearinghouse is expected to recover the costs of its operations from the federal agencies it services. To do this, it has entered into reimbursable agreements with those agencies. Over the 4 years covered by our audit, the reimbursable agreements totaled more than \$11 million.

We conducted an audit of the clearinghouse's reimbursable agreements to match the revenue received by the clearinghouse with the costs of operations and determine whether the costs charged to the reimbursable agreements are reasonable, allowable, and allocable. Originally, the audit scope was to cover the period from October 1, 2003, through March 31, 2006. But once we began our work, Census officials requested we expand the audit to include fiscal year 2003 so we would be reviewing a year not plagued by funding issues. Additionally, we expanded the period to cover the review of reimbursable agreement authorities and signatures for the second half of 2006. We did not review expenditures for the second half of FY 2006.

We found that while management oversight on the allocation of project costs to the appropriate reimbursable agreement is generally good, there were a few instances in which clearinghouse staff had charged time to different project codes once available funds were exhausted. Furthermore, although Census has entered into reimbursable agreements

OIG has conducted previous audits of the Federal Audit Clearinghouse. At the request of OMB, our office performed two "Agreed Upon Procedure" reviews of the clearinghouse's processing of single audit reports for fiscal years 1998 and 2000. In March 2005, the OIG Office of Audits' Financial Statements and Accountability Division issued *Management Controls Over Reimbursable Agreements at the U.S. Census Bureau Need Improvement*.

with 16 different federal agencies to ensure cost recovery, since FY 2004 funds received through those agreements have not been sufficient to enable clearinghouse staff to process all submitted single audit reports. This lack of funding caused the clearinghouse to accumulate a significant backlog of approximately 36,000 unprocessed reports by February 2007, thereby jeopardizing its ability to provide the critical data contained in the single audit reports to the grant-making entities that rely on it.

The screenshot shows a web page titled "NEW: Information regarding the 2007 Form Update". Below the title is a sub-header: "Internet Data Entry System for Data Collection Form for Reporting on Audits of States, Local Governments, and Non-Profit Organizations". The main content area contains two columns of text. The left column describes the Internet Data Entry System (IDES) and provides instructions on how to start entering data, including clicking on "Enter a New Form" and "Update a Form" buttons. The right column provides instructions on how to print the form and sign it, and includes a "Retrieve Lost Report ID# and Password" button. At the bottom of the page, there are links for "Instructions for Online Submission", "Instructions for Revisions", "Federal Audit Clearinghouse Internet Privacy Policy", and "FAQs - Frequently Asked Questions". A "Contact" button is also present at the bottom left.

<http://harvester.census.gov/fac/collect/ddeindex.html>

We recommended that officials ensure that only charges allocable to the clearinghouse project are charged to the project and that personnel who work on the clearinghouse project are not inappropriately charged to other Census projects. At the bureau's suggestion, we also recommended that Census work with the Office of Management and Budget and other entities to develop a budget that fully funds the clearinghouse so it can eliminate the current backlog as soon as possible.

The Census Bureau generally agreed with our recommendations and noted that clearinghouse staff is carefully examining monthly spending reports, increasing vigilance over this fiscal year's project charging, and instituting additional internal controls over project spending. The clearinghouse will continue to work with OMB to improve or replace the current reimbursable funding mechanism with a more efficient and timely process that transfers approved funding at the beginning of the fiscal year. (*Atlanta Regional Office of Audits: ATL-18113*)

Census 2010: Little Progress Has Been Made on a Workers' Compensation Strategy for Temporary Hires

During this semiannual period, we followed up on our March 2006 review of the Federal Employees' Compensation Act (FECA) program at Commerce, looking at the Census Bureau's progress in developing a plan to handle workers' compensation claims that arise during 2010 decennial and preceding activities and to reemploy claimants who have been on the FECA rolls since the 1990 and 2000 censuses.

Our 2006 report found that Census's FECA costs accounted for nearly 40 percent of the Department's total FECA spending (\$5.59 million of \$14.5 million) during the 12-month period we examined (July 2004 through June 2005). These costs were substantially higher at census time: for example, from July 2000 through June 2001, as the 2000 decennial was under way, Census paid almost \$14.2 million in FECA benefits. Many of these claims came from temporary workers hired to collect census data in the field. Opportunities for reemployment dwindle as decennial operations wind down, and those who are not offered a job can remain on the rolls for years. We identified 44 active claims from the 1990 decennial and 183 from Census 2000. We recommended that Census, together with the Department, identify all other claimants who are able to return to work and take necessary actions to bring them back on the job as soon as possible.

Census submitted an action plan in response to our report that outlined steps to address our recommendations and set deadlines of October 2006 and January 2007 for implementing them. But we found during our follow-up review that little has occurred.

The bureau has not yet developed adequate FECA training or guidance for supervisors and managers and is still developing a return-to-work strategy for 2008 dress rehearsal operations—which are already under way—and for the 2010 census. The bureau has been collaborating with the Department to identify claimants from past decennials who could be offered jobs, but no offers have been extended.

Census officials advised us that they have been unable to implement their plans for addressing the recommendations in our 2006 report for a variety of reasons, one being the disruption of relocating staff to the bureau's new headquarters building this past spring. They also questioned the wisdom of training field supervisors to be more involved in the workers' compensation program, believing this additional responsibility might negatively impact their ability to accurately count the population within allotted time frames. Finally, they said they may have been overzealous in estimating how quickly they could coordinate with Commerce's Office of Human Resources Management (OHRM) and the Department of Labor to develop a viable workers' compensation strategy.

In our follow-up report, we reiterated our recommendations that Census

- develop a comprehensive workers' compensation management initiative for the 2010 decennial, incorporate related guidance into training and administrative manuals for both the 2008 dress rehearsal and 2010 operations, and train all relevant headquarters, regional, and field staff on the initiative;
- bring together human resources, decennial management, field operations, and administrative staff to develop and implement a comprehensive return-to-work strategy for employees injured during 2010 operations as well as for claimants already on the rolls; and

- identify claimants who could be rehired for 2010 operations and work with the departments of Commerce and Labor to bring them back on the job as soon as possible or otherwise remove them from the workers' compensation rolls.



US Census Bureau

During every decennial census, the Census Bureau hires thousands of temporary workers for jobs that last from several weeks to several months. If these employees are hurt on the job, they qualify for workers' compensation benefits. Moving them off the rolls is especially difficult because opportunities for reemployment dwindle as census operations wind down.

We also recommended that Census evaluate and adopt alternative hiring options for reemploying decennial claimants or helping them find jobs at other agencies or private firms, and that the Department's Chief Financial Officer work with the bureau's director to strengthen Census's management of its workers' compensation program and thereby reduce the costs of the 2008 dress rehearsal and 2010 census.

The Census Bureau did not agree with several findings in our draft report, but concurred with our four recommendations. It indicated that it had already

completed some actions, such as obtaining access to case files of claimants who worked in previous Census operations to evaluate their return-to-work potential and analyzing employment potential for some claimants in the current dress rehearsal operations. In its response to our draft report, Census advised us that it has reached internal agreement on an approach for a more robust workers' compensation program that includes increased and integrated headquarters management and oversight by the bureau's human resources, decennial management, and field operations staff. The bureau also reported that it is working with OHRM to determine and finalize the proper resource allocations and contract options for operating the program and managing the caseload of injuries that result from the dress rehearsal and 2010 decennial census. In addition, the bureau reported sending letters to 73 recipients from the 1990 and 2000 censuses, seeking information it needs to extend job offers for 2010 decennial operations.

Commerce's Chief Financial Officer and Assistant Secretary for Administration concurred with our recommendation addressed to the Department. He indicated that OHRM's Office of Occupational Safety and Health continues to take additional actions to address this recommendation and those from our March 2006 report. It is facilitating arrangements to send departmental workers' compensation case files from the regional offices of DOL's Office of Workers' Compensation Programs to Commerce headquarters. He stated that this will eliminate the need to travel to DOL's regional offices and enable the Department and Census to more easily obtain the medical information needed to identify and process potential return-to-work cases. (*Office of Inspections and Program Evaluations: IPE-18592*)

C&A of Census Systems Shows Mixed Results in FISMA Reviews

To meet our FY 2007 FISMA reporting requirements, we evaluated the Census Bureau's Client Services General Support System and the AESDirect Major Application, which is a contractor system.

Client Services General Support System

Our review of Census's Client Services General Support System revealed the following:

- The system security plan did not describe significant environmental and technical factors and application security controls.
- Census has developed a process to scan most workstations and laptops for vulnerabilities, but used outdated scanning signatures.
- Secure configuration settings were not evaluated for some IT products.
- Security controls for mobile code were not adequately documented or assessed.

We concluded that the certification and accreditation of this system was compliant with FISMA requirements. Evidence that mitigates most of our concerns about the use of outdated scanning signatures—a patch management tool that maintains up-to-date patches and patch history—was available, but was not part of the C&A package. However, better methods of certification testing are needed to give authorizing officials more complete information.

Census concurred with all but one of our recommendations and identified actions it will take to address them. With that one exception, the bureau's actions were responsive to our recommendations.

AESDirect Major Application

Our review of AESDirect showed a number of problems, including the following:

- Secure configuration settings were not defined for most IT products and none were assessed.
- Assessment of security controls was incomplete.

- Significant vulnerabilities were not addressed in the security assessment report or documented in the plan of action and milestones.
- Significant vulnerabilities were not remedied in a timely manner.

The system security plan was generally adequate but security control descriptions need to be improved. Based on our review, we concluded that security controls were not adequately assessed for certification and accreditation and that the authorizing official did not have enough information to make a credible, risk-based accreditation decision.

Census agreed that some security controls were not adequately assessed for certification and accreditation and indicated that all vulnerabilities identified both in our report and Census's own testing have been or will be tracked on a plan of action and milestones. The bureau noted that mitigation of the vulnerabilities had already begun.

The bureau did not agree with our conclusion that the authorizing official did not have enough information to make a credible, risk-based accreditation decision. The bureau maintained that the information not available to the authorizing official would have made no difference in the accreditation decision and that the system had not had a single documented security incident in its 10 years of operation. However, our report cited numerous examples of inadequate controls assessment, which suggests the potential for significant unknown vulnerabilities to exist. Better controls assessment may have identified additional vulnerabilities. Moreover, the lack of documented security incidents was not persuasive evidence that the security controls are adequate, particularly since Census itself identified the absence of controls necessary for the detection of security breaches, and thus could be unaware of whether security incidents have occurred. (*Office of Systems Evaluation: OSE-18690-1 and -2*)



Photo Courtesy 1WTC, LLC

An artist's rendering of the future Freedom Tower and New York Harbor at the site of the former twin towers of the World Trade Center.



INTERNATIONAL TRADE ADMINISTRATION

The **International Trade Administration** is responsible for trade promotion and policy issues associated with most nonagricultural goods and services. ITA works with the Office of the U.S. Trade Representative to coordinate U.S. trade policy and with other agencies to coordinate U.S. trade promotion efforts. ITA has four principal units:

Market Access and Compliance develops and implements international economic policies of a bilateral, multilateral, or regional nature, and participates in trade negotiations. Its main objectives are to obtain market access for American firms and workers and to ensure full compliance by foreign nations with trade agreements signed with the United States.

Manufacturing and Services undertakes industry trade analysis, shapes U.S. trade policy, participates in trade negotiations, organizes trade capacity-building programs, and evaluates the impact of domestic and international economic and regulatory policies on U.S. manufacturers and service industries.

Import Administration defends American industry against injurious and unfair trade practices by administering the antidumping and countervailing duty laws of the United States and enforcing other trade laws and agreements negotiated to address such trade practices.

U.S. Commercial Service seeks to promote economic prosperity, enhance U.S. job creation, and strengthen national security through a global network of international trade professionals. CS promotes and protects U.S. commercial interests abroad and delivers customized solutions to help U.S. businesses, especially small and medium-sized enterprises, compete effectively in the global marketplace.

National Export Strategy Document Would Benefit from Greater Interagency Involvement and Clear Goals

In response to the requirements of the Export Enhancement Act of 1992 and Executive Order 12870, which implemented the act, the interagency

Trade Promotion Coordinating Committee (TPCC) develops an annual *National Export Strategy* report that is supposed to (1) establish government-wide priorities for federal export promotion and financing activities and (2) provide a plan to bring those activities of the TPCC agencies into line with the priorities. The annual *National Export Strategy* report is sent by the TPCC chairman (the Secretary of Commerce) to Congress with the approval of the President. The act also intended for the strategy to

help eliminate overlap and duplication among federal export promotion activities, propose an annual unified federal trade promotion budget to the President (through OMB), and promote cooperation between state and federal export promotion activities.

During the course of our recent review of Commerce's trade promotion efforts and the coordination of those efforts with other stakeholders (see March 2007 *Semiannual Report*, pages 37-40), we identified some ways the Department could enhance the process used to develop the annual *National Export Strategy*. Our original review, which was requested by three members of Congress, including the then-Chairman of the House Small Business Committee, was coordinated with OIGs from the departments of State, Agriculture, and the Treasury, the U.S. Agency for International Development, the Small Business Administration, and the Millennium Challenge Corporation.

We did not originally set out to comment on the *National Export Strategy*, but agreed to address this issue in a separate memorandum report at the request of some of the other OIGs involved in the interagency review, who had raised several concerns about Commerce's development of the annual strategy.

What We Found

We found the annual *National Export Strategy* reports often outline useful strategies and initiatives—such as the promotion of public-private partnerships—within the context of discussing ongoing federal trade promotion efforts. These reports do not, however, articulate a strategy, establish consistent export promotion goals, align agency-specific strategic objectives with government-wide export promotion strategic goals, or track agencies' actual progress toward those goals.

Commerce Should Establish a More Inclusive Process for Developing the *National Export Strategy* Reports

Under the current process used to develop the annual *National Export Strategy*, the TPCC Secretariat and



ITA

ITA management outline the basic themes and priorities for the strategy without direct consultation with other TPCC agencies. While the Secretariat does maintain regular contact with member agencies on trade-related issues and solicits their comments on the draft annual report, the process used to develop the annual reports does not promote the active involvement of the other TPCC member agencies, nor leverage their expertise in developing the basic strategic objectives.

The *National Export Strategy* Does Not Establish Specific Export Promotion Goals or Use Performance Measures to Track Program Success

In a 2002 report, the Government Accountability Office reported that the *National Export Strategy* was too broad and did not discuss government-wide specific goals or assess progress toward meeting those goals.⁵ Our review of subsequent *National Export Strategy* reports for 2002-2006 showed that little had changed. Absent the specific export promotion goals that GAO recommended, the annual export strategy did not provide an effective framework for focusing the activities of TPCC agencies to meet core export promotion priorities. Moreover, lacking usable performance measures—which are required of all member agencies—TPCC cannot evaluate or report on the agencies' progress toward federal export promotion priorities.

⁵ *Export Promotion: Mixed Progress in Achieving a Government-wide Strategy*, GAO-02-850, September 4, 2002.

Improvements Are Noted in the 2007 *National Export Strategy*

Our final report notes that the 2007 *National Export Strategy*, which was released several months after our draft report, contained significant improvements that address some of the issues raised during our review, including (1) a clearer and more complete presentation of federal export promotion priorities and (2) an appendix that details the strategic objectives of the primary TPCC agencies and summarizes the agencies' 2006 activities that are responsive to those strategies. However, further enhancements are necessary to fully implement our recommendations.

The TPCC May Not Include All Relevant Agencies

The roster of TPCC members was established by Executive Order in 1993 and was last updated in 2003 to include the Department of Homeland Security (DHS), although DHS was not an active TPCC member at the time of our review. The Millennium Challenge Corporation (MCC), established in 2004, is a U.S. government-owned corporation with the stated mission to help reduce worldwide poverty through economic growth, while targeting aid to reward countries with good public policies. Since its inception, MCC has received approximately \$4 billion in federal appropriations. As part of its efforts to promote economic development, MCC sponsors projects to increase the trade capacity of developing countries. These projects can complement federal export promotion efforts by helping improve access to foreign markets for U.S. products and creating other opportunities for U.S. exporters. We recognize that MCC may be reluctant to be included as a TPCC member because it wants to avoid the perception that its development efforts are linked to U.S. export promotion priorities, but we recommended in our March 2007 report on trade coordination that MCC be included in relevant TPCC working groups.

TPCC Active Member Agencies

U.S. Department of Commerce
 Export-Import Bank of the United States
 Overseas Private Investment Corporation
 U.S. Trade and Development Agency
 U.S. Small Business Administration
 U.S. Department of Agriculture
 U.S. Department of State
 U.S. Department of Treasury
 Office of the U.S. Trade Representative
 U.S. Agency for International Development
 U.S. Environmental Protection Agency
 U.S. Department of Defense
 U.S. Department of Energy
 U.S. Department of Interior
 U.S. Department of Labor
 U.S. Department of Transportation
 Office of Management and Budget
 National Security Council/National Economic Council
 Council of Economic Advisers

Our Recommendations

We recommended that ITA institute a meaningful interagency strategic planning process that identifies the core strategic goals and objectives of federal export promotion efforts through an interagency consultative process; aligns agency-specific strategic objectives with government-wide export promotion strategic goals; identifies any agency-specific performance measures relevant to government-wide export promotion goals; and uses these measures to evaluate the progress of agencies toward meeting government-wide export promotion goals. We also recommended ITA continue to engage MCC on trade promotion activities and use appropriate channels to request Presidential approval to update the TPCC membership to include all relevant federal trade promotion agencies.

ITA's Response

The Deputy Under Secretary for International Trade provided a thorough response to our draft report that noted disagreement with many of our conclusions. ITA did not concur with our conclusion that the TPCC agencies were not adequately engaged in the development of the 2007 National Export Strategy, nor did it concur with our proposed changes to the TPCC strategic planning process. However, ITA's response also highlighted some actions that the TPCC Secretariat planned to take to address our recommendations and enhance its strategic planning process. ITA also indicated its continued commitment to work with MCC, whenever practical, and to determine ways to increase the visibility of MCC opportunities with the U.S. exporting community. We made changes in our final report to clarify some of the language, better articulate the ongoing efforts of the TPCC Secretariat, and recognize progress made in the 2007 National Export Strategy. (*Office of Inspections and Program Evaluations: IPE-18589*)

ITA's C&A Process Gave Officials Sufficient Information to Approve System Operation

As part of our FY 2007 FISMA work, we examined the adequacy of ITA's certification and accreditation of its Core Network General Support System. Though not without deficiencies, the C&A process was generally sound. Certification testing adequately assessed the required security controls. Certification activities provided sufficient basis for the authorizing official to make a credible, risk-based decision to approve system operation.

ITA's assessment process was solid: procedures and expected results were well-defined, and actual results were clearly documented for each tested procedure. By carefully defining procedures and expected results, and thoroughly documenting actual outcomes, the certification agent could accurately determine which security controls are implemented properly, recommend specific corrective actions, and clearly present to the authorizing official the risks associated with the remaining vulnerabilities.

Common Controls, Contingency Plan Not Tested

The C&A team did not evaluate “common” controls—controls belonging to a different ITA system but that also protect the core network. Though these controls were outside the core network's accreditation boundary, they needed to be assessed to show they were effectively protecting the core network.

Also, ITA did not test the contingency plan—a required annual event—and the plan did not address the procedures and activities for restoring operations after a disruption or failure. ITA subsequently gave us a document titled *Network Shutdown Procedures and Network Restore Procedures*. But this document was limited—it addressed protocols for shutting down and restarting the network but omitted other important procedures necessary to restore operations. The contingency plan also did not specify emergency scenarios that require annual testing.

We recommended that ITA (1) assess all components that implement security controls for a system prior to or during certification and accreditation; (2) incorporate into the contingency plan, procedures and activities for restoring operations after a failure or disruption, in accordance with Department policy; and (3) test the plan annually and document its scope, procedures, scenarios, and results.

“Each federal agency shall develop, document, and implement an agency-wide information security program to provide information security for the information and information systems that support the operations and assets of the agency, including those provided or managed by another agency, contractor, or other source...”

—Federal Information Security Management Act of 2002

ITA officials concurred with our recommendations and noted that in the future, the agency will assess components that are not a part of an information system's accreditation boundary prior to completing

that system's certification and accreditation. Officials also stated that they are developing procedures to restore system operations after a failure or disruption, and should be finished testing these procedures by the end of calendar year 2007. ITA is using detailed agency-defined scenarios in the tests and will summarize all results. (*Office of Systems Evaluation: OSE-18840*)



Photo Courtesy NIST/Copyright Robert Rathe

Physicist Richard Steiner adjusts the electronic kilogram, an experimental apparatus for defining mass in terms of the basic properties of nature.



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 Advanced Technology Program, the Manufacturing Extension Partnership program, the Baldrige National Quality Program, and NIST Research Laboratories.

Audit Questions \$1.4 Million in Costs Claimed on ATP Projects

A California company specializing in medical diagnostic technologies for musculoskeletal diseases received two Advanced Technology Program (ATP) awards to develop new tools for detecting and managing arthritis and osteoporosis. The first, awarded in September 2000, was for a 3-year project with total costs of \$1,960,181. The second, awarded in May 2002, had a 2-year term and total costs of \$1,977,613.

In 2004 the firm's new CEO—on advice from outside counsel—asked a forensic accounting specialist to review the awards. The specialist confirmed that the company had billed NIST approximately \$1 million for hours not worked on the projects. In February 2005, company officials reported the overcharge to NIST and offered to repay the funds. But the NIST grants officer wanted both awards audited in accordance with ATP guidelines to verify the amount due.

Our audit examined the financial status of the awards as well as whether the company had complied with applicable laws and regulations and had claimed reasonable and allowable costs. The audit covered the period from November 1, 2000, through August 31, 2004.

We found that the firm's financial management system was inadequate and questioned a total of

\$1,430,562 in costs claimed on the two awards, the bulk of them unallowable payroll charges. We recommended that for the first award, NIST disallow \$752,951 in questioned costs and recover \$726,798 in federal funds, and for the second award, disallow \$677,611 in questioned costs and recover that amount in full.

The company concurred with our recommendations. (*Atlanta Office of Audits: ATL-18418*)



National Institutes of Health

A California firm received ATP funds to develop new diagnostic and treatment tools for arthritis and osteoporosis. Roughly a third of the money was used for unallowable payroll expenses.



Photo Courtesy NOAA/R. Bray
Underwater research at St. Croix, U.S. Virgin Islands.



NATIONAL OCEANIC AND ATMOSPHERIC ADMINISTRATION

The **National Oceanic and Atmospheric Administration** studies climate and global change; ensures the protection of coastal oceans and the management of marine resources; provides weather services; and manages worldwide environmental data. NOAA does this through the following organizations:

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 that 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 analyses with decision-making.

Flaws Remain in C&A Process for Network Operations Center

As part of our FY 2007 FISMA work, we assessed NOAA's certification and accreditation process and security configuration settings for its Network Operations Center (NOC). The center provides regional network backbone and Internet connectivity for NOAA headquarters in Silver Spring, Maryland, and other locations in the Washington, D.C., area.

Our evaluation of the C&A package found improvements over an earlier version we reviewed, particularly in its description of system components and scanning for network vulnerabilities. But we noted numerous deficiencies in NOAA's C&A process that require management attention, including the following:

- The system security plan was inadequate. For example, it did not describe the functional properties of controls and often did not address applicable control requirements.

- The security certification had serious flaws and omissions. It failed to identify vulnerabilities on some components, report those identified on others, and assess controls described in the security plan.
- Critical security services were overlooked. There was no evidence that the certification team had assessed certain applications and system components providing critical security services for the NOC.
- Secure configurations were inadequately defined and assessed.

We concluded that the authorizing official lacked information needed on remaining vulnerabilities to make a credible, risk-based accreditation decision. NOAA concurred with our recommendations and stated that it has implemented a continuous monitoring program to correct deficiencies in the security plan as well as to reassess security controls and settings. (*Office of Systems Evaluation: OSE-18688*)

Work in Progress

We have a number of reviews in progress that are assessing key NOAA programs and activities, including the following:

Fisheries Finance Loan Program

We are evaluating the National Marine Fisheries Service's management of this program, which offers long-term loans to the commercial fishing industry to refinance or refurbish fishing vessels that do not add capacity to the fisheries, shoreside processing facilities, and aquaculture facilities while reducing overfishing and revitalizing fisheries. Since 1998, NMFS has made approximately 200 loans, for a total of nearly \$300 million. We will consider the impact that any management deficiencies we may identify could have on NOAA's ability to rebuild and sustain fisheries.

National Marine Sanctuary Program

Authorized by the National Marine Sanctuaries Act, the sanctuary program manages and protects 13 sanctuaries and a marine national monument that have conservation, historical, or scientific importance. National marine sanctuaries range in size from one-quarter square mile in American Samoa's Fagatele Bay to more than 5,300 square miles in Monterey Bay, California. With the addition of the Papahānaumokuākea Marine National Monument (northwestern Hawaiian Islands) in 2006—at 138,000 square miles the largest marine protected area in the world—the sanctuaries now encompass more than 158,000 square miles of ocean and Great Lakes marine habitats. The special habitats of the sanctuaries include coral reefs, whale migration corridors, deep sea canyons, kelp forests, and sea grass beds. Historic shipwrecks are also protected. The program's primary mission is resource protection, but it must also facilitate compatible public and commercial uses along with conservation and research activities. We are evaluating whether the program is successfully (1) providing for the long-term protection of marine and cultural resources and (2) collaborating with other NOAA offices, and with federal, state, and local entities involved in developing and managing marine protected areas, enforcing sanctuary regulations, and conducting scientific research.

National Data Buoy Center

The National Data Buoy Center is part of the National Weather Service. The center operates four marine observation systems—weather buoys, coastal marine observing stations, tsunami detection buoys, and climate monitoring buoys. These systems provide critical data on oceanic and atmospheric conditions that is used by weather and hurricane forecasters, researchers, climatologists, oceanographers, commercial fishermen, and recreational boaters. We are assessing whether the center effectively maintains and repairs its marine buoys and coastal marine stations and whether it distributes adequate and reliable data from these observing platforms to meet the needs of

the data users. We also are reviewing the structure of the center's support services contract for buoy maintenance and repair and how NOAA manages and oversees that contract, which is worth up to \$500 million over a potential 10-year term.



Alaska Ocean Observing System

This NOAA data buoy, one of five located in Prince William Sound, Alaska, senses and transmits meteorological information for weather forecasting.

Stifling of Scientists

In response to a request from Congress, we are examining allegations that the Department and NOAA have stifled the release of scientific information by thwarting scientists' access to the media and blocking publication of a specific report on global warming. We are reviewing policies for media access and public release of research data at both the Department and NOAA and assessing whether officials at either organization deliberately blocked the dissemination of a hurricane fact sheet that included a discussion of climate change and hurricane intensity. We anticipate issuing our report in the coming months.



Photo Courtesy USPTO
The glass-enclosed atrium of USPTO's new headquarters.



UNITED STATES PATENT AND TRADEMARK OFFICE

The **United States Patent and Trademark Office** administers the nation's patent and trademark laws. Patents are granted and trademarks registered under a system intended to provide incentives to invent, invest in research, commercialize new technology, and draw attention to inventions that would otherwise go unnoticed. USPTO also collects, assembles, publishes, and disseminates technological information disclosed in patents.

C&A Inadequacies Revealed in FISMA Reviews

To meet our FY 2007 FISMA reporting requirements, we evaluated USPTO's certification and accreditation for the Patent Search System—Primary Search and Retrieval, and the Project Performance Corporation (PPC) General Support System, which is a contractor system.

Patent Search System—Primary Search and Retrieval

Our review of the Patent Search System—Primary Search and Retrieval revealed

- security controls were not adequately defined prior to the certification phase;
- certification assessment was incomplete and lacked adequate supporting evidence;
- the authorizing official did not receive accurate information on the status of secure configuration settings; and

- incomplete and questionable rationales were used to reduce risk levels of several remaining vulnerabilities.

We concluded that the authorizing official lacked sufficient information about the remaining vulnerabilities and their associated risk to make a credible risk-based decision on whether to accredit the system.

USPTO concurred with all of our recommendations, but did not agree with our conclusion. The agency contended that all controls were properly assessed and that the evidence for the authorizing official was sufficient, but noted that more detailed evidence would be provided to this official in the future. The response described improvements that have been made in IT security in FY 2007.

PPC General Support System

Our review of the PPC General Support System revealed

- the system security plan was generally adequate but inaccuracies need to be addressed;

- secure configuration settings were not defined for most information technology products and none were assessed;
- certification assessments did not adequately evaluate controls on system components and assessment evidence was minimal; and
- contingency planning and testing did not provide adequate assurance that operations can be restored.

We concluded the security controls were not adequately assessed for certification and accreditation and the authorizing official did not have enough information to make a credible, risk-based accreditation decision.

USPTO concurred with all of our recommendations, but took issue with our conclusion. USPTO stated that the authorizing official was provided sufficient documentation to adequately and accurately assess the risks associated with granting the authority to operate the contractor system. The response also claimed that contingency planning and testing were adequate given the criticality of the system. As in its response to our assessment of the Patent Search System—Primary Search and Retrieval, USPTO described improvements that have been made in IT security in FY 2007. (*Office of Systems Evaluation: OSE-18841-1 and -2*)



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 the Earth's resources to promote environmental stewardship.

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

Preaward Financial Assistance Screening

As part of our ongoing emphasis on prevention of fraud, waste, and abuse, we continue to work with the Office of Acquisition Management, NOAA and NIST grant offices, and EDA program offices to screen proposed grants and cooperative agreements before they are awarded. Our screening serves two functions: it provides information on whether the applicant has unresolved audit findings and recommendations on earlier awards, and it identifies any negative financial or investigative history on individuals or organizations connected with a proposed award.

On January 1, 2004, we implemented new policies and procedures for our preaward screening process.

OIG and the Department determined that there are several categories of recipients for whom the costs and administrative burden of the screening process may well outweigh the government's risk of financial loss. The current policies exempt from review, recipients who (1) receive awards in amounts of \$100,000 or less; (2) have received financial assistance from the Department for 3 or more consecutive years without any adverse program or audit findings; or (3) are units of a state or local government.

During this semiannual period we screened 182 proposed awards. For 72 of the awards, we found major deficiencies that could affect the ability of the prospective recipients to maintain proper control over federal funds. On the basis of the information we provided, the Department delayed 35 awards and established special award conditions for 37. (*Office of Audits*)

Preaward Screening Results		
Results	Award Number	Amount
Awards delayed to resolve concerns	35	\$47,209,868
Special award conditions established	37	\$38,318,186

Nonfederal Audit Activities

In addition to undergoing OIG-performed audits, certain recipients of Commerce financial assistance 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 the audit requirements for most of these audits. For-profit organizations that receive Advanced Technology Program 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 149 audit reports during this semiannual period to determine whether they contained any audit findings related to Department programs. For 67 of these reports, the Department acts as oversight agency and monitors the audited entity’s compliance with the OMB Circular A-133 or NIST’s program-specific reporting requirements. The other 82 reports are from entities for which other federal agencies have oversight responsibility. We identified 18 with findings related to the Department of Commerce.

Report Category	OMB A-133 Audits	ATP Program-Specifics Audits	Total
Pending (April 1, 2007)	48	11	59
Received	98	21	119
Examined	120	29	149
Pending (September 30, 2007)	26	3	29

The following table shows a breakdown by bureau of approximately \$429 million in Commerce funds audited.

Bureau	Funds
EDA	\$58,283,906
ITA	1,274
NIST*	45,569,927
NOAA	50,903,848
NTIA	1,388,779
Multiagency	272,409,855
Total	\$428,557,589

* Includes \$45,402,676 in ATP program-specific audits.

We identified a total of \$7,028,184 in federal questioned costs and \$456,405 in funds to be put to better use. 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 18 reports with Commerce findings are listed in Appendix B-1. (*Regional Offices of Audits*)



OFFICE OF INSPECTOR GENERAL

The mission of the **Office of Inspector General** is to promote economy, efficiency, and effectiveness and detect and prevent waste, fraud, abuse, and mismanagement in the programs and operations of the U.S. Department of Commerce. Through its audits, inspections, performance evaluations, and investigations, OIG proposes innovative ideas and constructive solutions that lead to positive changes for the Department. By providing timely, useful, and reliable information and advice to departmental officials, the administration, and Congress, OIG's work helps improve Commerce management and operations as well as its delivery of services to the public.

Office of Investigations

During this semiannual period, the Office of Investigations continued to pursue allegations of fraud, waste, and abuse affecting Commerce programs and operations, and other cases of corruption and fraud that negatively impacted the Department, the federal government, or U.S. taxpayers. The investigations highlighted below are representative of our accomplishments during the past 6 months.

Jury Finds Former Census Employee Guilty of Workers' Compensation Fraud

In April 2007, a former Census field representative was convicted of four counts of making false statements to collect benefits for work-related injuries sustained in a 1994 automobile accident, after an OIG investigation revealed she had failed to report more than \$40,000 in earnings from a dog kennel business on annual certifications submitted to the Department of Labor's Office of Workers' Compensation Programs. On July 12, 2007, the defendant was sentenced in U.S. District

Court for the Northern District of Georgia to 30 months' imprisonment followed by 3 years of supervised release, and ordered to pay a \$5,000 fine and restitution in the amount of \$37,388.20. (*Atlanta Field Office*)

NOAA Employee Pleads Guilty to Credit Card Theft

On August 15, 2007, a former NOAA employee pleaded guilty to theft of government property for charging close to \$4,000 in personal purchases to a government credit card. An OIG investigation found that over a 3-week period in December 2006, 15 transactions totaling \$3,938.30 were made on the employee's government purchase card for items such as cigarettes, beer, gift cards, CDs, video games, and a television. All the purchases occurred at vendors located near his residence or near his work site in Pascagoula, Mississippi, and several of the transactions were captured on store surveillance tapes. The defendant is scheduled for sentencing in U.S. District Court for the Southern District of Mississippi in November 2007. (*Denver Resident Office*)

Former BIS Investigator Indicted for Misuse of Law Enforcement Database

A former criminal investigator in the Office of Export Enforcement was indicted on September 19, 2007, in the Northern District of California on one count of unlawfully obtaining information from a government computer and one count of making false statements after an OIG investigation established he had accessed the Treasury Enforcement and Communication System (TECS) 163 times over a 2-month period in order to track the whereabouts of a former girlfriend. TECS is a secure, password-protected system designed to identify individuals suspected of or involved in violations of federal law, and permit direct communications between Treasury law enforcement offices and other federal, state, and local law enforcement agencies. The former special agent also used the database to track the movements of members of the woman's family, and made harassing and life-threatening remarks to her, threatening to have her deported. When questioned by OIG investigators and his supervisors, he lied about the number of times he had accessed the investigative database for personal reasons. The defendant was scheduled for arraignment in October 2007. (*Atlanta Field Office*)

ATP Award Recipient Indicted and Assets Seized

On June 13, 2007, the recipient of a \$2 million Advanced Technology Program award was indicted for program fraud in the Southern District of New York, based on the results of an OIG investigation that found nearly \$400,000 in project funds had been diverted to the defendant's personal use. On June 25, 2007, a superseding indictment was filed, adding an asset forfeiture clause seeking \$390,000 and the apartment the defendant used as both a residence and a place of business. OIG agents served a seizure warrant the following day and recovered an estimated \$300,000 worth of computers and associated electronic equipment allegedly purchased with federal funds. A trial date has not yet been set. (*Atlanta Field Office*)



Arrests and Convictions Continue in International Telemarketing Fraud Case

For the past 4 years, we have been investigating a major telemarketing fraud scheme based in Costa Rica that was perpetrated by callers identifying themselves as employees of the Commerce Department and other federal agencies, who told victims they had won huge cash prizes in a national lottery. In order to secure their winnings, victims were instructed to use commercial wire transfer services to send payments of \$1,500 to \$4,500 to Costa Rica. The investigation is an integral part of the Department of Justice's Operation Global Con, a massive international fraud investigation involving nearly 3 million victims and more than \$1 billion dollars in fraud worldwide.

Since its inception, our investigation has resulted in a total of 32 arrests and 20 convictions of participants in the scheme, as well as a payment of nearly \$1.4 million in restitution from one defendant. (See March 2007 *Semiannual Report*, page 61.) During this semiannual period, eight defendants were con-

victed on conspiracy and wire fraud charges in the Western District of North Carolina. They all face prison terms ranging from 5 to 20 years. In addition, eight more participants were arrested, and two U.S. citizens were extradited from Costa Rica. *(Atlanta Field Office)*

Joint Investigation with GAO Uncovers Violations of Federal Transit Benefits Program by Commerce Employees

The federal transit benefits program provides transit benefits (e.g., Metrocheks) to government employees to encourage the use of public transportation for commuting. Under the program currently in place at Commerce, employees may receive subsidies of up to \$110 a month to cover their actual transportation costs. Based on reports of program abuses at various federal agencies, the Government Accountability Office was asked to investigate allegations that federal employees in the National Capital region were engaging in fraud related to the transit program. GAO teamed with a number of OIG organizations, including our office, to pursue these charges. Our investigative work is ongoing, but we have already identified several Commerce employees involved in abuse of the program.

Senior Official with Parking Space Collected More Than \$1,200 in Metrocheks

OIG investigators determined that a senior official received \$1,260 in transit benefits over a 10-month period, although he had been assigned and regularly used a parking space at the Commerce headquarters building during that time. In order to receive the periodic subsidy, an employee must complete a preprinted certification form containing an explicit representation that he or she has not been assigned a parking permit by a federal agency. Despite that condition, the official signed the certification on at least five occasions to collect transit benefits. Prior to the conclusion of our investigation, he reimbursed the Department for the full cost of the Metrocheks he received. At the close of this semiannual period, additional administrative action was pending. *(Washington Field Office)*

Over \$1,500 in Transit Benefits Recovered from Former ITA Employee

As part of the joint investigation with GAO, an undercover operation was conducted and Metrocheks worth \$210 were purchased for \$190 from an ITA employee on her last day of work at the agency. Although the case was declined for criminal prosecution, administrative action was initiated to recoup the benefits she had fraudulently obtained and the former employee – who admitted selling Metrocheks on multiple occasions – was compelled to reimburse the government \$1,577 from her lump sum annual leave payment. *(Washington Field Office)*

USPTO Employee Sold Metrocheks on eBay

Our joint investigation also revealed that a USPTO employee had sold more than \$400 worth of federally subsidized Metrocheks on eBay during a 2-week period in August 2006. The employee admitted making the sales, but claimed he was unaware that his actions were prohibited. He agreed to make full restitution to the agency and subsequently resigned his position at USPTO. *(Washington Field Office)*

OIG Computer Crimes Unit Aids State Law Enforcement Efforts

In addition to pursuing investigations into IT security breaches and criminal misuse of government computers at the Department, the Office of Investigation's Computer Crimes Unit regularly lends its technical expertise to fellow state and federal law enforcement agencies, providing forensic media analysis and support in connection with ongoing investigations and other matters relating to Commerce employees and operations. During this semiannual period, the unit was again called upon to provide such services in a variety of contexts.

In June 2007, the Fairfax County, Virginia, police requested OIG assistance to seize and examine government computer equipment assigned to a Census Bureau employee who had been arrested on a state homicide charge. OIG forensic analysis of the com-

puters yielded valuable information for the police investigation, which is still in progress.

As a member of the Maryland Internet Crimes Against Children Task Force, in August 2007 the unit provided assistance to the St. Mary's County Sheriff's Office by analyzing a computer seized during the course of a child pornography investigation. Our forensic analysis revealed the presence of suspected pornographic material, including digital images of children from the suspect's household, and the evidence was forwarded to the local authorities for use in their case. (*Computer Crimes Unit*)

Other OIG Activities

Testimony Before House Committee on Natural Resources

During this semiannual period, OIG's assistant inspector general for auditing appeared before the House Committee on Natural Resources to recap our 2005 review of NOAA's consultation process. Section 7 of the Endangered Species Act requires federal agencies to consult with NOAA about any activity they plan to undertake that may affect listed species. Our review looked at NOAA's process for rendering a biological opinion on the impacts of a California water project on endangered fish. We found that the agency deviated from its normal quality control practices in developing the opinion and was criticized as having acted arbitrarily or inappropriately (see September 2005 *Semiannual Report*, page 21). The committee requested testimony on our work as part of its consideration of claims that modifications to a different water management project, operating in the Klamath River Basin, caused as many as 80,000 salmon to die.

TABLES AND STATISTICS

Statistical Overview

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Table 1. Investigative Statistical Highlights for this Period

Criminal Investigative Activities	
Arrests	10
Indictments and informations	13
Convictions	10
Personnel actions	7
Fines, restitutions, judgments, and other civil and administrative recoveries	\$49,258
Allegations Processed	
Accepted for investigation	57
Referred to operating units	22
Evaluated but not accepted for investigation or referral	46
Total	125

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, 2007) for which no management decision had been made by the end of the period (September 30, 2007). Six audit reports remain unresolved for this reporting period (see page 60).

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 Follow-up

Report Category	Modifications	Appeals
Actions pending (April 1, 2007)	0	7
Submissions	0	4
Decisions	0	4
Actions pending (September 30, 2007)	0	7

Table 3. Audit and Inspection Statistical Highlights for this Period

Questioned Costs	\$12,603,263*
Value of audit recommendations that funds be put to better use	4,256,405
Value of audit recommendations agreed to by management	37,276,637

*This number includes costs by state and local government auditors or independent public accountants.

Table 4. Audits with Questioned Costs

Report Category		Number	Questioned Costs	Unsupported Costs
A.	Reports for which no management decision had been made by the beginning of the reporting period	17	\$20,314,970	\$3,917,912
B.	Reports issued during the reporting period	20	12,603,263	2,808,342
Total reports (A+B) requiring a management decision during the period ¹		37	32,918,233	6,726,254
C.	Reports for which a management decision was made during the reporting period ²	15	1,749,728	1,363
	i. Value of disallowed costs		1,596,876	1,363
	ii. Value of costs not disallowed		152,853	0
D.	Reports for which no management decision had been made by the end of the reporting period	22	31,168,505	6,724,891

NOTES:

¹ Four 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.

² In Category C, lines i and ii do not always equal the total line C because resolution may result in values greater than the original recommendations.

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	4	\$31,312,590
B. Reports issued during the reporting period	7	4,256,405
Total reports (A+B) requiring a management decision during the period ¹	11	35,568,995
C. Reports for which a management decision was made during the reporting period ²	5	35,112,590
i. Value of recommendations agreed to by management		35,679,761
ii. Value of recommendations not agreed to by management		165,849
D. Reports for which no management decision had been made by the end of the reporting period	6	456,405

NOTES:

¹ Four audit reports included in this table are also included among reports with recommendations that funds be put to better use (see Table 4). However, the dollar amounts do not overlap.

² In Category C, lines i and ii do not always equal the total line C because resolution may result in values greater than the original recommendations.

Definitions of Terms Used in the Tables

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.

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

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, including (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 preaward reviews of contracts or grant agreements; or (6) any other savings specifically identified.

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.

Appendix A. Report Types This Period

Type	Number of Reports	Appendix Number
Performance audits	2	A-1
Financial assistance audits	5	A-2
Inspections and evaluations	9	A-3
Total	16	

Appendix A-1. Performance Audits

Report Title	Report Number	Date Issued	Funds to Be Put to Better Use
U.S. Census Bureau			
Census Has Improved Accountability for Laptops and Other Personal Property, but Additional Improvements Are Needed	IG-18387	09/28/07	0
Federal Audit Clearinghouse Reimbursable Agreements	ATL-18113	09/13/07	0

Appendix A-2. Financial Assistance Audits

Report Title	Report Number	Date Issued	Value of Funds to Be Put to Better Use	Amount Questioned	Federal Amount Unsupported
Economic Development Administration					
Oconto County Economic Development Corporation, WI	DEN-18388-7-0001	04/06/07	0	\$1,152,579	0
City of San Juan Bautista, CA and San Benito County Water District Hollister, CA	STL-18499-7-0001	04/20/07	\$3,800,000	0	0
Nye County, NV	STL-17802-7-0001	09/06/07	0	3,000,000	\$2,806,979
National Institute of Standards and Technology					
Nanocrystal Lighting Corporation, NY	DEN-18386-7-0001	07/10/07	0	15,054	1,363
Imaging Therapeutics, Inc., CA	ATL-18418-7-0001	09/13/07	0	1,407,446	0

Appendix A-3. Inspections and Evaluations

Report Title	Report Number	Date Issued	Funds to Be Put to Better Use
U.S. Census Bureau			
FY 2007 FISMA Assessment of AESDirect Major Application (CEN 12)	OSE-18690-2	09/30/07	—
FY 2007 FISMA Assessment of Client Services General Support System (CEN17)	OSE-18690-1	09/30/07	—
Lax IT Security Leaves Sensitive Census Information at Risk of Compromise	IG-18387-2	09/30/07	—
Preparing for Census 2010: Follow-up Review of the Workers' Compensation Program at the Census Bureau Reveals Limited Efforts to Address Previous OIG Recommendations	IPE-18592	07/31/07	—
2010 Census: Key Challenges to Enumerating American Indian Reservations Unresolved by 2006 Census Test	OSE-18027	09/30/07	—
International Trade Administration			
FY 2007 FISMA Assessment of Core Network General Support System (ITA-012)	OSE-18840	09/30/07	—
Greater Interagency Involvement and More Effective Strategic Planning Would Enhance the National Export Strategy	IPE-18589	09/25/07	—
National Oceanic and Atmospheric Administration			
FY 2007 FISMA Assessment of the Network Operations Center	OSE-18688	09/30/07	—
U.S. Patent and Trademark Office			
FY 2007 FISMA Assessment of Patent Search System— Primary Search and Retrieval (PTOP-008-00)	OSE-18841-1	09/30/07	—
FY 2007 FISMA Assessment of Project Performance Corporation General Support System (PTOC-011-00)	OSE-18841-2	09/30/07	—

Appendix B. Processed Audit Reports

The Office of Inspector General reviewed and accepted 149 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 Appendix B-1.

Agency	Audits
Economic Development Administration	49
International Trade Administration	1
National Institute of Standards and Technology*	31
National Oceanic and Atmospheric Administration	19
National Telecommunications and Information Administration	4
Multiagency	45
Total	149

* Includes 29 ATP program-specific audits.

Appendix B-1. Processed Reports with Audit Findings

Report Title	Report Number	Date Issued	Funds to Be Put to Better Use	Amount Questioned	Amount Unsupported
Economic Development Administration					
Biomedical Research Foundation of Northwest Louisiana	ATL-09999-7-2763	09/24/07	0	\$1,172,602	—
New Jersey City University	ATL-09999-7-2638	09/24/07	0	1,500,000	—
University of Maine Systems*	ATL-09999-7-2701	09/24/07	0	16,820	—
Valley Economic Development Development Center, Inc., CA	ATL-09999-7-2749	09/24/07	0	615,513	—
Mississippi Technology Alliance	ATL-09999-7-2734	09/25/07	0	20,742	—
Municipality of Jayuya, PR	ATL-09999-7-2737	09/25/07	0	345,000	—
State of Florida	ATL-09999-7-2857	09/25/07	0	856,020	—
State of Mississippi Institutions of Higher Learning	ATL-09999-7-2928	09/25/07	0	1,989,726	—
National Institute of Standards and Technology					
Extrude Hone Corporation, PA	ATL-09999-7-1827	04/20/07	0	34,511	—
IdraPrince, Inc., MI	ATL-09999-7-2452	04/20/07	0	17,210	—
JDS Uniphase Corporation, CA	ATL-09999-7-2713	08/31/07	\$28,664	0	—
Starthis, CA	ATL-09999-7-2903	08/31/07	0	76,313	—
NeuroPace , Inc., CA	ATL-09999-7-2826	09/05/07	63,557	0	—
General Electric Global Research, NY	ATL-09999-7-2825	09/06/07	13,907	24,807	—
Delphi Automotive Systems, OH	ATL-09999-7-2681	09/19/07	0	64,390	—
RheoGene, Inc., PA	ATL-09999-7-2902	09/19/07	80,993	0	—
Advanced Power Technology Colorado Inc., CO	ATL-09999-7-2676	09/26/07	225,086	6,828	—
Geometric Informatics, Inc., MA	ATL-09999-7-2943	09/27/07	44,198	62,610	—
National Oceanic and Atmospheric Administration					
University of Maine Systems*	ATL-99999-7-2701	09/24/07		225,092	—

* Counted as one audit report

Audits Unresolved for More Than 6 Months

Census Bureau

ITS Services, Inc. In March 2005, we reported that 3 of the 32 task orders awarded under an IT services contract were audited to determine whether the costs billed by the firm were reasonable, allowable, and allocable under contract terms and conditions and federal regulations. We found that the firm had failed to comply with numerous contract and federal requirements, and questioned more than \$8.5 million in direct labor and reimbursable costs.

Computer & High Tech Management, Inc. We reported in our September 2005 *Semiannual Report* (page 14) the results of audits of 2 of the 21 task orders for another firm providing IT services 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 both of these contract audits pursuant to an agreement with Census.

NIST

Computer Aided Surgery Inc., New York. An OIG audit of this NIST cooperative agreement (see September 2004 issue, page 35, and March 2005 issue, page 33—ATL-16095) questioned costs totaling \$547,426 in inappropriately charged rent, utilities, and certain salary, fringe benefit, and other expenses because these costs were unallowable, in excess of budgetary limits, or incorrectly categorized. This audit remains unresolved because we requested that NIST postpone its submission of an audit resolution proposal.

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	61
5(a)(1)	Significant Problems, Abuses, and Deficiencies	17-46
5(a)(2)	Significant Recommendations for Corrective Action	17-46
5(a)(3)	Prior Significant Recommendations Unimplemented	61
5(a)4	Matters Referred to Prosecutive Authorities	53
5(a)(5) and 6(b)(2)	Information or Assistance Refused	61
5(a)(6)	Listing of Audit Reports	56-59
5(a)(7)	Summary of Significant Reports	17-46
5(a)(8)	Audit Reports—Questioned Costs	54
5(a)(9)	Audit Reports—Funds to Be Put to Better Use	55
5(a)(10)	Prior Audit Reports Unresolved	61
5(a)(11)	Significant Revised Management Decisions	61
5(a)(12)	Significant Management Decisions with Which OIG Disagreed	61

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 Audits.

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 NIST and five 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 performance audits, OIG must be consulted and must approve in advance any modification to an audit action plan. 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. The decisions issued on the four appeals of audit-related debts were finalized with the full participation and concurrence of OIG.

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 to the council.

TYPES OF OIG WORK PRODUCTS

The various kinds of audits, evaluations, inspections, and investigations at our disposal enable the IG's office to assess Commerce programs and operations from a range of perspectives, and allow us to provide program managers with reviews and recommendations that are either narrowly focused or comprehensive, as needed, to aid them in ensuring the most efficient and effective use of taxpayer dollars.

AUDITS

Performance Audits address the efficiency, effectiveness, and economy of the Department's programs, activities, and information technology systems. They may check a unit's compliance with laws and regulations, and evaluate its success in achieving program objectives. They may also involve reviewing the Department's financial assistance awards by assessing an award recipient's compliance with laws, regulations, and award terms; allowance of costs; and the degree to which projects achieved intended results.

Financial Audits determine whether (1) a reporting entity's financial statements are presented fairly and in accordance with generally accepted accounting principles; (2) the entity has an internal control structure that provides reasonable assurance of achieving the control objectives set forth by OMB; and (3) the entity complied with laws and regulations that could have a direct and material effect on the financial statements, the Federal Financial Management Improvement Act, and other laws and regulations.

Attestation Engagements involve examining, reviewing, or performing agreed-upon procedures on a subject matter or an assertion about a subject matter and reporting the results. Attestation engagements can have a broad range of financial or nonfinancial focuses, such as an entity's compliance with laws and regulations; management's discussion and analysis presentations; and allowability and reasonableness of final grant and contract costs.

INSPECTIONS

Inspections are reviews of an activity, unit, or office, or a contractor or other nonfederal entity that receives funds from the Department. They focus on an organization, not a whole program, and are often designed to give agency managers timely and useful information about operations, including current and foreseeable problems.

EVALUATIONS

Program Evaluations review specific management issues, policies, or programs.

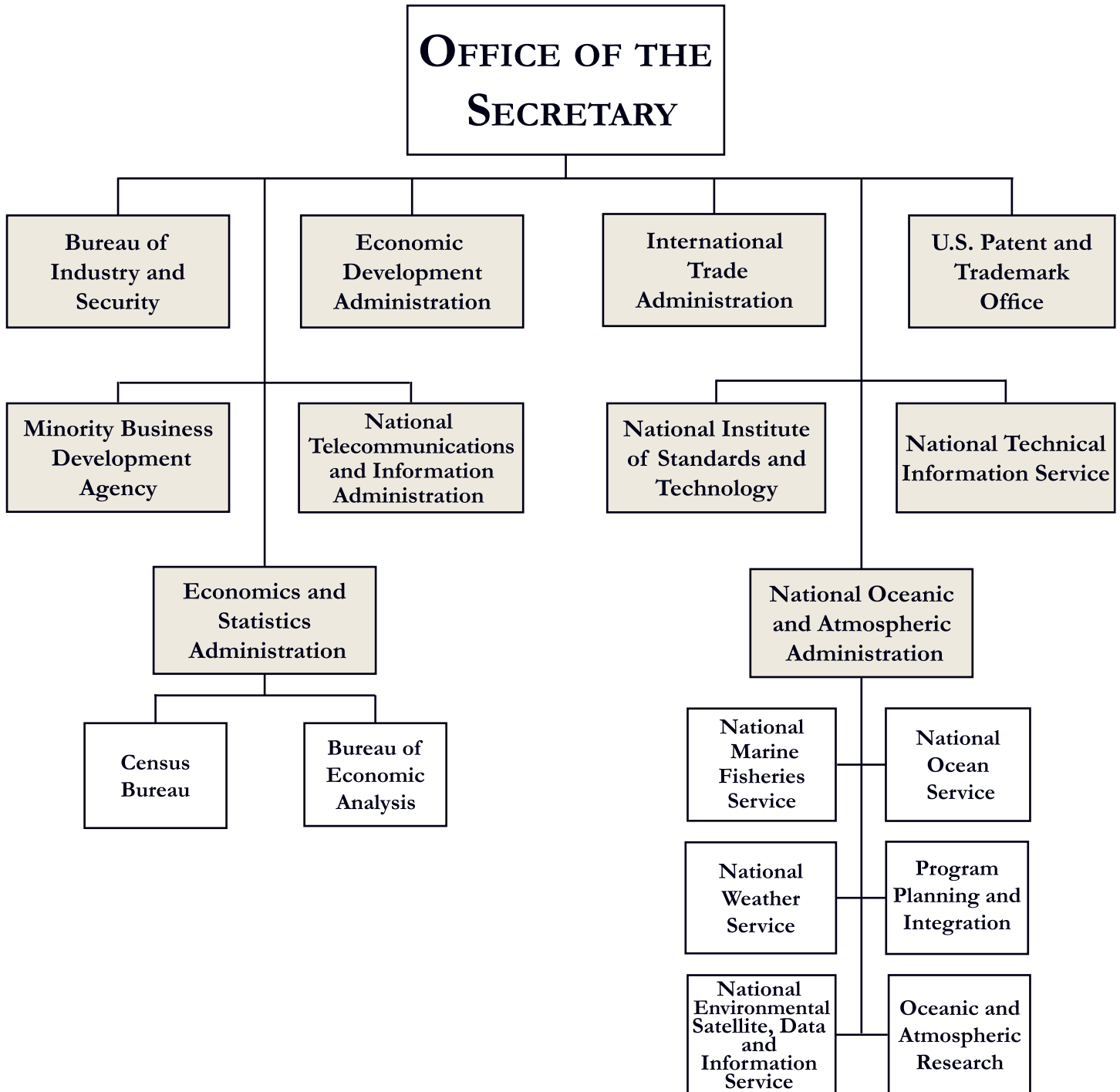
Systems Evaluations review system development, acquisitions, operations, and policy, focusing on computer systems and other technologies.

INVESTIGATIONS

Investigations are conducted based on alleged or suspected wrongdoing by Department employees, contractors, recipients of financial assistance, and others responsible for handling federal resources. Investigations that expose violations of Department rules and regulations or acts of fraud committed against the U.S. government can result in administrative sanctions and/or criminal or civil prosecution.

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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