



# SEMIANNUAL REPORT TO THE CONGRESS



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

October 31, 2001

The Honorable Donald L. Evans  
Secretary of Commerce  
Washington, D.C. 20230

Mr. Secretary:

I am pleased to provide you with the Office of Inspector General's *Semiannual Report to the Congress* for the second half of fiscal year 2001. Section 5 of the Inspector General Act requires that you transmit this report, with any comments you may wish to add, to the appropriate congressional committees within 30 days of your receiving it.

This semiannual reporting process has been clouded by the tragic events of September 11. Those events have also given greater urgency to many of the activities we have undertaken—such as our review of information and personnel security at Commerce, and our examination of the effectiveness of deemed export controls. They have caused us to revisit some previously considered areas of concern—the Department's emergency preparedness procedures, for example—and have directed our attention to new issues as well. Activities prompted by these prior and new areas of focus will be reflected in subsequent semiannual reports.

Our efforts in these past 6 months have been complemented by the excellent progress you have made in assembling a strong management team. As your top officials have come on board, my senior managers and I have endeavored to meet with them to learn about their plans and to share our insights on the major issues facing their units.

Our coordination with your team coincided with an extensive OIG survey and planning process designed to provide a comprehensive update on the status of departmental activities and to determine key issues for future study. As part of this process, work groups consisting of staff from all OIG offices conducted in-depth research on the state of Commerce operating units, while senior OIG officials held discussions with congressional staff, departmental managers, and other stakeholders to solicit their input on potential topics for review.

This process will culminate in our soon-to-be issued *Audit and Inspection Plan for FY 2002-03*, which identifies more than 40 priority areas for attention. I hope you will find this document to be a useful management tool. I believe it will provide solid guidance for constructive work that we will detail in semiannual reports through the coming years.

Sincerely,

Johnnie E. Frazier



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## FOREWORD

The events of September 11 cast a pall on all of America. In their aftermath, the will and ability of federal agencies to work together for the common good have been put to the test. For its part, the Office of Inspector General at the Department of Commerce has responded in several ways—some that provided immediate support and some that look to long-range issues of security and preparedness.

In the weeks following September 11, OIG staff assisted with recovery and investigative operations at both the Pentagon and World Trade Center. Responding to the FBI's urgent calls for help, several special agents from our office joined their counterparts from other agencies to sift through the wreckage at the Pentagon or to follow up on countless leads in New York.

In the months since, we have revisited a number of critical areas that we had addressed in reviews from prior years and that have gained new urgency: a 1995 examination of export controls on dual-use biological agents; a 1998 evaluation of access to proprietary information and valuable equipment by visiting foreign researchers; a 1999 assessment of export safeguards on sensitive U.S. technology; and a 2000 study of security at Commerce-operated facilities abroad, to name a few. We have also taken steps to help ensure that effective emergency preparedness plans are in place at Commerce facilities. We have begun a Department-wide review to determine what steps are needed to develop and implement up-to-date and useful emergency plans for each agency in light of the terrorist attacks. We will work with senior departmental officials in the interim, detail our findings in the next semiannual report, and continue to evaluate the impact of other forward-looking efforts as they unfold.

Even as we look to the future, the September 11 tragedies have underscored the importance and timeliness of several of our key areas of focus during this semiannual period, particularly the following:

- ★ **Information Security.** Commerce operates many complex information systems that provide essential public and government services, making these systems attractive targets for terrorists. We conducted three reviews of the integrity of the Department's information security procedures: an independent evaluation mandated by the Government Information Security Reform Act, an examination of the use of Internet "cookies" and "web bugs" on Commerce web sites, and a study of whether the Economics and Statistics Administration and the Census Bureau had adequate internal controls to prevent the disclosure or use of the Advance Retail Sales economic indicator data before its release to the public. In all three instances we found weaknesses in information security and recommended actions to bolster related programs and procedures. (See pages 36, 59, and 62.)
- ★ **Personnel Security.** The ease with which foreign nationals were able to penetrate American society—using our information, education, and border protection systems against



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us, and then turning our vehicles of air transportation into weapons of mass destruction—has been a wake-up call for all sectors of the nation. Public and private organizations alike are carefully scrutinizing their processes for screening and hiring personnel, accepting students into educational programs, and allowing visitors on their premises.

Our discovery of weaknesses in personnel security measures within the Census Bureau and the Economics and Statistics Administration prompted us to review these procedures throughout the Department. We determined that gaps in processes for designating the level of risk and sensitivity associated with a position, and for conducting background investigations appropriate to those designations, exist elsewhere in Commerce. (See page 63.)

- ★ **Deemed Export Controls.** These controls are designed to prevent foreign nationals who visit or work in U.S. research laboratories and private firms from illegally obtaining sensitive technology. In light of the September 11 tragedies and subsequent terrorist threats, the importance of these controls cannot be overstated. Our recent follow-up review of work conducted in 1999 and 2000 on deemed export controls revealed that these regulations need clarification, and that federal agencies need well-defined guidelines for determining whether foreign visitors to U.S. facilities require deemed export licenses. (See page 25.)

Other key areas of focus for OIG during the past 6 months include the following:

- ★ **Weather Forecast Offices.** Continuing our series of inspections of National Weather Service field offices, we visited weather forecast offices in San Angelo, Texas, and Missoula, Montana. These inspections covered the major aspects of the offices' operations, including forecasting, quality control, community outreach, information technology, training, management oversight, and internal controls. Overall, both facilities are well run. However, quality control and staff training could be improved. Once all inspections are completed, we plan to issue a report that addresses crosscutting areas of concern and identifies best practices. (See page 43.)
- ★ **EDA and NIST Financial Assistance Awards.** We reviewed three general categories of Commerce financial assistance: older EDA revolving loan funds (RLFs) that had large amounts of unused grant funds; EDA-funded public works projects that were significantly behind schedule; and cooperative agreements under the NIST Manufacturing Extension Partnership for which complete program income was not reported, as required. Our primary goals were to (1) determine the continued need for the funding, (2) assess project compliance for the public works grants, and (3) identify monies owed NIST for excess federal disbursements. (See pages 27, 28, and 56.)

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In addition to our audit and inspection work of the last 6 months, OIG completed a comprehensive planning operation that evaluated the status of current departmental activities and developed a detailed framework for determining future priorities. The *Audit and Inspection Plan for FY 2002-03* will be the outcome of this process. This document will identify more than 40 areas of focus for our work in the coming years.

In the aftermath of September 11, we must aggressively address the new challenges facing the Department of Commerce while keeping sight of other areas that demand our attention. We believe that our efforts during this last semiannual period and our plans for the future reflect this balance, and will enable us to continue to promote prompt action to correct existing problems and diffuse emerging ones.

## **MAJOR CHALLENGES FOR THE DEPARTMENT**

This section highlights the Top 10 Management Challenges that faced the Department at the close of this semiannual period. We view these issues as Commerce's challenges because they meet one or more of the following criteria: They are important to the Department's mission or the nation's well-being; they are complex; they involve sizable expenditures; or they require significant management improvements. Given the diverse nature of Commerce activities, many of these issues cut across bureau and program lines. We believe that by addressing these challenges the Department can enhance program effectiveness; eliminate serious operational problems; decrease fraud, waste, and abuse; and achieve substantial savings.

### **Top 10 Management Challenges**

- 1. Successfully implement a Department-wide financial management system.**
- 2. Strengthen Department-wide information security.**
- 3. Successfully transition the U.S. Patent and Trademark Office to a performance-oriented organization.**
- 4. Increase international compliance with trade agreements and expand market access for American exporters.**
- 5. Enhance export controls for dual-use commodities.**
- 6. Increase the effectiveness of fishery management.**
- 7. Continue to improve the Department's strategic planning and performance measurement in accordance with the Government Performance and Results Act.**
- 8. Strengthen financial management controls to maintain a "clean" opinion on the Department's consolidated financial statements.**
- 9. Successfully implement acquisition reform initiatives.**
- 10. Ensure effective management of major facilities renovation and construction projects.**

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### Successfully Implement a Department-Wide Financial Management System

The Department has spent nearly 7 years and an estimated \$150 million developing the Commerce Administrative Management System (CAMS). It plans to spend an additional \$92 million over the next 2 years to complete the system. Considerable work remains before the Department is in compliance with OMB Circular A-127, which requires federal agencies to have a single, integrated financial management system with standard information and electronic data exchange formats. Without this capability, federal agencies have difficulty managing financial resources; protecting federal assets; and providing timely, reliable, and consistent information to decision-makers and the public.

When planning for CAMS began in 1992, Commerce's financial systems were outdated and fragmented, could not provide reliable financial information, and did not comply with federal financial management requirements. In December 1994, the Department contracted for an off-the-shelf accounting software package and related implementation and administrative services.

In 1997, after the vendor had difficulty modifying its accounting software to meet Commerce's requirements, the Department took responsibility for the package and hired a new contractor to complete the modifications. In 1998, to address continuing cost growth and schedule delays, the Department reviewed the CAMS program and decided to initially implement a reduced set of core functions, revise the implementation strategy, and reorganize the project management structure.

The revised strategy called for pilot implementation of CAMS at the Census Bureau,

to be followed by implementation for most operating units cross-serviced by NIST, the National Oceanic and Atmospheric Administration, and the National Institute of Standards and Technology. The Census pilot was completed in June 1998. An independent review of the pilot concluded that the CAMS accounting software could support federal accounting and management functions and was as good as or better than other federal accounting packages available at that time.

CAMS is now the official accounting system for the Census Bureau and the operating units cross-serviced by NIST, which include the Office of the Secretary, Office of Inspector General, Office of Computer Services, Economic Development Administration, Minority Business Development Agency, Economics and Statistics Administration, and the Bureau of Economic Analysis. The Department-wide financial database is scheduled for completion in time to produce legally required consolidated financial reports by the end of this calendar year.

The current plan is to complete implementation of CAMS at NOAA by October 2002, at which time it will begin cross-servicing the Bureau of Export Administration. NIST will complete implementation a year later when it adds the National Telecommunications and Information Administration to the list of agencies it cross-services. By October 2003, Commerce expects all of its operating units to be using financial management systems that comply with federal requirements and integrate with the Department-wide financial database. Twelve units will use CAMS. The remaining three—the International Trade Administration, U.S. Patent and Trademark Office, and the National Technical Information Service—will be cross-serviced by the Department of Interior; however, ITA and NTIS are exploring alternatives.



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In our March 2001 semiannual report, we expressed concern about the Department's ability to (1) manage CAMS development and maintenance, (2) complete the Commerce-wide financial database in a timely manner, and (3) determine the efficiency and economy of operating CAMS at four locations. During this semiannual period, we found that the Department has addressed some of these concerns. It has assigned liaisons to work with the operating units, taken responsibility for defining Department-wide financial reporting requirements and year-end closing procedures, and instituted a study of best practices for CAMS operations and maintenance.

Also, the Deputy Chief Financial Officer and Assistant Secretary for Administration substituted a commercial off-the-shelf software package for a custom-coded application, which meets the requirements for the Department-wide financial database without utilizing scarce resources at the CAMS Support Center. Although this major strategy change came late, the Department believes the project is on schedule.

During this semiannual period, we also completed a review of CAMS contracting at the Support Center, specifically focusing on the contracts for system development, implementation, and administration. We found that contract management has improved steadily since late 1999, when it was reassigned to NOAA's Systems Acquisition Office. However, we also found the following:

1. The lack of clarity in the base contract hampers the ability of contract administration and program offices to effectively administer the contract and monitor results.

2. The use of performance-based contracting needs to be substantially increased.
3. Price and cost analysis must be documented.
4. Communications with and training of contract technical representatives at the operating units need improvement.
5. The appearance that CAMS contracts are personal service contracts must be avoided.

See page 69 for more details on these findings.

During the next semiannual period, we plan to further review and report on the status and management of the CAMS program. Until the Department's financial management systems comply with Office of Management and Budget requirements, CAMS will continue to warrant the close attention of senior Department officials and our office.

### Strengthen Department-Wide Information Security

Information security is vital to Commerce: The Department operates many complex computer systems that provide essential public services and support critical mission activities, such as provision of the nation's weather forecasting services; stewardship of the environment; and promotion of trade and economic growth, scientific research, and technological development. Weaknesses in information security throughout Commerce have prompted us to identify this problem as a top management challenge.

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During this semiannual period, the Inspector General testified at a hearing before the Subcommittee on Oversight and Investigations, House Committee on Energy and Commerce, about Department-wide information security weaknesses. At the same hearing, the General Accounting Office described its penetration testing of information systems and networks based in Commerce headquarters, noting pervasive weaknesses that place sensitive systems at serious risk. The Deputy Secretary of Commerce discussed information security improvements that the Department is undertaking.

Under the Government Information Security Reform Act (GISRA), each federal agency must review its information security program annually, and each OIG must perform an annual independent evaluation of that review. Both of these assessments were to be included in the FY 2003 budget materials transmitted to OMB. However, the U.S. Patent and Trademark Office submitted its budget materials and information security review separate from the Department's: USPTO has the freedom to do so under the American Inventors Protection Act of 1999, which gives it greater independence and flexibility to meet federal mandates. We submitted the same evaluation for both USPTO and the Department because it addresses issues associated with Commerce as a whole. Since USPTO is undertaking its own actions to manage information security, we will review its program separately next year.

Our first evaluation under GISRA was based on OIG reviews and audits of information security issues conducted during the past 2 years (including this semiannual period), as follows:

- ★ The Department's information security program functions assigned to the Chief

Information Officer (see March 2001 issue, page 69).

- ★ Implementation of the Critical Infrastructure Protection Program (see September 2000 issue, page 75).
- ★ The general controls associated with the information technology (IT) processing environment at various operating units, conducted as part of our FY 2000 financial statements audits (see March 2001 issue, page 72).
- ★ The use of persistent "cookies" and "web bugs" on departmental Internet sites (see page 62 of this report).
- ★ Security of the Census Bureau's Advance Retail Sales Principal Federal Economic Indicator (see page 36 of this report).

We determined that the Department is striving to improve information security and make it an integral component of Commerce's business operations. Nevertheless, we concluded that because information security has not received adequate attention in the past, substantial efforts are required to develop and oversee an effective security program. Certain fundamental responsibilities are frequently not carried out. These include identifying, assessing, understanding, and promoting awareness of the risks related to the Department's IT assets; determining appropriate levels of security; planning, implementing, and testing controls that adequately address risk; and continually monitoring the effectiveness of information security policies and practices.

Our review of the use of Internet cookies and web bugs, conducted during this semiannual period,

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was mandated by Public Law 106-554. This act requires OIGs to examine whether federal Internet sites use devices that collect information about any individual's access or viewing habits, and to report their findings to the Congress. We found that only a few of the Department's Internet sites were using cookies or web bugs. We also found that the privacy statements on many Commerce sites failed to include all the information required by the Department's privacy policy. Commerce's Chief Information Officer agreed with our recommendations for addressing these issues, took immediate actions to eliminate the use of cookies, and began working to eliminate web bugs. (See page 62.)

Because of the importance and sensitivity of the Advance Retail Sales economic indicator, we reviewed the processes used by ESA and the Census Bureau to prepare and release this data. Our concern was whether adequate internal controls are in place to prevent the premature or unauthorized disclosure or use of the data. We found appropriate controls in some areas, but found other areas in which controls needed strengthening, such as guidance for personnel access to offices while the indicator is being prepared, monitoring of changes to application software, and use of auditing software. ESA and the Census Bureau are taking steps to implement our recommendations for improving these matters. (See page 36.)

This review also revealed that appropriate background investigations had not been conducted on some ESA and Census employees who have advance knowledge of sensitive information, and that risk levels associated with their positions have not been properly assigned. (Levels of risk correlate to the potential harm an individual in a position of public trust could cause to the

efficiency and integrity of government programs and operations—the higher the level, the greater the risk.)

We noted that these security weaknesses stem from a lack of guidance on how to determine risk levels and conduct associated background checks from the Department's Office of Human Resources Management and Office of Security. We became concerned that other operating units may be assigning inappropriate risk levels and performing inadequate checks as well. So we addressed these problems in an evaluation of the Department-wide program for designating positions according to their risk and sensitivity. The Department has accepted and begun to implement our recommendations for strengthening this program. (See page 63.) At the same time, ESA and Census are shoring up their own processes for assigning risk and conducting background checks.

In the next semiannual period, we will plan and begin conducting evaluations for next year's reporting under GISRA. We will also share the results of our ongoing evaluation of the Office of Security's information security functions that are associated with classified systems.

### Successfully Transition USPTO to a Performance-Oriented Organization

The American Inventors Protection Act of 1999 established the U.S. Patent and Trademark Office as a performance-oriented organization, giving it greater flexibility and independence to operate more like a business. As such, USPTO has greater responsibility for managing its operations and expanded control over its budget allocations

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and expenditures, personnel decisions and processes, and procurement operations.

Despite the act's potential benefits, the transformation it allows is a formidable one. USPTO must develop the necessary personnel, procurement, and administrative policies, as well as performance-oriented processes and standards for evaluating cost-effectiveness, while meeting its performance goals under the Government Performance and Results Act (GPRA) and the timeliness standards of the American Inventors Protection Act. USPTO management views the passage of the act and the successful transition to a performance-oriented organization as critical to the operating unit's success at addressing other challenges identified by OIG in recent years, as described below.

**Meeting staffing needs to handle increases in patent activity.** The number of patent application filings has skyrocketed in recent years, leading USPTO to hire hundreds of new patent examiners and administrative judges. Trademark filings, on the other hand, have been on the decline. In FY 2000, for example, USPTO received more than 326,000 applications for patents—an increase of 12 percent over FY 2000. However, 296,000 trademark requests were received in FY 2001, a decrease of 21 percent. To address the expanding workload of patent applications, USPTO hired 789 patent examiners, but lost 706 through attrition during FY 2000 and 2001. In this same period, USPTO hired 134 trademark examiners, but lost 112 through attrition.

Our prior audits of the Office of Patent Publications and the Board of Patent Appeals and Interferences reported on some of the challenges facing USPTO in recruiting and training examiners

and in hiring additional administrative judges to hear appeals. As a performance-oriented organization, USPTO will have greater flexibility to design incentives to attract and retain these highly skilled employees. USPTO management believes that the operating unit will be able to manage its resources more efficiently and to make the quick decisions required to process patent and trademark filings and appeals in a timely yet high-quality manner.

**Managing construction of new facility.** As it moves through this transition, USPTO, along with the General Services Administration, must oversee one of the largest real estate ventures that the federal government will undertake this decade—the construction of USPTO's new 2.4 million-square-foot office complex in Alexandria, Virginia. When completed in 2005, the 5-building complex will provide space for USPTO employees and operations currently scattered among approximately 18 buildings in nearby Crystal City. Now that GSA has awarded the construction contract, USPTO must aggressively hold the line on project costs and stay within the legislatively mandated cap on the cost of completing the build-out of the building's interior.

**Maintaining state-of-the-art information technology capabilities.** USPTO continues to face significant challenges in delivering essential IT capabilities. The American Inventors Protection Act requires greater operational efficiency, further intensifying the demands placed on IT solutions and USPTO's ability to develop new and upgrade existing systems. OIG's earlier evaluation of USPTO's new search system found flaws in its system development process (see March 2001, page 54). USPTO agreed that improvements were needed and is implementing our recommendations. USPTO will have to continually evaluate and improve its system

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development process to deliver essential IT capabilities efficiently and economically.

### **Increase International Compliance with Trade Agreements and Expand Market Access for American Exporters**

To compete effectively in today's global marketplace, U.S. companies need help addressing unfair trade practices or violations of trade agreements, inadequate intellectual property protection, and other barriers to the export of U.S. goods and services. Commerce must ensure that its trade compliance and market access efforts adequately serve U.S. companies by expanding trade and opening world markets, and by eliminating unfair competition from imports priced at less than fair market value.

Commerce, through various International Trade Administration offices, works with the Office of the U.S. Trade Representative, the Departments of State and Agriculture, and numerous other federal agencies to monitor and enforce trade agreements. The number and complexity of agreements have increased substantially in recent years.

To help in its compliance efforts, ITA created the Trade Compliance Center in 1996. The center monitors U.S. trade agreements and reviews complaints from a variety of sources. When warranted, it forms a compliance team to bring a case to satisfactory conclusion. Team members are drawn from center staff and other ITA operating units including Market Access and Compliance, Trade Development, U.S. and Foreign Commercial Service, and other offices, as

appropriate. In addition to the activities coordinated by the center, a substantial amount of market access and trade compliance work is performed by ITA's other operating units. Overall, ITA's approach to trade compliance and market access is to solve problems quickly and at the lowest level possible—avoiding formal dispute settlement structures such as the World Trade Organization, which can take years to resolve cases.

On the import side, unfair foreign pricing and government subsidies can disrupt the free flow of goods and adversely affect U.S. companies' global competitiveness. ITA's Import Administration (IA) works with the International Trade Commission to enforce the nation's antidumping and countervailing duty laws. IA investigates complaints from U.S. industries regarding foreign producers and governments to determine whether dumping or subsidization has occurred and, if so, to what extent. The commission determines whether U.S. industry is suffering material injury as a result of the dumped or subsidized products. If both agencies determine that dumping and injury have occurred, IA instructs the U.S. Customs Service to assess duties against imports of those products.

In January 2001, GAO identified monitoring and enforcement of trade agreements as major management issues for Commerce, citing two main reasons: (1) the Department's shortage of qualified staff who possess the expertise to monitor compliance with trade agreements, and (2) its difficulty interfacing with and getting support from other federal agencies and the private sector regarding trade agreements.

The Secretary of Commerce has taken steps to address the concerns of both the Congress and

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GAO by making monitoring and enforcement of trade agreements a top priority for ITA and for the Department as a whole. Commerce received additional funding for trade compliance activities in FY 2001, under the administration's Compliance Initiative.

Based on our work to date, we agree that a more coordinated federal effort is needed to improve compliance. Our recent review of ITA's trade agreement compliance process, as managed by the Trade Compliance Center, found that ITA needs to enhance its coordination and tracking of trade compliance and market access activities. The results of this review will be described in our next semiannual report.

We intend to review various aspects of ITA's approach to market access and trade compliance, as well as key import administration issues. In the meantime, ITA must work closely with U.S. companies and other federal agencies to identify trade compliance problems, develop workable solutions to them, and thus enhance American firms' access to foreign markets.

### **Enhance Export Controls for Dual-Use Commodities**

The adequacy of export controls is an ongoing concern, especially in light of September 11. Opinions vary on how well the government's export control policies and practices balance the need to protect U.S. national security and foreign policy interests with the desire to promote U.S. trade opportunities and competitiveness. Striking this balance is a significant challenge for the parties involved, particularly for Commerce's Bureau of Export Administration, which oversees the federal

government's export licensing and enforcement system for dual-use commodities (goods and technologies that have both civilian and military uses).

Strengthening the dual-use export licensing and enforcement process requires new, comprehensive legislative authority to replace the expired Export Administration Act of 1979 and appropriately address current export control needs and realities. Passed during the Cold War, the Export Administration Act sought to prevent the export of critical goods and technologies to Communist bloc countries. In today's political climate, rogue countries and terrorist groups seeking weapons of mass destruction and the systems to deliver them pose new threats to U.S. national security and foreign policy goals. Legislation is needed to address these threats, as well as to bolster BXA's regulatory authority, stiffen penalties, and demonstrate America's commitment to maintaining strong export controls while encouraging other countries to do the same.

Given the importance of export controls to national security, we have devoted considerable attention to the challenges facing BXA. Specifically, we responded to a request from the Senate Governmental Affairs Committee to follow up on a 1993 interagency OIG review of the export licensing process: along with the OIGs from the Central Intelligence Agency and the Departments of Defense, Energy, State, and Treasury, we issued a special interagency report in June 1999 on the export licensing process for dual-use commodities and munitions.

Subsequently, the National Defense Authorization Act for Fiscal Year 2000 directed the same six OIGs to report to the Congress by March 30, 2000, and annually until the year 2007, on the

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adequacy of export controls and counter-intelligence measures to prevent the acquisition of sensitive U.S. technology and technical information by countries and entities of concern. In addition, the legislation requires the OIGs to describe in their semiannual reports the status or disposition of recommendations made in earlier reports submitted in accordance with the act. To date, we have completed two additional reviews of export controls in compliance with the act and are currently working on a third.

Overall, we found the licensing of U.S. dual-use exports to be a balanced multiagency collaboration among Commerce, Defense, Energy, State, Justice, and the CIA that attempts to bring divergent policy views and information to bear on the decision-making process. In addition, we found that the four-level escalation process for resolving license disputes among the referral agencies was working relatively well.

While our assessments have identified significant improvements in export controls since 1993, we have also found weaknesses in licensing procedures. First, commodity classification and jurisdiction processes are not timely and do not clearly specify the role of each agency. Second, the intelligence community does not review all dual-use export license applications or consistently conduct a comprehensive analysis of applications it does review, and license applications are not screened against a key database maintained by the U.S. Customs Service. Third, there are some recurring problems with BXA's monitoring of licenses that have reporting requirements.

In addition, BXA needs to clarify licensing policy and regulations regarding the release of controlled technology to foreign nationals working in federal and private research facilities—commonly referred

to as deemed exports. The Bureau must also improve its management of the list of controlled dual-use commodities and technologies, known as the Commerce Control List. We have recommended that BXA make the list more user-friendly, improve the timeliness with which it implements agreed-upon multilateral changes to the list, and address the inappropriate use of national security controls on some items.

Furthermore, we have several concerns about the overall effectiveness of the interagency Committee on Foreign Investment in the United States (CFIUS), as follows:

- ★ The lack of mandatory foreign investment reporting.
- ★ The low number of investigations conducted on company filings.

### CFIUS Membership

Department of the Treasury  
**(Committee Chair)**  
Department of Commerce  
Department of Defense  
Department of Justice  
Department of State  
Office of Management and Budget  
U.S. Trade Representative  
Director of the Office of Science  
and Technology Policy  
Chairman of the Council  
of Economic Advisors  
Assistant to the President  
for Economic Policy  
Assistant to the President  
for National Security Affairs

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- ★ The role of Treasury in overseeing CFIUS activities.
- ★ The division of responsibilities between BXA and ITA for the CFIUS program within Commerce.

The interagency OIG review team has agreed to conduct an in-depth examination of the Committee's effectiveness as part of its future work under the National Defense Authorization Act.

Currently, we are evaluating BXA's efforts to upgrade its automated licensing and enforcement systems. This improvement is an important one for the Department because BXA needs a more efficient system for processing export license applications. It also needs to coordinate its system development efforts with other export licensing agencies. In addition to our review of Commerce's system, the interagency OIG review team is looking at the various automated export licensing systems maintained by these other agencies to determine how the systems interact and whether it is feasible to develop a single federal automated export licensing network.

The challenges for BXA, as well as for the administration and the Congress, remain (1) the passage of a new Export Administration Act, (2) the targeting of federal licensing and enforcement efforts on those exports that present the greatest proliferation and national security risks, and (3) the streamlining or elimination of controls that unnecessarily hamper trade. We will continue to monitor BXA's efforts to improve dual-use export controls through the annual reviews required by the National Defense Authorization Act.

### Increase the Effectiveness of Fishery Management

The primary mission of NOAA's National Marine Fisheries Service (NMFS) is to protect and preserve living marine resources through scientific research, fisheries management, law enforcement, and habitat conservation. Ensuring healthy stocks of fish and other marine animals in the coastal waters beyond each state's jurisdiction is a federal responsibility carried out principally by NMFS and eight regional fishery management councils under the Magnuson-Stevens Fishery Conservation and Management Act of 1976, as amended.

NMFS and the councils track the condition of marine species, determine the levels of catch that will provide the greatest benefit to the nation, and gauge the economic impact of fishery regulations and policies. Measures to manage various species are generally developed by the councils, reviewed by NMFS, and subject to approval by the Secretary of Commerce. These measures are often controversial because they impose quotas on fishing that simultaneously affect the survival of a species and the economic health of the fishing industry and many coastal communities.

NMFS is also responsible for the recovery of species protected under the Endangered Species Act of 1973, including anadromous species, such as salmon, which migrate between the ocean and inland waterways. NMFS plays a central role in the Northwest Salmon Recovery Effort—a combined response by various federal agencies, state and tribal governments, and other organizations to restore salmon runs in the Columbia River Basin.



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In its Federal Columbia River Power System 2000 Biological Opinion, NMFS set performance standards and recovery actions that guide operations of 29 federally owned dams. These requirements are incorporated in the broader Basinwide All-H Salmon Recovery Strategy issued by the Federal Caucus—the nine federal agencies that have responsibilities for natural resource management under the Endangered Species Act. This strategy covers areas essential to recovery—harvest, hatcheries, hydropower, and, most important, habitat.

NMFS will assess implementation in each of these areas and periodically review whether the basinwide strategy of improvements, research, and evaluation is meeting performance standards to halt species decline within 10 years and enable population growth thereafter. If performance standards are not met, the Federal Caucus intends to accelerate recovery measures or consider new actions.

We are currently assessing the NMFS Northwest Science Center's role in supporting the Salmon Recovery Effort. In the future, we also plan to review NMFS's stewardship role and related developments concerning the conservation of fisheries for which it is responsible under the Magnuson-Stevens Act.

### Continue to Improve the Department's Strategic Planning and Performance Measurement in Accordance with GPRA

Sound oversight of federal programs by the Congress and agency managers requires relevant performance measures and credible performance

data. Like other federal agencies, the Department faces the challenge of producing such data that is accurate, appropriate, reliable, and useful.

Commerce is operating under its second strategic plan, covering FY 2000 to FY 2005. Earlier this year, the Department published its fourth Annual Performance Plan, which outlined goals for FY 2002, and its second Annual Program Performance Report, which detailed performance outcomes for FY 2000.

OIG has been involved with Commerce's efforts to implement GPRA since 1997 and has taken the following steps to help ensure the collection and reporting of reliable performance information to decision-makers:

- ★ Provided implementation advice and assistance.
- ★ Monitored the limited review by certified public accounting firms of performance data contained in the annual financial statements.
- ★ Made presentations to departmental officials on the importance of ensuring that performance-related information is reliable.
- ★ Provided informal comments to the Department on various GPRA-related documents.
- ★ Audited internal controls for selected data on operating unit performance.

We believe the Department continues to progress toward meeting the challenge of how best to plan and measure its performance. GAO concurs with

## IG's Message for the Congress

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our opinion: It reported in June 2001 that Commerce's FY 2000 Annual Program Performance Report and FY 2002 Performance Plan are significantly better than those from previous years. However, GAO noted that weaknesses in performance measurement processes make it difficult to determine whether Commerce is moving closer to achieving certain key goals.

With passage of the Reports Consolidation Act of 2000, the Congress also demonstrated its interest in the value of performance information. This act requires an assessment by the Secretary of Commerce of the completeness and reliability of performance information in reports containing such data. We worked with the Department to ensure that its FY 2000 Accountability Report included a statement that properly noted the limited reliability of current performance information.

We will continue to monitor Commerce's efforts to implement GPRA, provide advisory comments on GPRA-related documents, and, where resources permit, perform targeted reviews of GPRA-related issues. We have ongoing audits of performance measurement and reporting at NIST and USPTO, which—like those conducted last year for BXA and NTIA—will recommend ways to improve such reporting and to strengthen internal controls. Where warranted, we will continue to make recommendations to the Department and its operating units regarding the accuracy and reliability of performance data. We believe that while the Department has been responsive to past criticisms of its efforts to meet GPRA requirements, it must continue to focus management's attention on further improvements in performance measurement and reporting.

### **Strengthen Financial Management Controls to Maintain a “Clean” Opinion on the Department's Consolidated Financial Statements**

The Chief Financial Officers Act of 1990, the Government Performance and Results Act of 1993, the Government Management Reform Act of 1994, and the Federal Financial Management Improvement Act of 1996 were designed to improve financial management and accountability in the federal government. These statutes require, among other things, the preparation and audit of agency financial statements that present an entity's financial position and results of operations, as well as other information needed by the Congress, agency executives, and the public to assess management's performance and stewardship. The audit report must state whether an agency's financial management systems comply substantially with federal requirements.

The Department received its second unqualified (clean) opinion on its FY 2000 consolidated financial statements (see March 2001 issue, page 71) despite continuing obstacles—including the absence of a single, integrated financial management system. Despite substantial improvements in financial management, maintaining a clean audit opinion on Commerce's consolidated statements remains a major challenge. Further improvements are essential to enable the Department and its reporting entities to correct the material weaknesses and other deficiencies identified in the audits of FY 2000 statements. Material weaknesses are serious flaws in the design or operation of an internal control component that increase the risk that errors, fraud, or noncompliance in material amounts may occur and not be readily detected.

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The audits of the FY 2000 statements identified six material weaknesses, seven reportable conditions, and several instances of noncompliance with laws and regulations. Of these, three material weaknesses, three reportable conditions, and one instance of noncompliance were new matters. This number of deficiencies is lower than in previous years, but still represents an obstacle the Department must overcome to avoid jeopardizing future clean opinions.

The Department recognizes the need for ongoing efforts to create a financial management environment that provides timely, accurate financial and performance information and complies with federal laws and regulations, and it continues to focus on strengthening financial management controls. We have retained an independent certified public accounting firm to audit the Department's FY 2001 consolidated financial statements. We will discuss the findings of this audit in the March 2002 semiannual report.

### **Successfully Implement Acquisition Reform Initiatives**

Acquisition reform is intended to reduce the time and money spent in purchasing needed goods and services. To accomplish this goal, reform initiatives (1) rely on performance-based service contracting, (2) consider past performance in awarding contracts, and (3) make increased use of commercially available products. Experienced acquisition teams with business management skills are important components of these initiatives—not only do team members provide management expertise, but, because they are public servants, they are responsible for spending taxpayer dollars wisely and in accordance with applicable laws and regulations. Performance-based measurement

tools such as earned value and risk management are also key features of acquisition reform efforts.

As the Department of Commerce increases its reliance on contractor-provided goods and services, the challenge of monitoring the effectiveness of the acquisition process grows as well. Each year, the Department spends more than \$1 billion, or about one-quarter of its appropriation, through large contracts and other procurement vehicles. Acquisition reform legislation has attempted to ease the restrictive, time-consuming process by which the government formerly purchased goods and services, as well as reduce dollars spent, by making greater use of the competitive marketplace. The challenge for Commerce is to balance the desire to streamline the procurement process with the need to ensure that taxpayer dollars are wisely spent and that applicable laws and regulations are followed.

The Federal Acquisition Streamlining Act of 1994 substantially revised federal procurement law, encouraging the use of commercial items, performance-based service contracting, and past performance as the major evaluation criterion for awards. The act reduced paperwork and raised the threshold for simplified acquisition procedures from \$25,000 to \$100,000. It also promoted use of the Internet for processing acquisitions, or e-procurement.

The Clinger-Cohen Act of 1996 combined two other 1996 laws—the Federal Acquisition Reform Act and the Information Technology Management Reform Act. Clinger-Cohen provided for governmentwide acquisition reform, including repeal of the Brooks Act (which covered automated data processing procurements). It shortened the time allowed for GAO to issue bid protest decisions and prompted revision of the

## IG's Message for the Congress

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Procurement Integrity Act. It also emphasized results-based acquisition and promoted life-cycle management of information technology as a capital investment.

Although these laws aim to improve and streamline procurement practices, government oversight organizations, such as GAO and OMB's Office of Federal Procurement Policy, along with the OIG community, continue to report problems with agencies' implementation of reform initiatives. For example:

- ★ GAO has reported problems with the use of governmentwide agency contracts (GWACs), described weak internal controls over some agencies' use of the purchase card, and highlighted problematic federal procedures for the acquisition of services.
- ★ The Office of Federal Procurement Policy has expressed concerns about GWACs as well as other multiple award contracts and service contracting, criticizing in particular many agencies' lack of focus on results. To address this latter concern, OMB has directed all agencies to include in their FY 2002 performance plans the goal of using performance-based methodology to award a minimum of 20 percent of service contracting dollars.

Oversight agencies are also concerned about the human capital crisis occurring throughout the federal government and its potential impact on the acquisition workforce.

We continue to have concerns about service contracting within the Department. In recent reports we have identified the problems of inadequate use of performance-based service contracting and the lack of security provisions in contracts for IT services. Improper use of task order contracts, insufficient planning for contract administration and monitoring, and inadequate management of the purchase card program within the Department remain problematic.

However, Commerce is actively implementing various reform initiatives. Its Office of Acquisition Management has automated the procurement process, emphasized career development of contracting employees, and partnered with the Office of the Chief Information Officer and the Commerce budget office to integrate budgeting and planning for IT acquisitions. It has taken steps to provide oversight and performance measurement of acquisition activities and has launched a risk management program to monitor the effectiveness of the reform initiatives Department-wide. For example, the risk management program will examine the results of Acquisition Management's recent review of the procedures used by operating units to issue task and delivery orders under GSA Federal Supply Schedules, other multiple award contracts, and GWACS, and will share best practices. We will continue to periodically assess the status of Commerce's efforts to implement acquisition reform initiatives.



Construction is under way for a new laboratory at the National Institute of Standards and Technology in Gaithersburg, Maryland. Source: NIST



Artist rendering of the new Patent and Trademark Office under construction in Alexandria, Virginia. Source: Kidmore, Owings & Merrill LLP, Washington, D.C.

### Ensure Effective Management of Major Facilities Renovation and Construction Projects

In FY 2001, the Department identified plans for several major construction projects that will likely be subject to OIG monitoring and review:

- ★ NOAA has 16 renovation and construction projects scheduled or under way to ensure that its facilities remain state of the art and thus fully support its missions of environmental monitoring and protection. These include modernization of the National Weather Service facilities in Alaska, the National Ocean Service's Marine and Environmental Health Research lab in South Carolina, and the National Marine Fisheries Service lab in Hawaii.
- ★ NIST will continue its multimillion-dollar program to maintain existing laboratories in Gaithersburg, Maryland, and Boulder, Colorado, and construct a new laboratory in Gaithersburg, Maryland.
- ★ USPTO's billion-dollar plan to consolidate employees and operations in a single, new facility in Alexandria, Virginia, will be one of the largest real estate ventures undertaken by the federal government in this decade.
- ★ Commerce headquarters in Washington, D.C., is scheduled to undergo complete modernization.
- ★ The Census Bureau will construct two buildings at its headquarters in Suitland, Maryland, to provide employees with safe, modern facilities.

Estimated Costs of Current and Planned Construction Projects		
Operating Unit	Number of Projects	Estimated Costs (in millions)
NOAA	16	\$330-400
NIST	1	235
USPTO	1	1,200
Office of the Secretary	1	285
Census Bureau	1	340

Source: Commerce Office of Real Estate Policy and Major Programs

We have added the critical challenge of effective renovation/construction management to our top 10 list because of the numerous inherent risks involved in the Department's planning and management of large, costly, and complex capital improvement and construction projects. Departmental leadership and OIG oversight are needed to maximize Commerce's return on its investment in these projects. Past OIG reviews

of major renovation and construction ventures have demonstrated that up-front oversight—that is, close monitoring during planning and development—is essential. Detecting and addressing potential problems during the developmental stages rather than after a project's completion saves untold time and money. For this reason, we plan to actively monitor the progress of some of the Department's ongoing construction projects.

## UPDATE ON A FORMER TOP 10 CHALLENGE

Given the dynamics and complexity of Commerce activities, we maintain the top 10 list on an ongoing basis. As challenges are met or their significance is reduced, we remove them from the list and replace them with new ones. One former challenge—relating to the decennial census—continues to warrant management attention as planning begins for 2010.

### **Increase the Accuracy and Control the Cost of the 2000 Decennial Census: Applying Lessons Learned to Planning for 2010**

At an estimated cost of \$6.5 billion, the 2000 decennial was the most expensive ever. Yet the Census Bureau believes that this decennial was among its most successful, mainly because the percentage of questionnaires returned by mail increased and the accuracy of the overall count improved over 1990.

The nation's 22nd decennial census counted approximately 281 million people living in about 116 million housing units. An accurate population count is enormously important to the Congress and the administration, as well as to state governments and local communities because, among other things, it determines how many seats each state will have in the House of Representatives, and it is used to develop state redistricting plans and allocate federal funds.

To assess the reliability of the 2000 population count, the Bureau conducted an Accuracy and Coverage Evaluation (A.C.E.)—a sample survey

of the U.S. population that attempts to measure the undercount and overcount in the decennial and determine whether a statistical adjustment is needed. After examining A.C.E. results, the Bureau was unable to conclude that the adjusted data would be more accurate than the unadjusted data. Therefore, in March 2001, the unadjusted census counts were released to the states for use in redistricting. Census subsequently reevaluated the A.C.E. survey to determine if the adjusted data should be used for allocating billions of dollars in federal funds, but recommended using the unadjusted data for this purpose as well. The Bureau is currently evaluating A.C.E. to improve its functionality for the next decennial.

During this semiannual period, we assessed the Bureau's management of two A.C.E. operations—automated matching and person follow-up—to determine their efficiency and effectiveness in the field.

Overall, we found that these two operations worked well. Specifically, the percentage of persons matched by the automated process exceeded Bureau estimates, and person follow-up was completed on time.

However, we did find some problem areas: A difference in the definition of group quarters used by A.C.E. and the decennial census may have resulted in missed coverage by A.C.E.; A.C.E. requirements were not always defined; testing of the automated matching software was not documented; information printed on person follow-up forms was not sufficiently reviewed; and the quality assurance tracking of person follow-up at regional offices was too labor- and paper-

## IG's Message for the Congress

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intensive. We suggested strategies to address these shortcomings. We will detail the Bureau's response to our recommendations in our next semiannual report.

The 2000 decennial involved a number of costly, complex, and high-risk operations. The obvious question for the next decennial is, can anything be done to contain costs and minimize risks? We believe the answer is yes, and we recently began identifying lessons learned over the last decade. We plan to reexamine key aspects of the more than 30 reports issued by our office on the 2000 decennial. In particular, we will look at ways to link the planning and funding cycles, develop a more accurate address list and more capable mapping system, improve the management of information technology, enhance contracting and program management capabilities, improve the quality assurance of nonresponse follow-up results, increase response rates through paid advertising and other outreach efforts, and promote information technology security.

We believe that the lessons of the 2000 decennial can help Census contain the costs and minimize the risks of future decennials. For example, in the early 1990s, our office was concerned about the Bureau's ability to gain funding for early planning of the 2000 decennial. Adequate funding and responsible planning are closely linked because long lead times are needed to make design changes, develop software, and procure and evaluate systems. By 1995, we were reporting that mid-decade tests were insufficient and that planning was behind schedule, partly because of inadequate funding and uncertainties about the overall design. If the Congress had not dramatically increased funding in the years immediately preceding the decennial, many of the

problems with the 1990 census might have recurred.

Early planning is particularly important for critical operations, such as development of the Master Address File (MAF) and the associated geographic information system known as TIGER (Topologically Integrated Geographic Encoding and Referencing). We believe that MAF is the backbone of any decennial, and have thus issued several reports on it during the last decade. We were concerned about the accuracy and completeness of the address file, especially the problem of duplicate addresses. We also noted that some TIGER maps were difficult to work with, not appropriate for their intended use, and in need of updating.

We have also issued numerous reports on the Bureau's information technology management capabilities. Without exception, our IT-related reports issued throughout the decade have recommended that the Bureau restructure its software development efforts to employ a rigorous process and accepted engineering standards. We reported that the Bureau's development approach was not based on standards for documenting and reviewing software specifications and design; performing rigorous, independent testing; and ensuring the uniform and effective use of development and evaluation methods and tools.

Contracting for information technology has also been a problem. Before the 2000 decennial, the Bureau developed many of its large systems in-house. However, to improve efficiency, for the 2000 census it contracted out the development of some key systems. The Bureau's acquisition of the system to capture data from census forms was hampered initially by delays in preparing an acquisition plan, appointing a project manager, and



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establishing a program office, as well as by inexperienced contract management.

We were also concerned about the level of quality control at certain local census offices. We believe that in several offices nonresponse follow-up may have been affected by enumerators' failure to follow established procedures for collecting questionnaire data. In one case, the Bureau had to recount more than 67,000 households. In 1990, Census had similar problems with enumerators failing to collect complete household information, which necessitated a resurvey of 129,000 households.

In the decennial just completed, the Bureau conducted a multifaceted public awareness campaign to increase the response rate. This effort consisted principally of two major activities: the first-ever paid advertising campaign and a comprehensive partnership program with local governments and tribal leadership. OIG conducted an audit of these activities and the coordination between them, and found that both contributed positively to the decennial.

With the projected increased use of the Internet, along with the Census Bureau's own expanded use of various telecommunications devices to transmit questionnaire data, information security planning will be paramount for the 2010 decennial. Under Title 13 of the U.S. Code, the Bureau must prevent disclosure of the data it collects. Such disclosure could seriously damage future decennials by undermining public confidence in the Bureau's ability to keep information confidential. For the 2000 decennial, we recommended several measures to reduce the risk of disclosure of sensitive information. Census will need to implement even stronger safeguards for 2010.

Looking toward the next decennial, the Bureau reports that it has begun to develop a "comprehensive, timely, integrated, and well-planned strategy—a sharp contrast to the Census 2000 approach." Key components of the 2010 strategy are (1) a modernized and continuously updated address list and associated geographical information system (state-of-the-art MAF/TIGER systems); (2) more timely collection and dissemination of long-form demographic and socioeconomic data throughout the decade (full implementation of the American Community Survey); and (3) a well-planned and -tested 2010 decennial census design (a simplified short-form-only design).

Because of the cost and risk involved in conducting a full count of individuals residing in the United States, our office plans to periodically evaluate the Bureau's progress in planning for the 2010 decennial and its readiness for conducting mid-decade testing.

### CHARTING OUR COURSE FOR THE TWENTY-FIRST CENTURY

We began this first year of the new millennium having resolved to take careful stock of the status of departmental programs and functions, and precisely set our course for the future. With these goals in mind, OIG designed and implemented an extensive survey and planning process to evaluate Commerce activities and determine those areas most in need of our attention.

The process was comprehensive and multifaceted. OIG interoffice work groups conducted extensive research on individual operating units—examining the state of the unit; reviewing a range of materials that included budget requests, legislative documents, GPRA-related plans and reports, and relevant congressional testimony; analyzing issues that cut across and impact the missions of several units at once; and interviewing OIG employees whose experience reviewing departmental activities was a valuable source of ideas and information.

OIG senior officials broadened the scope of the work groups' activities by holding discussions with congressional staff, departmental managers, and other stakeholders to solicit their suggestions on potential topics for review.

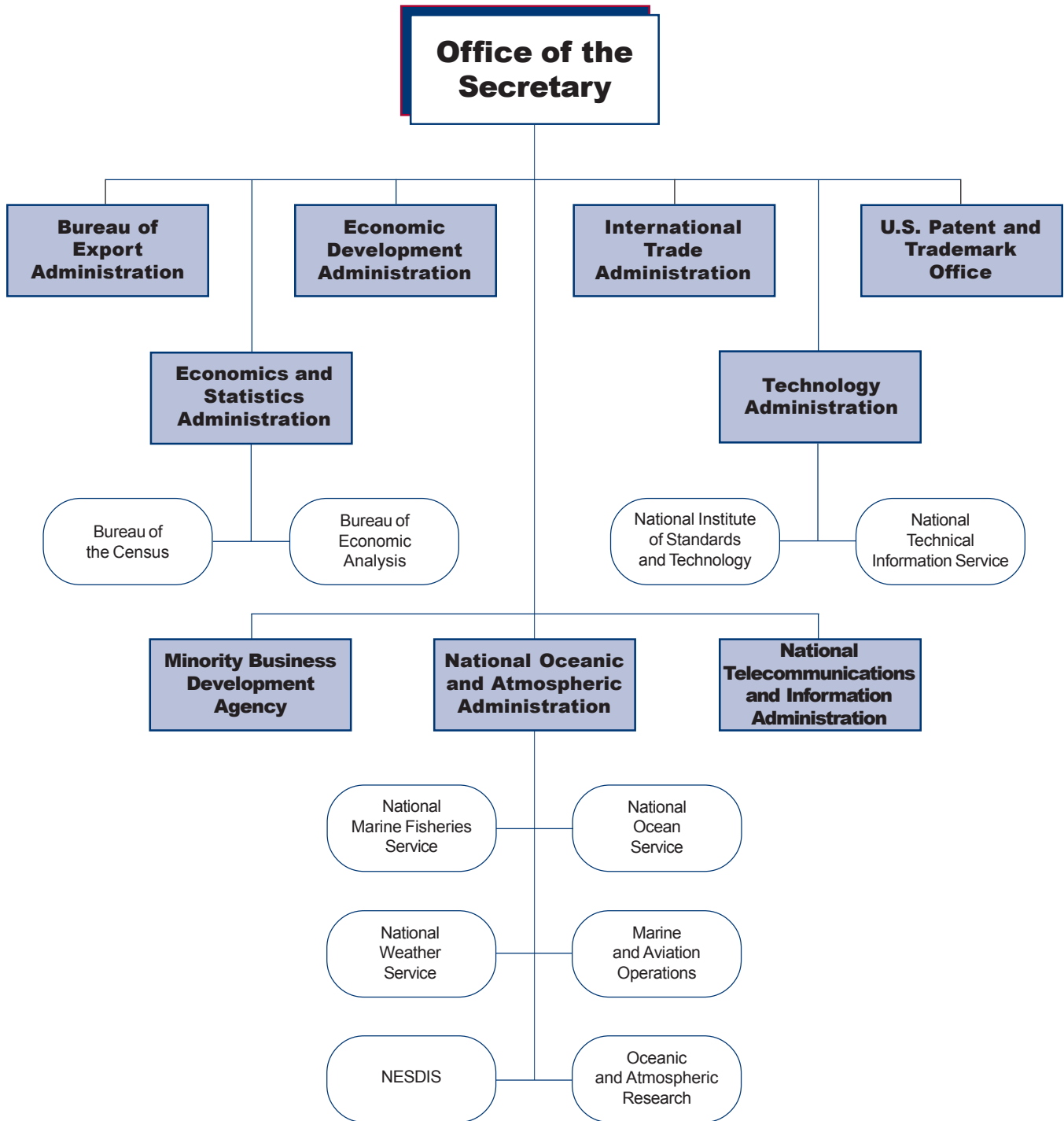
Following these efforts, OIG convened a planning conference at which managers and work group members presented their findings. Each work group identified 10 areas that it deemed to be most significant for the Commerce units it had examined. From these discussions, senior managers developed a list of more than 40 priorities that will guide OIG audit and inspection activities for the years 2002-03 and beyond.

The Top 10 Management Challenges addressed in this report continue to rank high on this list of priorities. However, they have been amplified and further refined by our planning process. Other key areas include human capital, procurement, system/capital acquisitions, and information technology/data management.

We are preparing to publish this audit and inspection plan as a ready reference to keep our focus and efforts on track. However, the plan is a “living document” that we will periodically revisit and revise to ensure that it continues to reflect the needs of the country and the Department's role in accommodating them.



# Department of Commerce Organization Chart





The **Bureau of Export Administration** is primarily responsible for administering and enforcing the nation's system for controlling exports of sensitive dual-use goods and technologies. BXA's major functions include formulating and implementing export control policy; processing export license applications; conducting various policy, technical, and economic analyses; promulgating regulations; conducting industry outreach; and enforcing the Export Administration Act and regulations. BXA is divided into two units:

**Export Administration** implements U.S. export control and nonproliferation laws and policies through export licensing, commodity classifications, and advisory opinions; technical, economic, foreign availability, and policy analyses; promulgation of regulations; and industry outreach. It also conducts various defense industry activities.

**Export Enforcement** participates in reviews of export license applications and conducts criminal and administrative investigations relating to the export control portions of the Export Administration Act and regulations. It also administers and enforces the antiboycott provisions of the act and regulations.

## Follow-Up Review Determines Status of Earlier Export Control Recommendations

Besides mandating annual reports on the adequacy of U.S. government export controls and counterintelligence measures, the National Defense Authorization Act for Fiscal Year 2000 requires that we provide annual updates to the Congress on the status of recommendations made in earlier reports submitted under the act. This year's follow-up assessed the actions that Commerce operating units, principally BXA, had taken to implement the recommendations from our March 2000 and March 2001 reports.

- ★ **In March 2000** we focused on three activities that BXA carries out or participates in to help prevent the illicit transfer of sensitive U.S. technology: deemed export controls, the Visa Application Review Program, and efforts to support the interagency Committee on Foreign Investment in the United States (see March 2000 issue, page 21). Overall, we concluded the following: (1) Deemed export control regulations needed greater clarity, and compliance with them by federal agencies and private companies needed improvement; (2) the Visa Application Review Program showed promise but needed refinement; and (3) federal efforts to monitor foreign investment in U.S. companies for national security implications should be examined by the interagency OIG review team. We made 24 recommendations to address our specific findings.

In last year's follow-up, we determined that BXA's actions for 16 of our 24 recommendations met our intent, but that its actions for the other 8 were inadequate (see March 2001 issue, page 19). This year's review concluded that 6 of those 8 recommendations remain open. All 6 deal with deemed export controls and the Visa Application Review Program.

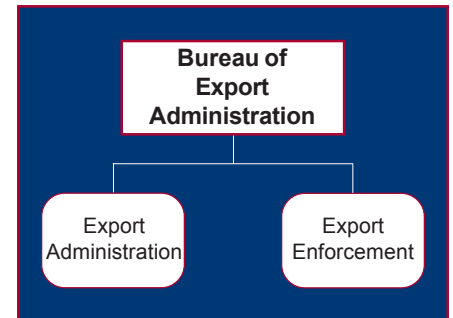


★ **In March 2001** we focused on the Commerce Control List, which is maintained by BXA, and the U.S. Munitions List, which is maintained by the State Department (see March 2001 issue, page 16). We found that the Commerce list could be made more user-friendly, that BXA should be referring munitions-related commodity classifications to the appropriate federal licensing agencies, and that the Bureau needed to expedite the classification process. We also noted that commodity jurisdiction requests are not being handled through automated systems or on a timely basis, and that there was a breakdown in the interagency process for resolving certain jurisdictional disputes among the Departments of Commerce, Defense, and State. The report contained 14 recommendations.

Our follow-up review determined that only 2 of the 14 have been fully implemented. Although BXA has given some attention to the remaining 12 recommendations, its actions to date have not adequately addressed them.

Given BXA's central role in administering the dual-use export control process, we believe that the agency must implement the open recommendations from both reports as soon as possible.

*(Office of Inspections and Program Evaluations: IPE-14246-2)*



# Economic Development Administration



The **Economic Development Administration** was established by the Public Works and Economic Development Act of 1965 to generate new jobs, help retain existing jobs, and stimulate commercial and industrial growth in economically distressed areas of the United States. EDA continues to fulfill this mission under the authority of the Economic Development Administration Reform Act of 1998, which introduced the concept of Comprehensive Economic Strategies, a local planning process designed to guide the economic growth of an area. Based on these locally and regionally developed 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 recent, 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 and economic development, planning, training and research, and economic adjustment.

## A Large Portion of Grant Dollars Awarded To Revolving Loan Funds Were Not Needed

EDA awards grants to local economic development organizations to capitalize loan pools that finance business activities in economically distressed areas. Loan repayments, including interest, create a revolving source of capital intended to finance other business enterprises.

In the past year, we have conducted audits of certain revolving loan fund (RLF) grants made by EDA (see, for example, March 2001 issue, page 24). The grants were awarded either to capitalize new RLFs or to recapitalize existing ones.

We continued our efforts during this semiannual period, auditing another 10 RLF awards. We determined that most of the award recipients had substantial funds that were not needed or used within 3 or more years of the award date, and that seven of them had used none of the grant funds. Overall, the unused funds represented more than \$3.7 million (or 81 percent) of the nearly \$4.6 million in awards.

We found a variety of reasons for recipients' failure to use grant funds as envisioned and approved, including the following:

- ★ A lack of demand for loans.
- ★ Sufficient existing or alternative funding sources to meet loan demand.
- ★ An inability to obtain matching funds.
- ★ Insufficient administrative resources.

Under the RLF program, recipients generally have 3 years to complete the initial lending cycle, although EDA can extend the period for good cause. By law, grant funds that are not drawn down within 5 years of the award are automatically deobligated, unless otherwise specified in the appropriations language.



Many of the recipients we reviewed were nearing the statutory deadline for automatic deobligation but had used little or none of their funding. Under the circumstances, we were concerned that they might be motivated to make improper or imprudent loans to draw down the remaining grant funds rather than risk deobligation. To prevent this potential waste of federal dollars, we recommended in most cases that EDA immediately terminate the award and deobligate all unused funds. (*Atlanta Regional Office of Audits: ATL-14220, ATL-14299, ATL-14300, and ATL-14301; Denver Regional Office of Audits: DEN-13740 and DEN-14156; Seattle Regional Office of Audits: STL-13442, STL-14122, STL-14141, and STL-14142*)



## EDA-Funded Public Works Projects Experienced Significant Delays

During this semiannual period, OIG completed audits of four EDA public works grants awarded to local governments and related agencies. Our purpose was to assess the reasons for delays in completing construction projects and determine whether the grantees had complied with the terms of their awards. We found that the delays were due to a variety of factors: late project starts, impermissible changes in scope, continuing design changes, and inability to obtain needed rights of way. We also discovered that some grantees received excessive reimbursements and incurred unnecessary contract costs. We are reporting a total of \$2.3 million in questioned costs and funds to be put to better use. Following are summaries of the four audit reports issued.

### *California Project for Construction of Sewer Line, Rail Spur, and Loading Dock*

EDA awarded a \$1,237,500 grant in 1996 to a redevelopment agency that is closely affiliated with a California city. The grant, which required local matching funds of \$825,000, was for construction of a sewer line, rail spur, and loading dock to serve industrially zoned land. At the time of our audit fieldwork in May 2001, only the sewer line had been completed. The rail project was completed on July 30, 2001.



We uncovered the following areas of noncompliance with the grant's provisions:

- ★ The rail spur, as designed and built, did not include the loading dock and related improvements described in the grant application. Without these key components, the project's economic benefits will not be realized.
- ★ A conflict of interest existed: Acting in the capacity of city officials, three principals in a consulting firm under contract to provide public works, economic development, and planning services to the city participated in the award of \$266,229 in grant funds to their own firm to supply design, engineering, and other services for the project.
- ★ Because of delays in securing a site for the rail project, consultant costs escalated as the city awarded more contracts to redesign plans and conduct additional environmental studies. As of May 31, 2001, the city had spent \$403,021, or about 40 percent of the total costs incurred, for consultant services.

Because of these deficiencies, we recommended that EDA terminate the rail portion of the project for cause, deobligate \$624,484 of undisbursed grant funds, and recover all funds expended for that portion. We also recommended that EDA recover \$159,737 for the federal share of the improperly awarded contracts to the city officials' consulting firm and require the grantee to refund EDA's share of any reimbursed costs associated with unfeasible rail project sites.

The grantee did not concur with our findings and recommendations, stating that even without the loading dock and other improvements, the rail spur as constructed satisfies the objectives of the project. The grantee also contended that there was no conflict of interest in the award of consulting work to the city officials' own firm. We disagreed. (*Seattle Regional Office of Audits: STL-14258*)





*Tennessee Project for  
Construction of Building Complex*

In September 1995, EDA awarded a \$900,000 public works grant to a Tennessee town and a private association for construction of a four-building complex to house the association. The Appalachian Regional Commission awarded an additional \$700,000 for the project, and the grantees provided \$750,000 in matching funds. In April 2000, the grantees contributed another \$600,000 in matching funds, bringing the total project budget to \$2.95 million.

The project's performance period was from September 1995 to March 1998. However, EDA granted two extensions, which lengthened the period to May 2000. When it became apparent that the project could not be completed by the September 30, 2000, deadline for expiration of the funds, EDA and the grantees terminated the award for convenience, and EDA disbursed the balance of the grant money.

Our audit revealed that the grantees materially violated the terms and conditions of the award by the following actions:

- ★ **Failing to complete the project within the required time frame.** Because of a change in architects and substantial design revisions as construction progressed, the grantees could meet neither the original completion date nor the extended deadlines.
- ★ **Certifying that the project was complete when it was not.** On September 12, 2000, the grantees submitted their final reimbursement request to EDA and certified that the project was 100 percent complete. However, during our review 2 months later, we learned that the project was still only about 60 percent complete and not scheduled to be finished until June 2001.
- ★ **Using an incorrect rate to calculate reimbursement requests.** The grantees received \$419,184 in advance payments using the wrong federal participation rate. When the grant was made, the federal rate was 68 percent; the grantees' contribution of an additional \$600,000 in matching funds in April 2000 reduced the federal rate to 54 percent. However,



the grantees continued to use the original rate when claiming reimbursements.

We recommended that EDA require the recipients to complete construction of the EDA portion of the project by October 31, 2001, establish an accounts receivable for \$419,184 in unearned federal grant funds, and permit the grantees to reduce this amount by submitting substitute costs through October 31. We also recommended that EDA recover about \$15,000 in imputed interest from the grantees, which was attributable to the premature drawdown of grant funds. In the event the grantees are unwilling or unable to comply with these recommendations, we advised EDA to recover the prematurely disbursed grant funds plus interest.

Although the recipients acknowledge that the project was not completed as scheduled, they claim that termination of the project for convenience and disbursement of the remaining grant funds was entirely proper. (*Atlanta Regional Office of Audits: ATL-13966*)

### ***Arkansas Project for Improvements to Water Treatment Plant***

In April 1996, EDA awarded a public works grant to an Arkansas city for improvements to its water treatment plant. The purpose of the project was to encourage industrial development and save local jobs. The total approved cost was \$1,670,000 with EDA providing \$1,002,000, or 60 percent, and the city contributing the balance. At the completion of our review in June 2001, EDA had disbursed \$858,637 to the city.

The city encountered serious delays in acquiring its share of project funds. As a result, construction began late and was not scheduled for completion until November 20, 2001—well beyond the September 30, 2001, statutory expiration date of the grant funds.

Our audit reached the following conclusions:

- ★ EDA's 60 percent reimbursement rate to the city was too high and resulted in excess disbursements of \$324,134. The 60



percent rate was based on the city's originally approved contribution to the total project budget. However, a cost overrun increased the total project cost, thereby reducing the reimbursement rate to 37.42 percent.

- ★ Because the project would not be completed before the grant funds expired, the city would not earn \$155,091 of those funds.

We recommended that EDA use the 37.42 percent federal rate for future disbursements under the grant and direct the city to return the excess \$323,134, along with interest earned on the advance payments. EDA should also withhold \$155,091 from disbursements as of September 30, 2001, and should deobligate the expired funds. The city disagreed with our findings, defending its use of the 60 percent rate and contending that the EDA portion of the project is complete. (*Denver Regional Office of Audits: DEN-13739*)

### ***Texas Project for Construction of Rail Spur***

In September 1996, EDA awarded a Title IX defense conversion grant to a Texas city for development of a rail spur that would connect a major rail line to an industrial park at the local airport. The assistance was provided to help the city recover jobs lost when a nearby Air Force base closed. The total grant amount was \$1,695,000, consisting of \$1,271,250 in federal dollars and a \$423,750 match from the city.

Before construction of the rail spur could begin, the city needed to acquire about 2 miles of right-of-way and execute a land swap with a university and private property owners. At the time of OIG's audit, EDA had not disbursed any grant funds.

We found that the city had not diligently pursued completion of the project and had asked EDA in August 1999 to defer construction of the rail spur and authorize use of the grant funds to pay for roadway improvements. The request was not approved, however, when EDA subsequently determined that the proposal would unacceptably alter the scope of the project.



At the time of our audit in April 2001, the city had still not acquired the needed rights-of-way, received other necessary permits, or awarded the construction contract. We concluded that the city was unlikely to complete the project before the EDA funds expired on September 30, 2001.

Moreover, after completion of our fieldwork, we learned that because the city could not secure some rights-of-way, it had altered its plans for the rail spur. Instead of extending rail service to the industrial park, the city now proposes to have the spur terminate on vacant land outside the airport. We believe this proposal deviates so substantially from the original purpose of the award that it constitutes an impermissible change in the scope of the project.

We recommended that EDA obtain a legal opinion as to whether the city's actions constitute an impermissible change of scope. We also recommended that no EDA funds be disbursed to the city absent evidence that the project can be completed before the expiration of grant funds on September 30, 2001. Otherwise, EDA should terminate the grant for cause and deobligate the funds. (*Denver Regional Office of Audits: DEN-13742*)

### **Trade Adjustment Assistance Centers Need Stronger Controls over Contract Compliance**

The Trade Act of 1974, as amended, authorized the President to negotiate international trade agreements. To date, the legislation has resulted in three free trade agreements.

While free trade policy is a central component of economic expansion and can result in more jobs for the overall economy, it also can lead to temporary economic disruption in individual communities and regions of the country. To mitigate these negative effects, the act also created the Trade Adjustment Assistance program, under which EDA funds 12 regional centers (TAACs) that offer a range of business advisory services. The centers help affected companies diagnose their problems and develop recovery strategies. Technical assistance with implementing recovery plans is primarily provided through contractual arrangements with private consulting firms.

## Trade Adjustment Assistance Centers



Source: OIG

Under a cooperative agreement with EDA, each center receives between \$600,000 and \$1 million annually, which covers administrative expenses and a portion of technical assistance costs. The centers and clients share the cost of consulting contracts and other technical assistance costs on a 50-50 or 75-25 basis, up to a limit of \$20,000 per client.

Within the past year, the Northwest TAAC in Seattle experienced two problems involving the cost-sharing arrangement for consultant contracts: one in which a consultant failed to provide the agreed-upon services, and one in which a client company failed to pay its share of the technical assistance costs. At EDA's request, the center reported these problems to OIG, and we conducted a review to determine whether these failures were due to inadequate internal controls at the center.

Under the procedures used by the Northwest TAAC, the center's share of a consultant's invoice would be paid when the client provided a photocopy of its check for payment of services. Accordingly, the



process relied on consultants to report instances of client nonpayment and on clients to report dissatisfaction with consultant services. Center officials acknowledged that this system hindered timely notification of noncompliance, required significant staff time for follow-up, and resulted in threats of legal action by both consultants and clients.

We expanded the scope of our review to include the other 11 TAACs and found that most were employing procedures that failed to adequately ensure contract compliance. Eight of these centers relied on verbal notification of compliance from consultants or clients. The other three—the Western, Mid-America, and New England centers—had more effective controls: They required written certification that consulting services were adequate and that client payments were made. We determined that this method provides greater assurance of compliance by both consultants and clients without placing burdensome requirements on either party or the centers. The written documentation may also reduce the need for follow-up by the centers and lessen the likelihood of legal actions.

We recommended that EDA develop a uniform system of controls for all TAACs as part of the contract monitoring process. This system should include both certifications from clients that consultant work is satisfactory and written evidence that consultants have received client payments. EDA agreed with our recommendation, and proposed revising the standard scope-of-work statement for future TAAC awards to require appropriate controls. In the interim, EDA will advise all existing TAACs of the impending change and encourage immediate implementation of the new procedures. (*Seattle Regional Office of Audits: STL-14322*)

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:

**Bureau of the Census** 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 decennial 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.

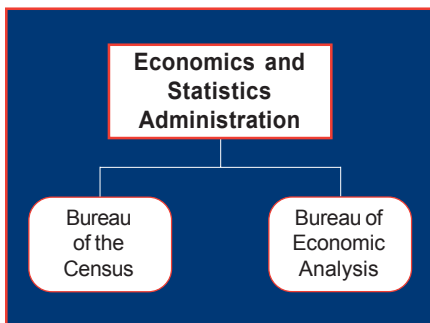
## Additional Security Measures Needed for Advance Retail Sales Economic Indicator

Two ESA bureaus, the Census Bureau and the Bureau of Economic Analysis, develop and disseminate the Principal Federal Economic Indicators—major series of statistics that describe the condition of the nation's economy. Maintaining the security of these indicators throughout the preparation and release process is of utmost importance: The indicators have significant commercial value, may affect the movement of commodity and financial markets, and may be taken as a measure of the impact of government policies. In addition, many are based on confidential data voluntarily provided by businesses. For these reasons, no information associated with the indicators should be disclosed before their official release time.

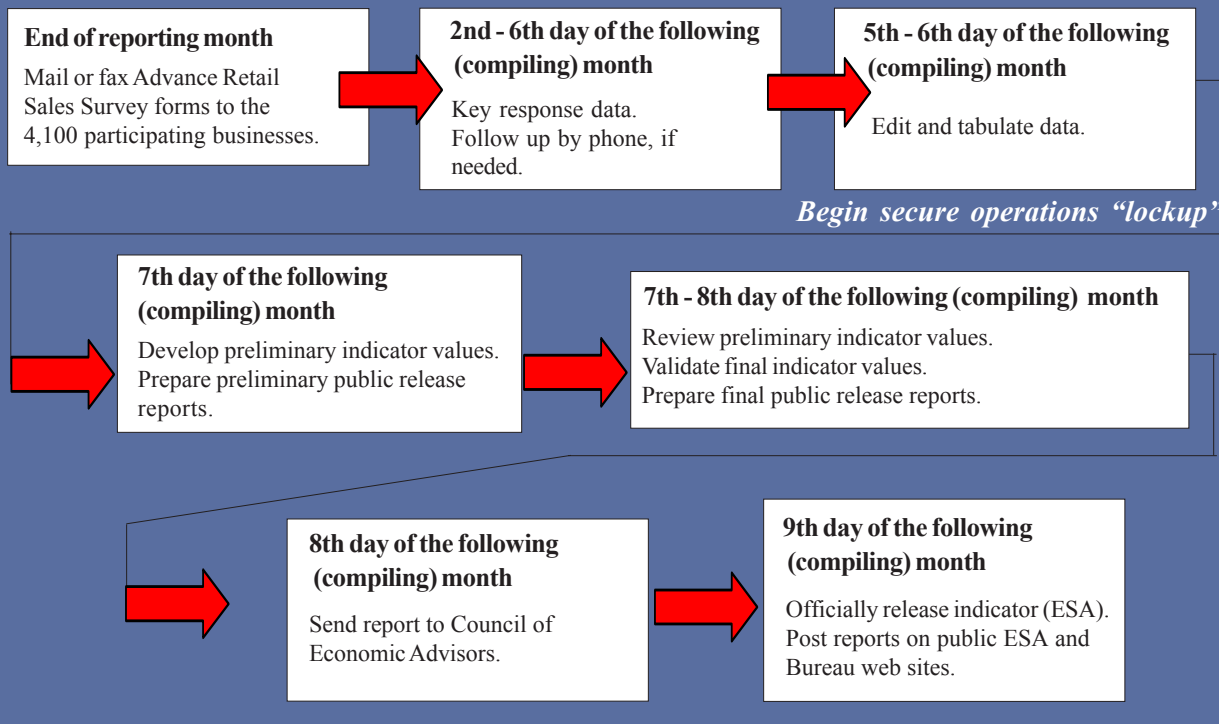
The Census Bureau develops the Advance Retail Sales indicator. When initial estimates of this indicator become available, Bureau staff operate in a "lockup," or secure, mode to safeguard them as they are refined and finalized over several days.

ESA is responsible for releasing all of the indicators to the public. Thirty minutes before the official release time, it provides the indicator information to reporters in a secure pressroom (lockup facility) and allows them to prepare their news stories. At the release time, reporters may transmit the stories to their organizations, and the information is then also made available on the ESA and Census Bureau web sites. The chart on the following page depicts the time line for development and release of the Advance Retail Sales indicator.

OIG conducted an evaluation to determine whether ESA and the Census Bureau have adequate internal controls to prevent premature disclosure or use of the Advance Retail Sales indicator data. We selected this indicator for scrutiny because of its importance and sensitivity. We looked at the effectiveness of (1) application controls on information technology resources used to prepare the indicator and (2) management controls over personnel security for ESA and Census staff who have advance knowledge of the indicator.



### Time Line for Development and Release of Advance Retail Sales Indicator



Note: All days refer to workdays. All activities are performed by the Census Bureau, with the exception of release by ESA.

We determined that access controls appropriately establish individual accountability and limit users’ processing privileges (these privileges determine which computer-based information and activities a user can access). We also found that physical controls for servers used to develop the indicator are reasonable but that other aspects of these controls need strengthening, as do management controls over personnel security. Among our specific findings were the following:

- ★ **Guidance for personnel access to offices is inadequate.**  
The procedures for access to offices during lockup do not explicitly state that office personnel must use the designated controlled-access door; nor do they address measures to protect information when personnel who are not authorized access to sensitive data require admittance to lockup areas. We recommended that the procedures be modified to rectify these omissions.



- ★ **Application software change control is informal and lacks documented procedures.** Although a process exists for requesting changes to the application software, there are no written procedures for making the changes or for performing and documenting tests on the modified software to ensure that only authorized changes are made. We advised that procedures be developed for controlling software change.
  
- ★ **Auditing software has not been regularly used during lockup.** When audit logs were available, they were not used regularly to monitor access to the indicator data. A recent upgrade to the operating system of the server that stores the data does not accommodate the format for audit logs that is required by the auditing software. We recommended that a commercially available audit software program be installed as soon as possible, and that procedures for and training on its use be provided.
  
- ★ **Employees have not had appropriate background investigations, and risk levels have not been properly assigned.** Risk designations correlate to the potential damage an individual in a position of public trust could cause to the efficiency and integrity of government programs and operations. The level of background investigation required on an employee is determined by the level of risk assigned to the employee's position.

Of three employees in Advance Retail Sales-related positions classified as moderate risk, only one had undergone the required level of background check. Moreover, the Department's Office of Security could not identify what type of investigation, if any, had been conducted on staff in most of the positions classified as low risk in another Census unit. Two persons designated as alternate ESA pressroom lockup directors had not undergone appropriate background checks, and risk designations assigned to some positions were inconsistent with their levels of responsibility and trust. We recommended that appropriate background investigations be completed for all employees who have prerelease knowledge of

economic indicator data and that risk classifications be reassessed to ensure that they reflect the appropriate level of responsibility and trust.

- ★ **Guidance concerning legal and ethical restrictions on market investments based on advance knowledge needs to be supplemented.** Census Bureau and ESA employees who have access to prerelease indicator data did not receive adequate written guidance regarding the legal and ethical restrictions on investing in financial markets based on their advance knowledge of this information. We recommended that specific details be provided on how the government's ethics standards restrict these employees from engaging in certain financial transactions.

ESA and the Census Bureau agreed with and are taking steps to implement all of our recommendations. (*Office of Systems Evaluation: OSE-12754*)

In identifying criteria used to determine appropriate risk levels and associated background investigations, we also noted a lack of guidance on these matters from the Department's Office of Human Resources Management and Office of Security. This finding suggested that the problems with risk assessment and background investigations found at Census might exist in other Commerce operating units, and prompted us to undertake another evaluation to address this issue. (See page 63.)



# International Trade Administration

The **International Trade Administration** is responsible for the 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. ITA has four principal units:

**Market Access and Compliance** develops and implements international economic policies of a bilateral, multilateral, or regional nature. 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.

**Trade Development** advises on international trade and investment policies pertaining to U.S. industrial sectors, carries out programs to strengthen domestic export competitiveness, and promotes U.S. industry's increased participation in international markets.

**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. and Foreign Commercial Service** promotes the export of U.S. products and helps small and medium-sized businesses market their goods and services abroad. It has 105 domestic offices and 157 overseas posts in 84 countries.

## Visits to Two US&FCS China Posts Find Progress Made on 1999 Recommendations

Earlier this year, OIG conducted limited on-site reviews of two U.S. and Foreign Commercial Service posts in China (Beijing and Shanghai) to assess the status of efforts to implement recommendations from our 1999 inspection report (see September 1999 issue, page 35). In a May 30 memorandum to US&FCS, we reported our observations. Among the more significant were the following:

- ★ **New Beijing office.** In our 1999 report, we recommended that US&FCS study the feasibility of moving its Beijing post to another location to provide for a less crowded, more productive working environment. The agency has relocated the post to new office space in the city's business district—a site that provides a much more efficient, professional-looking environment than the former embassy location. However, we noted a flaw in the design of the new office. US&FCS management is taking action to correct the problem.
- ★ **Regional strategic plan.** Our earlier report recommended that the senior commercial officer in Beijing develop a regional plan for the China Economic Area. The officer is developing such a plan, which will identify projects to be conducted jointly by the China, Hong Kong, and Taiwan posts.
- ★ **Fiscal management.** We recommended several actions aimed at ensuring that US&FCS China establish a reliable system to monitor its budgets, track financial disbursements, verify records, and strengthen internal controls over financial matters. Our follow-up visit found that a new web-based financial reporting system has made the post's financial system more functional and easier to use. For example, the Beijing post's budget analyst is now able to directly access the reporting systems of other China posts, allowing for better oversight of their financial status.



## International Trade Administration

- ★ **Staff rotation, language requirement, and turnover.** We recommended in 1999 that US&FCS do the following to address staffing issues in China: (1) create incentives to attract more experienced officers, and (2) develop a plan to support higher graded foreign national employees. During our recent visit, we found that for the first time, US&FCS had waived the language requirement for a few officer positions. We later learned that the agency had lined up replacements for all six officers who were scheduled to leave during the summer of 2001. The agency is attempting to minimize the loss of foreign national staff to higher paying positions by obtaining Chinese government approval to hire such staff directly—a move that would enable US&FCS to increase employees' take-home pay. US&FCS is also exploring ways to retain and promote qualified individuals, for example, by expanding their duties and thus elevating their positions to higher pay levels.
- ★ **IT upgrades and Internet service.** In our earlier report, we recommended that US&FCS develop a coordinated policy on information technology and provide greater Internet access to facilitate market research. Subsequently, the posts have received new computer equipment and have expanded their use of IT resources. Although Internet service in China is still unreliable, access in the new office in Beijing is much better than it was in the former location.
- ★ **Commercial center partners.** We had recommended that the commercial center in Shanghai improve cooperation with its collocated partners, which include representatives of three states, one city, and two industry associations. During our recent visit, the collocated partners expressed general satisfaction with the facility and the cooperation received from US&FCS staff, but also voiced a desire for a more formal communication system at the center. After our visit, we learned that post management was taking steps to meet regularly with the partners.
- ★ **Lease renegotiation.** In our 1999 report, we recommended that US&FCS Shanghai renegotiate its costly lease for the commercial center facility. The center subsequently did so and thus reduced its annual rent significantly—from \$574,000 to



# National Oceanic and Atmospheric Administration



## OIG Continues Its Inspections of Weather Forecast Offices

The National Weather Service (NWS) has 121 weather forecast offices (WFOs) nationwide, each of which issues local forecasts as well as warnings of severe conditions (tornadoes, floods, hurricanes, and other events) for its assigned counties. OIG is inspecting WFOs in various regions. During this semiannual period, we completed our second and third inspections, which covered the WFOs in San Angelo, Texas, and Missoula, Montana.

We sought to determine how effectively the WFOs (1) deliver warnings, forecasts, and other information to their customers; (2) coordinate their activities with state and local emergency managers; and (3) manage their network of observers and volunteer spotters. We also assessed the adequacy of each office's management and internal controls; its compliance with Department, NOAA, and NWS policies and procedures; and the quality of NWS's regional oversight.

### *San Angelo, Texas*

The San Angelo WFO, 1 of 31 in NWS's Southern Region, has a staff of 22 and services a warning area that covers 24 counties in west-central Texas. Our inspection found that the WFO performs well in some important areas, as follows:

- ★ **The office provides most services to the public effectively.** Performance statistics show that, for the most part, San Angelo does a good job of issuing weather forecasts, warnings, and other information. The only area of concern with the office's forecasting is that its Probability of Precipitation statistics were less accurate than those provided by computer models.

We also found that the office's outreach efforts to local users were effective. All of the local public officials and emergency managers we spoke with had favorable comments about their interactions with WFO staff and about the quality of services received.

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** issues nautical charts; performs geodetic surveys; conducts research; and develops policies on ocean mining and energy.

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

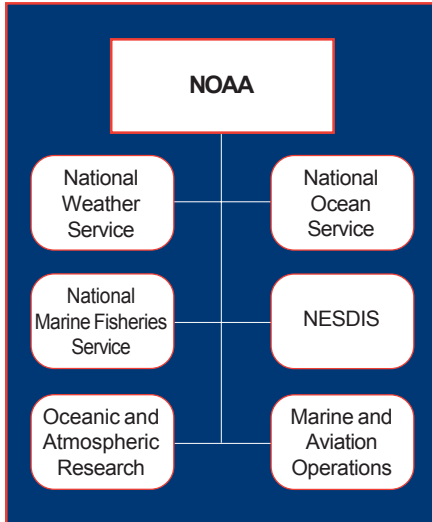
**National Environmental Satellite, Data, and Information Service** observes the environment by operating a national satellite system.

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

**Office of Marine and Aviation Operations** operates NOAA's ships and aircraft and provides NOAA programs with trained technical and management personnel from the nation's seventh uniformed service.



# National Oceanic and Atmospheric Administration



Texas WFOs' County Warning Areas  
Source: National Weather Service

★ **Most administrative activities were well controlled.** Office policies and procedures for inventory, supplies, bankcards, procurement, time and attendance, travel, and security have adequate controls and well-maintained documentation.

Our review did uncover a number of managerial, administrative, and operational deficiencies that require prompt attention:

★ **The WFO has conducted few local studies.** Of the five research studies completed during the last 2 years, three were prepared by one staff member, even though all meteorologists are required to perform research, according to their performance plans. The office did not have an adequate research plan or a detailed outline for studies to be completed. WFO management should continue to encourage staff to participate in local studies, work with them to develop research topics, and provide needed guidance and constructive criticism.

★ **Until just before our visit, the WFO did not have a structured training program.** While some office employees said they have received sufficient training, most wanted a more systematic, individual training approach. WFO management needs to ensure that all staff members understand how the new professional development plans will be used and interpreted. Management must also ensure access to appropriate training that is based on employees' plans.

★ **Air Force radar does not meet availability standards.** San Angelo uses both NWS and Air Force radar to monitor its warning area. However, Air Force radar does not meet the standards for availability set by NWS and the Departments of Defense and Transportation, primarily because of repair delays. NWS must continue to work with Defense officials to facilitate the timely repair of radar equipment.

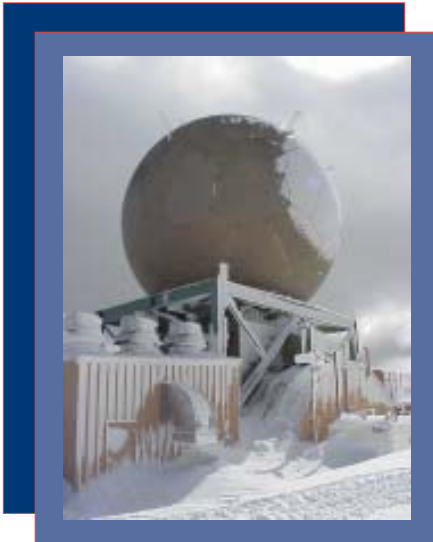
★ **NWS's policies for information technology security had only recently been implemented.** The WFO had not designated an information technology security officer or prepared security, risk analysis, and disaster recovery plans until shortly before our visit. WFO management needs to take steps to comply with the new security plan.



- ★ **New station duty manual can be improved.** After we announced our inspection, San Angelo personnel updated the March 1994 station duty manual. Before this update, the office lacked a current manual to address operational and emergency needs. After reviewing the new manual, some employees told us that they still did not understand how to perform several critical tasks. The manual should be reviewed to determine how to define staff roles and responsibilities more clearly and to identify other needed improvements.
  
- ★ **Focal point responsibilities have not been effectively communicated to staff.** All WFO personnel perform or support key office activities via “focal point” duties, such as fire weather forecasting, property management, information technology security, and forecast quality control. San Angelo personnel had not been officially tasked with all primary and secondary focal point duties until shortly before our inspection. We found during our visit that some staff were still unclear about which responsibilities were theirs and about who was assigned as their backup. WFO management needs to maintain an updated list of focal point duties and ensure that staff are prepared to handle them.
  
- ★ **Quality control needs to be more systematic.** San Angelo staff were not consistently performing quality control reviews of forecasts, research studies, and other office products. As a result, some products have been released with incorrect information. While the overall quality of products appeared adequate, staff acknowledged that accuracy and completeness could be improved. WFO management needs to implement an ongoing quality control system and emphasize to all forecasters and technicians that products must be reviewed.
  
- ★ **Greater regional oversight of the WFO is needed.** Regional officials, although aware of some of the problems we identified, had not adequately addressed them. We believe that when regional managers visit weather forecast offices, they should not only review programs, but should also address other



priorities, such as management and employee concerns, and take appropriate corrective actions.



*Missoula WFO Radar at the top of Point Six*  
 Source: OIG

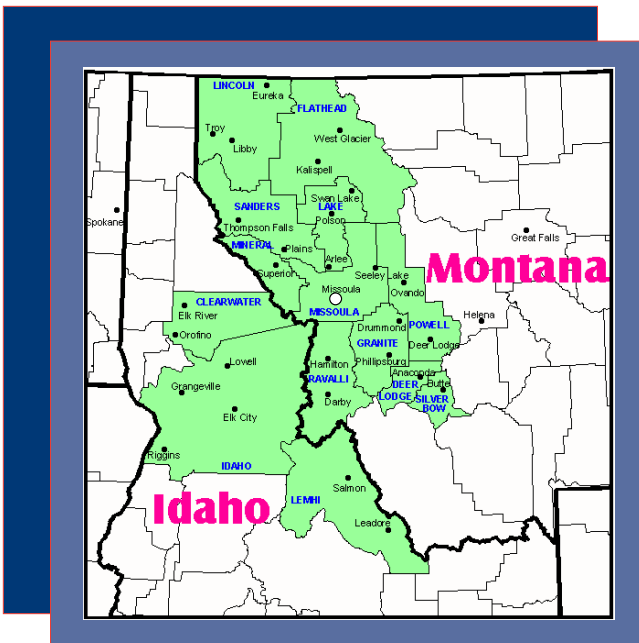
NOAA generally agreed with our observations. However, it took exception to a number of them, believing that the recommended actions were already in place. (*Office of Inspections and Program Evaluations: IPE-13531*)

### *Missoula, Montana*

The Missoula WFO, 1 of 24 in NWS’s Western Region, has a staff of 25 and services a warning area that covers 14 counties (11 in northwestern Montana and 3 in central Idaho). The office’s fire weather program, considered its most critical activity, provides meteorological support to fire management agencies for wildfire suppression and the protection of life and property. This support includes providing warnings, forecasts, on-site services during wildfires, and meteorological training for fire management officials.

We found that the office provided most services to the public effectively and was generally well managed.

- ★ **Missoula has done a good job of issuing most weather forecast and warning products.** The office’s programs for fire weather, winter weather, hydrology, and aviation have been generally effective, but the severe storm program needs management attention. In addition, the office should strengthen its fire weather program by conducting annual postseason analyses of fire weather seasons beginning with the year 2000 to identify program strengths and weaknesses—a best practice developed by the Great Falls, Montana, WFO.



*Missoula WFO County Warning Area*  
 Source: National Weather Service





- ★ **Office outreach efforts to emergency managers and other users are effective.** Missoula has developed excellent relationships with state and local officials, the media, and area schools. We spoke with many public officials and emergency managers, all of whom had favorable comments about their interaction with WFO staff and about the quality of services received.
  
- ★ **Regional oversight appears adequate.** We looked at how often regional managers made station inspections and general visits to address questions and provide oversight of WFO operations, management, and administrative support. We also assessed the effectiveness of regional support during the transition of three new employees into key positions at Missoula. We concluded that regional oversight is adequate, and that the Western Region’s close involvement with the WFO has helped the office operate its programs effectively.
  
- ★ **Actions are being taken to improve the office’s training program.** Missoula has a structured program of biannual training for the office as a whole and for each staff member. The science operations officer, who is responsible for the WFO’s training and research, plans to enhance training by using research studies as tools to broaden staff’s knowledge in key areas. However, the officer agreed with our finding that individual development plans for each staff member need to be completed and that training checklists need to be reviewed and updated.

In addition to highlighting Missoula’s many strengths, our review found a number of managerial, administrative, and operational deficiencies that require prompt attention.

- ★ **Although the Cooperative Observer and Skywarn programs are generally well run, there is room for improvement.** The WFO’s Cooperative Observer and Skywarn programs primarily use volunteer observers to report on weather events. Although these programs are well run, their future is of concern to staff, who believe that maintaining observers for both programs could get more difficult as the current volunteers lose interest and give up their involvement.



## National Oceanic and Atmospheric Administration

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Staff members report having difficulty recruiting and replacing observers in isolated locations. They are concerned about a lack of NWS direction and support for the Cooperative Observer Program and are uncertain about its future direction.

- ★ **Several resource allocation issues need to be addressed.** Although the Missoula WFO is a fairly efficient operation, the following areas require attention: (1) The office risks losing incident meteorologists, who provide on-site support to firefighters, to higher paying positions at interagency Geographic Area Coordination Centers; (2) many WFO personnel consider certain forecast products to be redundant or unnecessary; (3) electronic technicians spend too much time traveling to repair distant weather observation equipment.

NWS has addressed the third item by agreeing to ensure that the WFO's repair kits contain all necessary spare parts, thereby saving technicians from having to make extra trips to repair equipment.

- ★ **Internal controls are generally adequate, but several high-cost items are not properly regulated.** Because of recent improvements in administrative controls, Missoula performs most administrative functions efficiently. However, inventory procedures need tightening: The office does not include some expensive items, such as all-terrain vehicles, snowmobiles, and trailers, on its inventory because they cost less than \$5,000—the threshold amount for listing such items.
- ★ **Quality control needs to be more systematic.** Like their San Angelo counterparts, Missoula staff did not consistently perform quality control reviews of office products. As a result, a few office products have been released with incorrect information. The overall quality of the products we reviewed appeared acceptable, but staff emphasized that the accuracy and completeness of products need improvement. WFO management needs to implement an ongoing quality control system and emphasize to all forecasters and technicians that products must be reviewed.

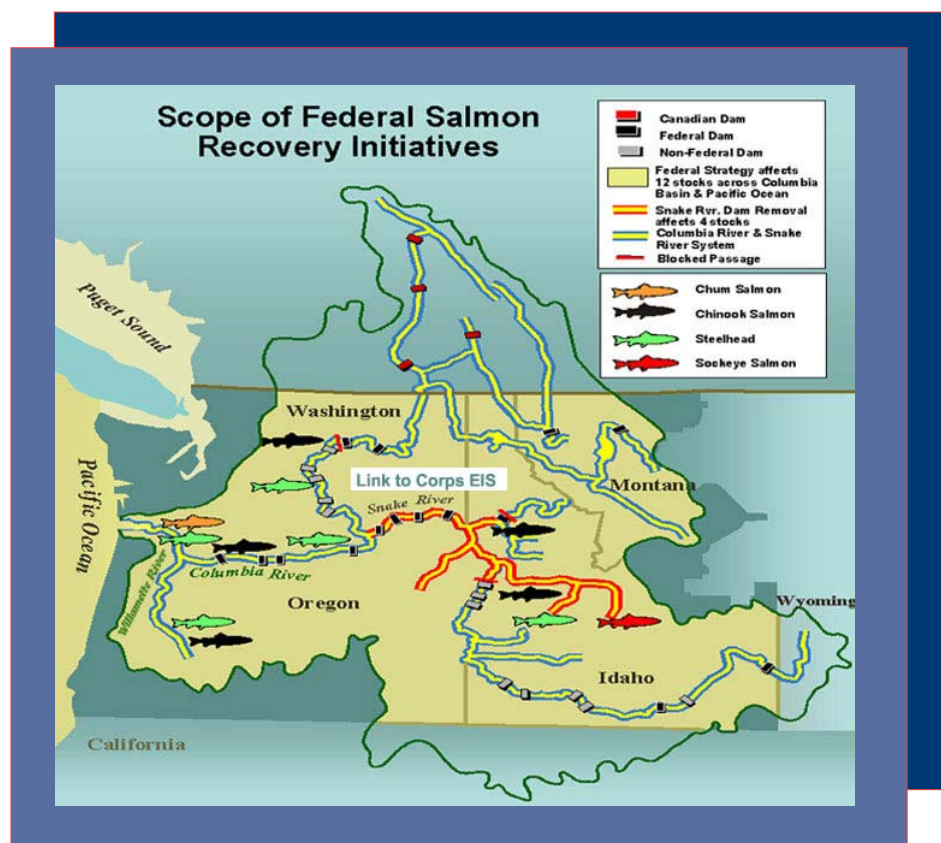


NOAA generally agreed with the recommendations we made to address our concerns. (*Office of Inspections and Program Evaluations: IPE-14225*)

## NMFS Must Take Steps to Improve Salmon Recovery Efforts in the Columbia River Basin

The Endangered Species Act of 1973 provides for the conservation of species that are approaching endangerment or extinction throughout all or a significant portion of their range, as well as conservation of the ecosystems on which they depend. NOAA’s National Marine Fisheries Service implements the act for marine and anadromous fish, such as salmon, which migrate between the ocean and inland waterways.

OIG reviewed certain aspects of NMFS’s role in salmon recovery in the Columbia River Basin. In this effort, the agency interacts with a number of organizations, such as the Federal Caucus (which is composed of NMFS and eight other federal agencies) and various groups representing state and local governments, Indian tribes, and private citizens.



Source: <http://www.salmonrecovery.gov>

Since 1991, under a process defined in the act, NMFS has determined that 12 evolutionarily significant units (ESUs) in the Columbia Basin are threatened or endangered. An ESU is a segment of a species that is reproductively isolated and contributes substantially to the species’

genetic diversity. NMFS also issues the regulations and permits required by the act to provide for the protection of the identified ESUs. Our review found that NMFS could improve its salmon recovery efforts in the Columbia Basin by taking the following actions:

- ★ **Completing detailed recovery plans for each ESU.** As required by the act, NMFS consulted with other federal agencies and reviewed their biological assessments of the causes of population declines and the mitigation measures necessary to reverse those declines. NMFS then developed and issued biological opinions on the activities proposed by these agencies. Although the agency has helped move the Federal Caucus toward a comprehensive strategy of coordinated ecosystem management, it must still develop detailed recovery plans for each ESU, as required by the act. These plans need to include site-specific management actions; estimates of the time and cost required to carry out these actions; and objective, measurable criteria that, when met, will allow an ESU's removal from the endangered or threatened list.
  
- ★ **Improving its communication and collaboration with stakeholders.** Developing an ecosystem management process for salmon is complicated because this effort involves many jurisdictions and affects stakeholders who have competing interests. As a result, NMFS must ensure that it communicates and collaborates effectively with the involved government entities, tribal authorities, and other stakeholders. Many participants in the salmon recovery effort whom we interviewed expressed concerns about NMFS's interactions with them. Some criticized NMFS for failing to establish an effective local outreach program, and others stated that NMFS has been unable to develop the network needed to help build a consensus among interested parties. Stakeholders were particularly concerned about what they perceived as NMFS's unwillingness to collaborate with them on the sharing and use of scientific data and the development of recovery options.

In an April 27, 2001, memorandum to the Acting Assistant Administrator for Fisheries, we recommended that NMFS (1) complete the detailed recovery plans required by the act, and (2) carefully assess



and, as appropriate, address the concerns expressed by stakeholders about its communication and collaboration with them. NMFS advised us that it has formed teams to begin working on the detailed recovery plans. In addition, the agency officials with whom we discussed stakeholder concerns appeared to recognize that improved outreach and collaboration are needed. *(Seattle Regional Office of Audits)*

## **NOAA Weather Radio Has a Reasonable Expansion Strategy and an Effective Outreach Effort**

The mission of the National Weather Service is to provide weather, hydrologic, and climate forecasts and warnings for the United States and its territories for the protection of life and property and the enhancement of the national economy. One way that NWS disseminates weather information is through NOAA Weather Radio. This nationwide network of more than 600 stations broadcasts weather warnings, watches, forecasts, and other information directly from nearby WFOs 24 hours a day. NOAA Weather Radio is provided as a public service and currently reaches approximately 90 percent of the U.S. population.

OIG performed an audit survey of the proposed expansion of the radio network to evaluate the following: (1) NWS's strategy and plans for deploying new transmitters to achieve its goal of increasing network coverage to 95 percent of the U.S. population, and (2) its outreach program for developing partnerships with private groups and state and local governments to encourage organizations and homeowners to install weather radio receivers.

In an August 24, 2001, memo to NOAA, we reported our conclusion that the Weather Radio network has both a reasonable strategy for selecting station sites and an effective outreach program. Because we did not identify any issues that warranted further attention, we closed out our work in this area. *(Science and Technology Audits Division)*



\$273,000, a figure that is comparable to the rent for similar properties in the local market.

Overall, we are pleased with the actions taken to implement many of our 1999 recommendations and plan to continue monitoring US&FCS's progress in this area. (*Office of Inspections and Program Evaluations*)

### **Audit Reports Unresolved for More Than Six Months**

#### ***Software and Information Industry Association***

A financial assistance audit that we reported on in March 2001 (page 42) looked at three cooperative agreements awarded to an industry trade association. For the first agreement, we recommended that \$597,914 in questioned costs be disallowed because of inadequate support documentation. We also recommended recovery of \$116,466 in disbursements that exceeded allowable costs.

In the second case, we recommended that \$17,654 in costs be disallowed and that approximately \$5,000 in excess disbursements be recovered. In the third case, we recommended that the awardee (1) establish a detailed activity report to support personnel costs and (2) obtain fidelity bonds covering any personnel authorized to disburse federal funds.



# National Telecommunications and Information Administration

The mission of the **National Telecommunications and Information Administration** is to (1) serve through the Secretary of Commerce as the principal executive branch advisor to the President on domestic and international communications and information policies, (2) ensure effective and efficient federal use of the electromagnetic spectrum, (3) develop with other federal agencies policies for international communications and standards-setting organizations, (4) serve as the federal telecommunications research and engineering center, and (5) administer grants under the Telecommunications and Information Infrastructure Assistance Program and the Public Telecommunications Facilities Program.



*Three Geostationary Operational Environmental Satellites (GEOS) at the Table Mountain Radio Quiet Zone monitor solar activity.  
Source: OIG*

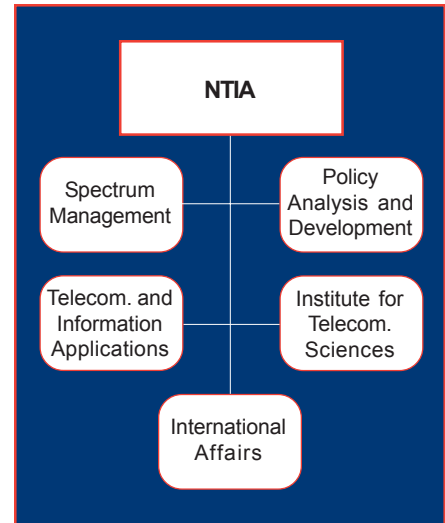
## Table Mountain Research Site in Colorado Needs To Be Upgraded and Maintained

The Institute for Telecommunication Sciences (ITS), in Boulder, Colorado, provides research and engineering support for NTIA's policymaking activities. ITS offers these services to other federal and nonfederal entities on a reimbursable basis. OIG recently audited selected efficiency and effectiveness issues at ITS. Our review covered a variety of matters, but we concluded that the only one requiring immediate attention was the management of the Table Mountain Radio Quiet Zone research site.

The Table Mountain site is located on roughly 1,700 acres in a rural area about 11 miles north of Boulder. The site's physical isolation and its status as one of only two radio quiet zones in the United States minimize disruptions to experiments and the collection of atmospheric and terrestrial data. The site has 10 users that conduct ongoing research—5 NOAA units, the U.S. Geological Survey, a university, two private companies, and a nonprofit organization. ITS has no current



*This 60-foot steerable satellite dish is one of two at Table Mountain that tracks the movement of quasars, pulsars, satellites, and the Space Shuttle. Source: OIG*



ongoing experiments at the site, but uses it periodically for radio equipment calibration and wave propagation measurements and testing.

When we began our review in 2000, the Table Mountain site was in disrepair and had several health, safety, structural, and environmental deficiencies that threatened its users, nearby residents, and federal property. An earlier report by the Mountain Administrative Support Center (MASC)—the Commerce unit that provides real property management services to departmental facilities in the region—had estimated that the site needed \$360,000 in repairs to correct deficiencies related to safety, structural stability, electrical systems, and environmental liability. Since we began our review, relatively low-cost actions have been taken to address some of the deficiencies that required immediate attention, but periodic monitoring is needed to prevent these problems from recurring. Other, more costly matters still need remedial action.

Managing Table Mountain involves overseeing technical programs, administrative functions, and maintenance and security operations. ITS





## National Telecommunications and Information Administration

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currently provides overall program management of the site by determining who will use the site and whether activities conducted by current or potential users are compatible. User organizations typically manage their individual technical programs and provide maintenance and security for the structures in which they operate. However, no organization oversees overall management of the site. In addition, the quality of building management is inconsistent and not well coordinated; maintenance of common areas and unused facilities has been neglected, as has general security. The administrative duties associated with the site, most of which are handled by MASC, include preparing environmental and safety reports required by law and regulations, completing property utilization surveys and other reports required by the General Services Administration, and dealing with the public.

Our consideration of who should be responsible for managing Table Mountain revealed that although the property belongs to the government, no legal document exists to indicate that any particular agency owns the site or is responsible for its management. The property was originally acquired for use by the Department of Commerce. Federal Property Management Regulations delegate to Commerce the authority for real property management of laboratories used for instrument calibration and for oceanic and atmospheric research. However, we found no delegated authority for real property management in relevant Department Organization Orders that would establish the scope of such authority for NTIA and ITS.

Authority for real property management in the Department is delegated to regional administrative support centers, which were established in the early 1980s. Typically, a Commerce operating unit enters into an agreement with the support center in its region to provide real property management services for its research sites on a reimbursable basis. However, the unit retains financial and decision-making authority for managing the site so that relevant technical and scientific needs of the site's users are addressed. In this case, NTIA maintains that the Department's *Real Property Management Manual* provides sufficient authority for ITS to continue its real property management responsibilities at the Table Mountain site.



Table Mountain is a valuable resource that should be upgraded and properly maintained to reduce the Department's risk of loss resulting from health, safety, structural, and environmental deficiencies and to provide current and future users with a facility that can support high-quality research.

We recommended that NTIA and MASC (1) enter into a formal arrangement to clearly designate responsibility for overall management of the Table Mountain site, (2) ensure that recent progress to improve the site continues and that steps are taken to prevent the problems from recurring, and (3) meet periodically with all users to coordinate activities at the site. Both organizations generally agreed with our recommendations. (*Denver Regional Office of Audits: DEN-11928*)

The **Technology Administration** serves the needs of technology-based industry, advocates federal actions and policies to speed the transfer of technology from the laboratory to the marketplace, and removes barriers for commercializing new technologies by industry. It includes three major organizations:

**Office of Technology Policy** works to raise national awareness of the competitive challenge, promotes industry/government/university partnerships, fosters quick commercialization of federal research results, promotes dedication to quality, increases industry's access to and participation in foreign research and development, and encourages the adoption of global standards.

**National Institute of Standards and Technology** promotes U.S. economic growth by working with industry to develop and apply technology, measurements, and standards. NIST manages four programs: the Advanced Technology Program, the Manufacturing Extension Partnership program, a laboratory-based measurement and standards program, and the National Quality Program.

**National Technical Information Service** is a self-supporting agency that promotes the nation's economic growth and job creation by providing access to information which stimulates innovation and discovery. NTIS accomplishes this mission through two major programs: information collection and dissemination to the public, and information and production services to federal agencies.

## Manufacturing Extension Partnership Centers Fail to Report All Program Income

During this semiannual period, OIG completed three audits of cooperative agreements under NIST's Manufacturing Extension Partnership (MEP) program. MEP assists small and medium-sized manufacturers via a nationwide network of 61 centers serving 400 locations.

The major finding of each audit was that none of the three recipients had fully reported program income. In fact, each recipient had program revenues, including income, local grants, and NIST funds, far in excess of the amount needed to cover eligible project expenses; as a result, they were accumulating large amounts of cash. We concluded that under federal regulations, project revenues in excess of eligible expenditures should be reported as excess program income and used to reduce NIST's share of costs. Our specific findings were as follows:

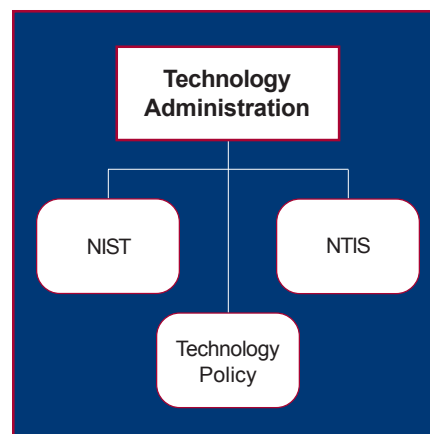
**A Connecticut center** entered into three MEP cooperative agreements to support businesses by identifying and supplying new sources of technical and business expertise and advanced technology, including providing Y2K computer compliance assistance. The 4-year project period of the awards had total estimated costs of \$12,660,713, with the federal share not to exceed \$4,853,731. The recipient reported incurred costs totaling \$12,634,978 under the three agreements and requested reimbursement of \$4,836,304. Our audit found that the recipient had earned about \$4.47 million in program income that was not reported to NIST. Even though the recipient also underreported its costs, we calculated that it had earned \$675,712 in income above its costs, none of which was credited to NIST. We recommended that NIST recover \$529,582 in excess disbursements. (*Denver Regional Office of Audits: DEN-13992*)

**A Wisconsin center** was awarded a cooperative agreement to provide direct technical assistance and other educational and training services to manufacturers. The 68-month award period had total estimated costs of \$26,733,146, with the federal share not to exceed \$10,783,710. For the 59-month period through November 2000 covered by our audit, the center claimed costs of \$18,808,097 and submitted reimbursement requests totaling \$8,044,001. Our audit revealed that the center had earned \$2.23 million in program income under the

## Technology Administration

agreement, but did not report it to NIST. We recommended that NIST recover or be credited for the excess disbursements, which amounted to \$641,182. (*Denver Regional Office of Audits: DEN-14103*)

**A Pennsylvania center** was awarded an MEP cooperative agreement to fund its manufacturing extension efforts, as well as to provide Y2K assistance. For the 2-year award period ending in June 2001, the total estimated project cost was \$2.33 million, with the federal share not to exceed \$610,000. As of February 2001, the center had submitted reimbursement requests for the first year of the award totaling \$572,418. We found that the center did not report to NIST a \$129,229 carryover of program income earned under a previous NIST award or any of the \$412,163 in program income generated under the audited award. Although the center also underreported its costs, it nevertheless had \$328,887 in excess program income. We recommended that NIST recover \$63,256 in excess federal disbursements. (*Denver Regional Office of Audits: DEN-14046*)



### OIG Audit Questions Equipment Costs Charged to Award Without NIST Approval

NIST awarded an Advanced Technology Program cooperative agreement to a private firm to act as lead administrator of a joint venture for conducting research on the development of a new technology. The award was for the period from November 1, 1995, through October 31, 2000. It had total estimated costs of \$17,699,654, with the federal government’s share not to exceed \$8,849,819, or 49.9 percent of allowable costs.

The firm requested early termination of the award, effective September 11, 1998, because of the venture’s inability to meet the project’s research goals. NIST approved the request. The budget was amended to reduce total estimated costs to \$8,418,876, with the federal share not to exceed \$4,209,171, and the project closeout period was extended to August 9, 1999. The firm ultimately claimed total project costs of \$8,227,507, and was reimbursed \$4,112,931 by NIST.

We audited the award to (1) determine whether the firm’s accounting and financial management system complied with federal regulations and program requirements; (2) calculate final incurred costs, concentrating

on equipment and depreciation charges; and (3) identify any instances in which the recipient failed to comply with the award terms and conditions.

We determined that the firm's accounting and financial management system was generally adequate and that the firm was materially in compliance with the award terms and conditions. However, we questioned \$364,339 of the claimed costs, almost all of which involved equipment costs charged to the award without NIST's required approval.

We recommended that NIST disallow the questioned costs and recover disbursed federal funds of \$182,633. The firm disagreed with most of our questioned costs, claiming that the equipment costs were allowable. (*Denver Regional Office of Audits: DEN-14032*)

## **Audit Reports Unresolved for More Than Six Months**

### ***Illinois Manufacturing Extension Center***

Our March 2001 semiannual report (page 62) detailed the findings of an interim financial assistance audit of a cooperative agreement under NIST's Manufacturing Extension Partnership program in which we questioned \$2.5 million of claimed costs, mainly because of insufficient support documentation. We recommended that NIST (1) require the award recipient to reduce its total claimed costs by the amount of the questioned costs, and (2) direct subrecipients to revise their accounting procedures to claim only supported and allowable costs.

# Departmental Management



## OIG Conducts Independent Evaluation Under Government Information Security Reform Act

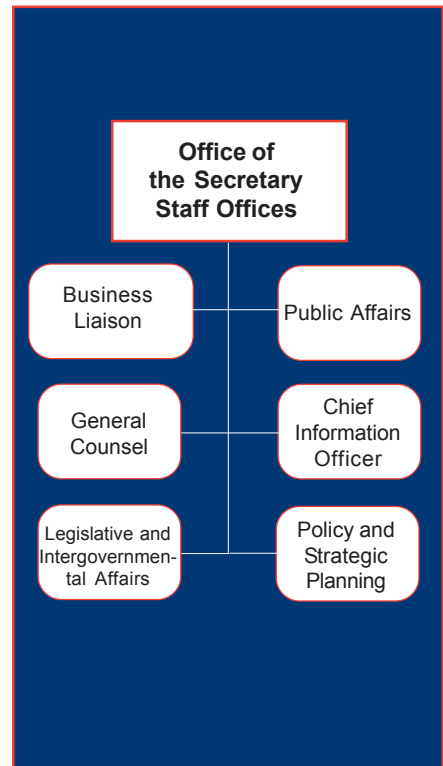
OIG recently completed an independent evaluation of the Department’s information security program, as required by the Government Information Security Reform Act. Our objective was to determine whether the Department’s security program and practices comply with the requirements of the act, which seeks to ensure proper management and security for federal information resources. We based our evaluation on the results of previous OIG security-related audits and inspections, GAO’s recent examination of Commerce security, and selected security assessments contracted for by individual operating units.

Information security weaknesses throughout Commerce have prompted us to identify this problem as one of the Department’s Top 10 Management Challenges. In addition, GAO’s recently completed penetration testing of information systems and networks based in Commerce headquarters revealed pervasive computer security weaknesses that place sensitive systems at serious risk.

The Department recognizes the severity of this issue and is addressing it aggressively. In July, the Secretary directed senior managers to give the task of improving information security high priority, sufficient resources, and their personal attention. His recent restructuring of information technology (IT) management is designed to increase the authority and effectiveness of chief information officers throughout the Department. Commerce has also formed an IT security task force to develop a comprehensive information security program. These are important steps toward making the security of systems, networks, and data Department-wide a fundamental component of Commerce’s business operations.

We must note, however, that because this area has not received adequate attention in the past, developing and overseeing an effective information security program will require substantial effort.

★ **IT security deficiencies should be reported as material weaknesses as appropriate.** OMB Circular A-130 requires operating units to identify such deficiencies pursuant to Circular





A-123 and the Federal Managers' Financial Integrity Act (FMFIA) if it is determined that there is no assignment of security responsibility, no security plan, or no accreditation. We have confirmed that deficiencies related to these elements exist throughout the Department. Commerce must work with its operating units to ensure that the existence of such material weaknesses are appropriately identified and reported under FMFIA.

- ★ **Additional efforts are needed to improve risk assessment, security planning, and test and evaluation.** Commerce IT systems frequently lack risk assessments and security plans; and vulnerability assessments have been completed for less than 10 percent of the IT assets deemed to be part of the nation's critical infrastructure. When these elements do exist, they frequently have not been finalized or approved by management. Techniques for information security control are not tested and evaluated periodically. Some positions that involve access to sensitive data and systems do not have the necessary risk designations, which can lead to inadequate background investigations.
- ★ **Additional efforts are needed to establish an acceptable Department-wide security program, evaluate performance, and ensure employee training.** Commerce's information security policy is out of date. It needs to be revised and expanded. While the Department has recently improved its oversight of information security, it performs few information security reviews. As a result, many Commerce systems lack adequate procedures and control techniques, a situation that puts both information and equipment at risk. Moreover, rigorous and ongoing security training is not conducted.
- ★ **Procedures for detecting, reporting, and responding to security incidents should be improved.** Only 4 of 15 Commerce operating units have a formal incident response capability, and most have not installed intrusion detection systems. In addition, most units have weak or nonexistent auditing capabilities. The lack of auditing, coupled with weak



intrusion detection systems, makes it difficult for operating units to know when a security incident has occurred or who caused it.

- ★ **Capital asset plans should identify security requirements more explicitly and link them to security cost estimates.** While most fiscal year 2002 capital asset plans addressed security, several did not, and most failed to identify security costs. These costs were also omitted from the OMB budget request for several projects having capital asset plans. The FY 2003 plans tend to have more detailed discussions of security, although most still do not identify costs. Moreover, many plans do not clearly identify their security requirements, and those that estimate costs do not discuss the basis of the estimate.
  
- ★ **Critical asset identification needs refinement.** The reliability of the inventory of critical assets—those assets deemed essential to the minimal functioning of the economy—is questionable because of weaknesses in the methodology used to gather asset data, and because of operating units’ failure to consider the risks inherent in their network connections with external systems. New criteria developed by the federal Critical Infrastructure Assurance Office identify critical assets by determining how quickly such assets would have to be reconstituted in an emergency. Using the new criteria, the CIO’s office expects to significantly reduce the number of assets on the inventory list from the current number of 241, allowing attention to be focused on the most critical.
  
- ★ **The Department needs to give guidance and develop procedures to ensure the security of contractor-provided IT services.** Outsourcing of IT services, such as network support and web site operations, is widespread. Commerce must ensure that contracts for IT services require contractors to comply with security regulations, guidance, and policy. However, because Department policies contain little instruction for integrating security into acquisitions, many contracts are devoid of security provisions.





- ★ **Information security plans are frequently not carried out throughout the life cycle of agency systems.** Information security has yet to become an integral component of Commerce business operations, and as a result, fundamental responsibilities are frequently not carried out as systems are designed, developed, and operated. The Department's recent efforts to improve information security—if accompanied by continued executive-level attention and adequate resources—are important steps toward building a more effective security program.

Because our evaluation was based primarily on previous work, our report contained no recommendations. (*Office of Systems Evaluation: OSE-14384*)

### **Use of Internet “Cookies” and “Web Bugs” Raises Privacy and Security Concerns**

Persistent Internet cookies are data devices stored on web users' hard drives that can identify users' computers and track their browsing habits. Web bugs are software codes that monitor who is reading a web page. In addition to tracking browsing habits, web bugs can download files from and upload files to a user's computer. These technologies can be employed in ways that would violate the privacy of individuals visiting web sites. In addition, web bugs can pose security threats.

OIG evaluated the use of persistent Internet cookies and web bugs by Commerce Internet sites, as well as the adequacy of the privacy statements posted on the main web pages of the Department and its operating units. We conducted our evaluation in response to Public Law 106-554, the Consolidated Appropriations Act of 2001. This law requires the Inspector General of each agency to submit a report to the Congress disclosing any activity that collects information relating to any individual's access or viewing habits on the agency's Internet sites.

We found that most of the Department's Internet sites do not use persistent cookies or web bugs. However, we also discovered the following:

- ★ In several instances, persistent cookies were being used without a compelling reason or the approval of the Secretary of Commerce, as required by Department and OMB policy.



## Departmental Management

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- ★ A number of web pages were using web bug technology. At the time of our fieldwork, the Department did not have a policy regulating web bug use. On April 24, the Chief Information Officer issued a memorandum that established a web bug policy similar to that for persistent cookies.
- ★ Many of the operating units' privacy statements do not provide all of the information required by the Department's privacy policy.

We recommended that the Department's Chief Information Officer direct CIOs and senior management at the operating units to implement a strategy for controlling the use of persistent cookies and web bugs and to certify annually that the unit is complying with the Department's applicable policies. We further recommended that they be instructed to revise their privacy statements to comply with Commerce policy.

The Department's CIO agreed with our findings and quickly promulgated a policy that addressed the use of web bugs. The CIO also took action to help ensure that the cookies we had identified were removed, and began working to eliminate the web bugs and develop a uniform privacy statement. (*Office of Systems Evaluation: OSE-14257*)

## Program for Designating Risk and Sensitivity Needs To Be Strengthened

OIG evaluated the Department's program for designating positions according to their level of risk and sensitivity. Risk designations reflect the potential damage an individual in a position of public trust could cause to the efficiency and integrity of government programs and operations. Sensitivity designations reflect the potential adverse impact on national security associated with a position. This evaluation was prompted in part by our recent review of security measures for the Census Bureau's Advance Retail Sales Principal Federal Economic Indicator. Our findings in this review suggested that inadequate procedures for assigning appropriate risk and sensitivity designations, and for conducting associated background investigations may exist elsewhere in Commerce.



We issued the following findings and recommendations:

- ★ **Departmental guidance for designating positions is out of date, and positions are designated incorrectly.** Department Administrative Order (DAO) 202-731 and the *Personnel Security Manual* are the official Department-level documents that provide guidance for designating levels of risk and sensitivity associated with Commerce positions and for conducting appropriate background investigations. These documents were issued in 1989 and 1988, respectively, and thus do not address important governmentwide changes to guidance for designating positions and conducting related investigations.

Therefore, Commerce operating units have no current, official Department-level instruction for designating public trust and national security positions and for conducting adequate background investigations. As a result, some positions of public trust are designated according to their level of sensitivity rather than their level of risk—a situation that can lead to inappropriate background investigations. Also, risk designations are sometimes inconsistent with a position's level of responsibility and trust. Moreover, the duties and authority of personnel involved in the designation process are not clearly defined; and human resources, security, and management officials are often unsure of their responsibilities.

We advised the Department to assess the responsibilities and authorities associated with sensitivity and risk designations, including the role of managers. Commerce must determine how those responsibilities and authorities will be allocated and make certain that management, personnel, and security officials understand their duties.

We also recommended that the Department ensure the following actions occur:

1. Managers and staff from both the Office of Security and the Office of Human Resources Management attend training approved by the Office of Personnel Management (OPM) for designating risk and sensitivity



- levels and determining appropriate background investigations.
2. The DAO and the manual are updated to include OPM's latest guidance and clear delineation of the roles and responsibilities of heads of operating units, other managers and supervisors, servicing personnel officers, and security officers.
  3. Revised departmental guidance is distributed to all operating units.
  4. Human resources and security personnel in the operating units receive appropriate training to implement the new guidance.

The Department's Office of Security and Office of Human Resources Management are coordinating efforts to update the DAO and the manual so that they reflect current governing regulations.

- ★ **Records of personnel security investigations are incomplete, and employees are not appropriately investigated.** Commerce lacks up-to-date, complete information on employee risk or sensitivity levels and on the type and currentness of associated investigations. During our review of the Advance Retail Sales indicator, we found that the the Office of Security's investigation records for many Census Bureau employees did not indicate the type of background investigation performed. The office uses two automated systems to track investigations, but in many cases, neither contains the needed information. We also found that some employees did not have the level of background investigation required by the risk associated with their positions.

We later reviewed a sample of investigation records provided by the Office of Security for staff of BXA, NIST, and NOAA, and found additional instances in which employees did not have the background investigation required by the sensitivity or risk designation of their positions. In some cases, the level of investigation was too low to assure that employees could be trusted with the information to which



they have access. In other cases, the level was too high and hence unnecessarily expensive and intrusive.

We recommended that the Office of Human Resources Management and the Office of Security (1) improve record keeping to maintain accurate background investigation data for all employees, and (2) develop a plan to determine whether current positions within the Department are properly designated according to risk and whether reinvestigations are being conducted as necessary.

The Chief Financial Officer and Assistant Secretary for Administration agreed with our findings and recommendations. The Deputy Assistant Secretary for Security and the Director of Human Resources Management are coordinating development of a plan to address them. (*Office of Systems Evaluation: OSE-14486*)

### **CAMS Contract Administration Has Improved, but Further Actions Are Needed**

The Department is developing the Commerce Administrative Management System (CAMS)—a single, integrated financial management system that complies with OMB requirements. In 1994, a contract was awarded for an accounting software package, known as the Core Financial System, as well as for program management, development, testing, maintenance, and implementation. This contract also provided for support to implement functional systems, including payroll, personnel, procurement, property, travel, and grants management. The period of performance was 1 year, with options for 9 additional years. Total life-cycle costs of the contract were estimated at \$31.9 million.

In fiscal year 1997, problems with the software provided by a subcontractor prompted the Department to take responsibility for the Core Financial System and retain a new contractor for software development. Concerned with increased costs and schedule delays, Commerce redefined CAMS to exclude many of the planned functional systems, leaving intact the Core Financial System, three integrated functional modules—labor/time and attendance interfaces with the National Finance Center, bankcard, and small purchases—and the Core Financial System data warehouse. In August 1999, NOAA's



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Systems Acquisition Office assumed responsibility for administering the CAMS contracts.

The original contractor provides most of its services through labor-hour task orders issued against the base contract. Software development and maintenance services from the second contractor are obtained under contracts and delivery orders against General Services Administration (GSA) schedule contracts, mostly on a labor-hour basis.

CAMS is now operational at the Census Bureau, Office of the Secretary, EDA, ESA, MBDA, OCS, OGC, and OIG. Implementation is under way at NOAA and NIST. As of April 2001, total funds awarded to the two contractors amounted to more than \$85 million. CAMS is scheduled to be fully operational by the end of FY 2003.

OIG recently reviewed the effectiveness of CAMS contract administration and found that it has improved under the Systems Acquisition Office. However, we also identified a number of areas where improvements are needed:

- ★ **The original contract should be restructured and renegotiated.** When the contract was awarded, the statement of work was vague and undefined, and the terms and conditions were unclear. Since then, the strategy for developing and implementing CAMS has changed significantly, substantial cost increases and schedule revisions have occurred, and numerous modifications have been issued. The contract does not accurately reflect the CAMS strategy or the responsibilities of the contractor or the government. This lack of clarity hampers the Department's ability to administer the contract and monitor results. The CAMS program office, in consultation with the Office of General Counsel, needs to thoroughly evaluate the costs and benefits of restructuring and renegotiating the original CAMS contract.
  
- ★ **Contracts and task orders should be performance based and results oriented.** Contract types that maximize contractor performance and lessen risk to the government are essential to the integrity of the contracting process. Performance-based service contracting—which emphasizes results rather than methods—helps ensure that the government receives what it



requires. Instead of using performance-based contracting to obtain services from CAMS contractors, however, the Department has used time-and-material or labor-hour contracts, both of which increase the chances that costs will escalate and services will not be received. Since our review, the contracting officer has taken steps to use performance-oriented approaches. We urge the Department to make use of all such approaches that maximize outcomes whenever possible.

- ★ **Price and cost analysis should be documented.** We found inadequate documentation for price and cost analysis of new orders and contracts, as well as for significant change order modifications. The reasonableness of prices must be determined before contracts, task orders, and delivery orders are awarded. This determination should be supported by price and cost analysis, as well as by advice from the program's technical experts. The requirement for price and cost analysis also applies to delivery orders for services placed against a GSA schedule, as is done for the CAMS software contract.
- ★ **Communications with and training of bureau technical representatives need improvement.** To simplify contract monitoring efforts, the CAMS contracting officer has designated technical representatives at the larger bureaus. During our review, Census, NIST, and NOAA representatives expressed a desire for better communications about monitoring and reporting procedures with the CAMS contracting office. We believe that regular meetings should be held with these parties to discuss common concerns and provide consistent direction. The use of performance-based service contracting will increase the need for such communication, as well as for training for all involved staff.
- ★ **Appearance of personal services contracts should be avoided.** Because the government is normally required to hire employees through accepted civil service procedures, the use of personal services contracts is generally prohibited. Such contracts imply an employer-employee relationship between the government and the contractor's personnel. Our review revealed that there is at least the appearance of such a relationship with the CAMS contractors' staff. Commerce



## Departmental Management

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needs to ensure that personal services contracts do not exist, and must minimize even the appearance of such contracts.

The Department concurred with four of the six recommendations we made to address the weaknesses we identified. It did not agree with our recommendations to evaluate the costs and benefits of restructuring the contract or to provide additional training in performance-based contracting to the alternate contracting officer's technical representatives (ACOTRs).

We continue to believe, however, that the numerous changes made to the contract increase the risk should disputes or disagreements arise between the contractor and the government. In addition, the training currently provided to the ACOTRs on performance-based service contracting is limited to preparing work statements. It should be expanded to cover the preparation and use of quality assurance and surveillance plans. (*Office of Systems Evaluation: OSE-14086*)

### **Department Is Taking Actions to Bolster Management of Trade Missions**

In early April 2001, we reported the results of our review of the Department's March 1997 trade mission policy and its implementation. The significance of the issues addressed in that review prompted us to provide a detailed discussion of our findings and recommendations in our previous semiannual report (see March 2001 issue, page 67).

We concluded that the policy has greatly improved the Department's management of trade missions. In particular, it has bolstered trade mission planning, the recruitment and selection of private sector participants, and the clarity of the process. However, we recommended additional steps to increase the policy's effectiveness and further improve the Department's management of trade missions. In response to our report, the Department and ITA indicated they would collaborate on an action plan to address our recommendations.

In September, we met with officials from the Department's Office of Business Liaison (OBL), the Office of General Counsel, ITA, and US&FCS to discuss progress made in implementing our recommendations. At the time of our meeting, the first senior-level





trade mission under the current administration (scheduled for mid-October 2001) had not yet occurred, but excellent progress was being made to strengthen the Department's management of missions. Both OBL and ITA were drafting more specific and improved guidelines and procedures for managing the trade mission process and for developing other tools to ensure that each mission is carried out in accordance with Commerce policy. Departmental officials report the following actions:

- ★ OBL has set up automated databases to better track participant applications and is ensuring that more detailed records of decisions on participants are being kept.
- ★ OBL has hired a contractor to help make participant applications accessible online and to enable electronic information collection and transfer to a central database.
- ★ US&FCS has developed a series of documents, checklists, and procedures for use by trade mission organizers to ensure that missions are managed consistently and documented appropriately, and that compliance with the policy is thus demonstrated.

Also in our April report, we suggested that the Department take the following actions to strengthen the trade policy's implementation and application to future missions: (1) Determine whether the policy is appropriate for all "reverse" trade missions, which bring foreign buyers to visit U.S. companies; (2) clarify the "diversity" criterion on the trade mission application and specify how it should be used in the selection process; (3) reexamine the requirement regarding membership of the second-level selection panel to determine whether it poses an appearance problem for the Department. The Office of the Secretary stated that it is studying these issues and will soon decide whether and how it will revise the trade mission policy and related procedures. (*Office of Inspections and Program Evaluations: IPE-13934*)



## Departmental Fund Management Practices Need Improvement

OIG conducted an audit survey of selected aspects of the Department's practices in managing three major funds: the Salaries and Expenses Fund (S&E), which, supported by a direct appropriation, is used primarily to fund the personnel costs of senior departmental officials and their key staff; the Working Capital Fund (WCF)—an intragovernmental fund for support services that can most efficiently be provided centrally (security, human resources, and legal counsel, for example); and the Gifts and Bequests Fund (G&B), which consists of donations made to Commerce that can be used in carrying out its work. Our review of the Salaries and Expenses Fund included an in-depth look at the Advances and Reimbursements Program (A&R).

Twenty-one offices and operations are supported by these funds, whose costs totaled approximately \$194 million in FY 2000. Over the past 5 years, the costs of the S&E, G&B, and A&R have remained relatively constant, but those of the WCF have increased by about 50 percent.

Our survey sought to determine whether (1) charges to the funds are consistent with the funds' stated purposes, (2) recent increases in charges to the operating units appear reasonable and justified, and (3) methods for allocating charges to the units are reasonable and properly applied. We reached the following conclusions:

- ★ **Charges within the funds appear consistent with each fund's stated purpose.** The Department seems to have a reasonable basis for segregating costs among the funds. However, it lacks clear, written operating policies and procedures for administering the funds, and in some instances, the description of the basis of charge in the relevant guidance did not accurately state the method used to allocate costs.
- ★ **Recent increases in charges to the operating units appear justified.** We reviewed billings for 6 of the 21 offices that are supported through these funds, inquiring about any significant fluctuations. The explanations for all such fluctuations appeared reasonable. In addition, our comparison of operating estimates



with actual total charges to Commerce units revealed no instances of unexplained costs.

- ★ **Procedures for allocating costs to Commerce operating units appear reasonable and properly applied.** We did not note any instances in which the procedures for allocating costs unfairly burdened or benefited any operating unit. Nor did we identify any instances of the procedures being improperly applied.
- ★ **Operating unit concerns, cost containment efforts, and the role of the WCF Advisory Committee need management attention.** Although the Department is aware of operating unit concerns regarding fund management, no formal mechanism exists to ensure that such concerns are addressed. In addition, our survey did not reveal any effective internal control measures to contain WCF costs. The WCF Advisory Committee, which is composed of representatives from the Department and each operating unit, was established in March 2000 to communicate and disseminate WCF information to the units, as well as to obtain their input. We found that the committee lacks a formal charter and a clear mission, and does not appear to track and address specific concerns of the units or provide input on the impact of departmental office budgets on a unit's funding.

Our primary recommendation was that the Department more clearly define the role of the WCF Advisory Committee. The committee could provide oversight to the fund and thus accomplish the following: (1) ensure that WCF operations are transparent and accountable to operating unit customers, (2) make certain that adequate financial management controls are established, (3) review and provide feedback on annual WCF budgets, and (4) communicate with and address concerns raised by the operating units.

In response to a briefing we provided on our survey results, the Department prepared an audit action plan detailing the steps it intended to take to address our recommendations. One of the Department's planned steps is to replace the advisory committee with an executive board that has decision-making authority. We believe that the planned actions will meet the intent of our recommendations. (*Financial Statements Audits Division: FSD-14271*)



## Preaward Financial Assistance Screening

As part of our ongoing emphasis on prevention of fraud and mismanagement, we continue to work with the Office of Executive Budgeting and Assistance Management, NOAA and NIST grant offices, and EDA program offices to screen the Department’s proposed grants and cooperative agreements before award. Our screening serves two functions: It provides information on whether the applicant has unresolved audit findings and recommendations on earlier awards, and it determines whether a name check or investigation has revealed any negative history on individuals or organizations connected with a proposed award.

During this period, we screened 1,926 proposed awards. For 34 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 awards until concerns were satisfactorily resolved, and established special conditions for one award to adequately safeguard federal funds. *(Office of Audits)*

### Preaward Screening Results

Results	Number	Amount
Awards delayed to resolve concerns	33	\$12,867,490
Special award conditions established	1	\$863,120



### Indirect Cost Rates

Under OMB policy, a single federal agency—the “cognizant” or general oversight agency—is responsible for reviewing, negotiating, and approving indirect cost rates for public and private entities that receive funds under various federal programs. Normally, the federal body that provides the most direct funding to an entity is chosen as its cognizant or general oversight agency. OMB has designated Commerce as the cognizant agency for about 280 economic development districts, as well as for a number of state and local government units. From time to time, the Department also has oversight responsibilities for other recipient organizations.

Commerce has authorized the Office of Inspector General to negotiate indirect cost rates and review cost allocation plans on its behalf. OIG reviews and approves the methodology and principles used to pool indirect costs and establish an appropriate base for distributing those costs to ensure that each federal, state, and local program bears its fair share.

During this period, we negotiated 12 indirect cost rate agreements with nonprofit organizations and government agencies, and reviewed and approved 19 cost allocation plans. We also provided technical assistance to recipients of Commerce awards regarding the use of rates established by other federal agencies and their applicability to our awards. We continued to work closely with first-time for-profit and nonprofit recipients of Commerce awards to establish indirect cost proposals that are acceptable for OIG review. (*Atlanta Regional Office of Audits*)



## 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 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 159 audit reports during this semiannual period to determine whether they contained any findings related to Department programs. For 73 of these reports, the Department acts as oversight agency and monitors the audited entity's compliance with the OMB circular or NIST's program-specific reporting requirements. The other 86 reports are from entities for which other federal agencies have oversight responsibility.

### Nonfederal Audit Activities

Report Category	OMB A-133 Audits	ATP Program-Specific Audits	Total
Pending (April 1, 2001)	11	37	48
Received	130	79	209
Examined	105	54	159
Pending (September 30, 2001)	36	62	98



The following table shows a breakdown by bureau of the \$233 million in Commerce funds audited.

<b>Breakdown by Bureau</b>	
<b>Bureau</b>	<b>Funds</b>
<b>EDA</b>	<b>\$ 32,917,275</b>
<b>MBDA</b>	<b>188,867</b>
<b>NIST</b>	<b>86,119,042*</b>
<b>NOAA</b>	<b>8,349,887</b>
<b>NTIA</b>	<b>767,699</b>
<b>Multiagency</b>	<b>103,696,285</b>
<b>Agency not identified</b>	<b>1,105,186</b>
<b>Total</b>	<b>\$233,144,241</b>

\* Includes \$77,367,568 in ATP program-specific audits.

We identified a total of \$2,921,117 in questioned costs. In most reports, the Department’s programs were considered nonmajor, resulting in limited transaction and compliance testing against laws, regulations, and grant terms and conditions. The 10 reports with Commerce findings are listed in Appendix B-1. (*Atlanta Regional Office of Audits*)



# Investigative Highlights

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OIG's Office of Investigations (OI) investigates allegations of fraud or other wrongdoing that impacts Commerce programs and operations, including criminal or otherwise prohibited activities engaged in by employees, contractors, or recipients of financial assistance. Staffed by special agents located in Washington, D.C., Denver, and Silver Spring, Maryland, OI works closely with the Department of Justice and with U.S. Attorneys' offices throughout the country to prosecute criminal and civil actions in order to punish offenders and recover losses suffered by the government as a result of fraud and misconduct.

Like their counterparts in most OIG offices, our special agents have full law enforcement powers as special deputy U.S. marshals under a deputation agreement with the Department of Justice. We also work with the FBI and other federal law enforcement agencies to investigate matters of mutual interest. The results of OIG investigations of employee misconduct are provided to agency officials to support appropriate disciplinary and administrative actions.

During this semiannual period, OIG investigations led to two convictions and the filing of either indictments or criminal informations against two individuals. Six matters were referred to the Department of Justice for prosecution. In addition, the Department took five personnel actions as a result of OI casework. Below are highlights of our investigative activity during the past 6 months.

## **OIG Investigators Participate in National Counterterrorism Effort**

Commerce OIG special agents from our three field offices volunteered their assistance in the combined law enforcement effort to investigate the attacks on the World Trade Center and the Pentagon. Our agents joined with the FBI, fellow members of the IG community, and other federal agencies to mobilize a massive, unprecedented investigative response to this attack on our nation. This effort included the processing of crime scenes and evidence, investigation of suspected terrorists and terrorist organizations, and implementation of programs and activities designed to thwart or prevent future terrorist acts.

After completing search and recovery operations at the Pentagon, OIG agents helped FBI and Department of Defense investigators collect





forensic evidence and classified material, working in teams to sift through the wreckage for documents, weapons, aircraft parts, personal effects, and other evidentiary material. Despite the inherent difficulties posed by the biohazardous working environment, and the severe physical and emotional toll these duties exacted, agents worked multiple shifts of 10 to 12 hours a day, and completed the operation in a little more than a week's time.

Our special agents also worked in New York for 4 weeks to help the FBI Terrorist Task Force process the extraordinary volume of information it has received. Along with law enforcement personnel from the FBI, the Immigration and Naturalization Service, various Inspector General organizations, and other federal agencies, our agents conducted interviews, reviewed documents, and otherwise followed up investigative leads concerning the September 11 attacks. We expect to continue our work with the task force through the months to come.

Finally, Commerce OIG is assisting with the government's efforts to increase the safety and security of U.S. air travel by temporarily providing investigative personnel to augment the FAA's Federal Air Marshal program.

### **NOAA Administrative Officer Is Convicted of Embezzlement**

On September 28, 2001, a former NOAA administrative officer was convicted in U.S. district court for the Western District of Missouri of one felony count of violating 18 USC §641, having embezzled more than \$33,000 from the government over a period of nearly 2 years. The offense carries a maximum penalty of 10 years' imprisonment and a \$250,000 fine. Under the terms of a plea agreement, the defendant agreed to make full restitution of the amount embezzled and refrain from seeking further employment with the Department of Commerce.

The plea resulted from an OIG investigation in which we established that, in his capacity as administrative officer, the former employee had written numerous checks on a government account and deposited them



## Investigative Highlights

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into his personal account after altering the names of payees and falsifying underlying invoices and receipts. As of the end of this reporting period, a date for sentencing had not been set. (*Denver Field Office of Investigations*)

### **Former Employee Receives Prison Sentence for Personal Use of Government Purchase Card**

In our last semiannual report (see page 81), we detailed the theft conviction of a former employee of the Office of Acquisition Management who made nearly \$50,000 in inappropriate charges on her government purchase card—buying clothing, jewelry, and other luxury items, and paying her rent and fees for various personal services. On April 20, 2001, the defendant was sentenced in U.S. district court for the District of Columbia. She received 6 months' imprisonment, followed by 2 months' home detention and 3 years' probation, and was ordered to make restitution of the full amount of the government's loss. (*Washington Field Office of Investigations*)

### **Contract Employee Is Sentenced for Theft of Government Property**

A former USPTO contract employee convicted in January 2001 of using a government purchase card to make nearly \$700 worth of personal charges (see March 2001 issue, page 81) was sentenced on April 10, 2001, in U.S. district court for the Eastern District of Virginia. She received 1 year probation, 100 hours of community service, and a \$1,400 fine. She was also ordered to make restitution to the government for the full amount of its loss. (*Silver Spring Field Office of Investigations*)



### **Conspiracy to Falsify Payroll Records Ends in Two Convictions**

During this reporting period, a former NOAA employee was sentenced in U.S. district court for the District of Columbia on her previous conviction for conspiracy to defraud the government. In this case, the former employee had arranged to falsify payroll records that enabled a second employee to receive more than \$9,800 in pay to which she was not entitled. The second employee then paid \$1,500 of the illicit proceeds to the defendant (see March 2001 issue, pages 81-82). On May 31, 2001, the defendant was sentenced to 5 years' probation and 50 hours of community service, and was ordered to make restitution to the government in the amount of \$9,800. In accordance with the terms of a plea agreement, the coconspirator pleaded guilty to one count of conspiracy on July 3, 2001; she was scheduled for sentencing in October 2001. (*Silver Spring Field Office of Investigations*)

### **NOAA Employee Receives 30-Day Suspension for Misuse of Government-Leased Space**

A senior NOAA employee was suspended for 30 days after an OIG investigation revealed that, for approximately 9 months, he parked his personal vehicle in commercial garage space leased for the use of official vehicles while the government vehicles were parked on the street or elsewhere. (*Silver Spring Field Office of Investigations*)

# Office of Inspector General



## Audit Resolution and Follow-up

The 1988 amendments to the Inspector General Act require us to present in this report those audits issued before the beginning of the reporting period (April 1, 2001) for which no management decision had been made by the end of the period (September 30, 2001). For this past 6-month period, two financial assistance audits of cooperative agreements remain unresolved: one for ITA and the other for NIST.

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

Audit Resolution Follow-up		
Report Category	Modifications	Appeals
Actions Pending (April 1, 2001)	0	7
Submissions	0	14
Decisions	0	7
Actions Pending (September 1, 2001)	0	14



# Reporting Requirements

## INDEX

The Inspector General Act of 1978, as amended (1988), 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	83
5(a)(1)	Significant Problems, Abuses, and Deficiencies	25-80
5(a)(2)	Significant Recommendations for Corrective Action	25-80
5(a)(3)	Prior Significant Recommendations Unimplemented	83
5(a)(4)	Matters Referred to Prosecutive Authorities	77-80
5(a)(5) and 6(b)(2)	Information or Assistance Refused	84
5(a)(6)	Listing of Audit Reports	91-94
5(a)(7)	Summary of Significant Reports	25-80
5(a)(8)	Audit Reports—Questioned Costs	88
5(a)(9)	Audit Reports—Funds To Be Put to Better Use	89
5(a)(10)	Prior Audit Reports Unresolved	42, 58, 84
5(a)(11)	Significant Revised Management Decisions	84
5(a)(12)	Significant Management Decisions with Which the OIG Disagreed	85

The OIG is also required by section 804(b) of the Federal Financial Management Improvement Act of 1996 to report on instances and reasons when an agency has not met the dates of its remediation plan. We discuss this matter in the March 2002 issue as part of our financial statement audit reporting.



## **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 the 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 such 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, costly, unwieldy, and of limited value to the Congress. Any list would have meaning only if explanations detailed whether adequate progress is being made to implement each agreed-upon corrective action. Also, as this semiannual report was being prepared, management was in the process of updating the Department's Audit Tracking System as of September 30, 2001, based on annual status reports due from the bureaus in mid-October. An accurate database was therefore not available to OIG for reference here. However, additional 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 such 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 such decision has not been made, and a statement concerning the desired timetable for delivering a decision on each such report.

As of September 30, 2001, two financial assistance audits relating to cooperative agreements were in this category—one for ITA and the other for NIST. The audit resolution proposals requested reinstatement of questioned costs. OIG disagreed with this approach.

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

This section requires an explanation of the reasons for any significant revised 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 seven 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.





# Statistical Highlights

## Audit and Inspection Statistical Highlights

Questioned costs this period	\$3,893,825
Value of audit recommendations made this period that funds be put to better use	\$6,549,846
Value of audit recommendations agreed to this period by management	\$6,574,879
Value of inspection recommendations made this period that funds be put to better use	\$0

## Investigative Statistical Highlights

Matters referred for prosecution	6
Indictments and informations	2
Convictions	2
Personnel actions*	5
Fines, restitutions, judgments, and other civil and administrative recoveries	\$63,715

\* Includes removals, suspensions, reprimands, demotions, reassignments, and resignations or retirements in lieu of adverse action.

## Allegations Processed by OIG Investigators

<b>OIG Hotline</b> (202) 482-2495 (800) 482-5197	Accepted for investigation	19
	Referred to operating units	29
	Evaluated but not accepted for investigation or referral	54
hotline@oig.doc.gov	<b>Total</b>	<b>102</b>

**Note:** Numerous other allegations and complaints were forwarded to the appropriate federal and nonfederal investigative agencies.

# Tables and Appendixes



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2. Audits with Recommendations That Funds Be Put to Better Use	89
<b>APPENDIXES</b>	
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B. Processed Reports	95
B-1. Processed Financial-Related Audits	96
<b>DEFINITIONS</b>	
<p>A <b>questioned cost</b> is a cost that is questioned by the 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.</p>	
<p>An <b>unsupported cost</b> refers to a cost that, at the time of the audit, is not supported by adequate documentation. Questioned costs include unsupported costs.</p>	
<p>A <b>recommendation that funds be put to better use</b> refers to a recommendation by the OIG 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 that are specifically identified.</p>	
<p>A <b>management decision</b> refers to 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.</p>	

## Audits with Questioned Costs

### Table 1

Report Category	Number	Questioned Costs	Unsupported Costs
A. Reports for which no management decision had been made by the commencement of the reporting period	18	\$6,744,585	\$2,782,829
B. Reports issued during the reporting period <sup>1</sup>	15	3,893,825	420,330
Total reports (A+B) requiring a management decision during the reporting period	33	10,638,410	3,203,159
C. Reports for which a management decision was made during the reporting period <sup>2</sup>	16	6,448,651	2,695,869
i. Value of disallowed costs		4,578,996	1,007,396
ii. Value of costs not disallowed		1,880,925	1,688,473
D. Reports for which no management decision had been made by the end of the reporting period	17	4,189,759	507,290

Notes:

<sup>1</sup> Three audit reports included in this table are also included in the reports with recommendations that funds be put to better use (see table 2). However, the dollar amounts do not overlap.

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

# Audits with Recommendations That Funds Be Put to Better Use

## Table 2



Report Category	Number	Value
A. Reports for which no management decision had been made by the commencement of the reporting period	8	\$7,638,948
B. Reports issued during the reporting period <sup>1</sup>	13	6,549,846
Total reports (A+B) requiring a management decision during the reporting period	21	14,188,794
C. Reports for which a management decision was made during the reporting period <sup>2</sup>	8	7,638,948
i. Value of recommendations agreed to by management		1,995,883
ii. Value of recommendations not agreed to by management		5,643,127
D. Reports for which no management decision had been made by the end of the reporting period	13	6,549,846

Notes:

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

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



## Office of Inspector General Reports Appendix A

Type	Number	Appendix
Performance Audits	3	A-1
Inspections	10	A-2
Financial-Related Audits	18	A-3
<b>Total</b>	<b>31</b>	

# Performance Audits

## Appendix A-1



Agency	Subject	Number	Date	Funds To Be Put to Better Use
EDA	Trade Adjustment Assistance Centers' Internal Controls Over Consultant Services Need Strengthening	STL-14322	09/01	N/A
NTIA	Table Mountain Research Site Needs Attention	DEN-11928	09/01	N/A
O/S	Departmental Fund Management Practices Need Improvement	FSD-14271	09/01	N/A



## Inspections Appendix A-2

Agency	Subject	Number	Date	Funds To Be Put to Better Use
<b>BXA</b>	Annual Follow-Up Report on Previous Export Control Recommendations, as Mandated by the National Defense Authorization Act for Fiscal Year 2000	IPE-14246(2)	09/01	--
<b>ESA</b>	Additional Security Measures Needed for Advance Retail Sales Economic Indicator	OSE-12754	09/01	--
<b>NOAA</b>	San Angelo Weather Forecast Office Performs Its Core Responsibilities Well, but Office Management and Regional Oversight Need Improvement	IPE-13531	09/01	--
	Missoula Weather Forecast Office Generally Provides Quality Service to Its County Warning Area	IPE-14225	09/01	--
<b>O/S</b>	Implementation of Commerce's Trade Mission Policy Has Strengthened Management of the Missions, but More Improvements Can Be Made	IPE-13934	09/01	--
	Independent Evaluation of the Department's Information Security Program Under the Government Information Security Reform Act	OSE-14384(1)	09/01	--
	Program for Designating Positions According to Their Risk and Sensitivity Needs To Be Updated and Strengthened	OSE-14486	09/01	--
	Improvements Made in CAMS Contract Management but Additional Actions Needed	OSE-14086	09/01	--
	Use of Internet "Cookies" and "Web Bugs" on Commerce Web Sites Raises Privacy and Security Concerns	OSE-14257	09/01	--
<b>USPTO</b>	Independent Evaluation of the Department's Information Security Program Under the Government Information Security Reform Act	OSE-14384(2)	09/01	--

# Financial-Related Audits

## Appendix A-3



### Funds To Be Put to Better Use

Agency/Auditee	Number	Date	Questioned Costs	Unsupported Costs	Funds To Be Put to Better Use
<b>EDA</b>					
Monterey County's Contractor Revolving Loan Program, CA	STL-13442	07/01	N/A	N/A	\$350,000
Panhandle Area Council, ID	STL-14141	07/01	N/A	N/A	\$350,000
Hennepin and Ramsey Counties, NM	DEN-13740	07/01	N/A	N/A	\$880,954
Affiliated Tribes of Northwest Indians, WA	STL-14142	08/01	N/A	N/A	N/A
City of Lubbock, TX	DEN-13742	09/01	N/A	N/A	\$1,271,250
Cumberland Plateau Planning District Commission, VA	ATL-14220	09/01	N/A	N/A	\$503,417
Gulf Coast Economic Development District, TX	ATL-14300	09/01	N/A	N/A	\$500,000
Eastern Oklahoma Development District	ATL-14301	09/01	N/A	N/A	\$350,000
Miami Area Economic Development Service, Inc., OK	ATL-14299	09/01	N/A	N/A	\$265,250
Town of Jonesborough, Tennessee, and Storytelling Foundation International	ATL-13966	09/01	N/A	N/A	\$434,218
City of Magnolia, AR	DEN-13739	09/01	N/A	N/A	\$155,091
The Cities of East Chicago, Gary, and Hammond, IN	DEN-14156	09/01	\$37,500	N/A	N/A
Southeast Idaho Council of Governments	STL-14122	09/01	N/A	N/A	\$255,000
Beaumont Redevelopment Agency, CA	STL-14258	09/01	\$159,737	N/A	\$623,484





## Financial-Related Audits Appendix A-3 (Continued)

Agency/Auditee	Number	Date	Questioned Costs	Unsupported Costs	Funds To Be Put to Better Use
<b>NIST</b>					
Sun Company, Inc., PA	DEN-14032	09/01	\$182,633	\$8,185	N/A
Connecticut Technology Associates, Inc.	DEN-13992	09/01	\$529,582	N/A	N/A
Northeastern Pennsylvania Industrial Resource Center, Inc.	DEN-14046	09/01	\$63,256	N/A	N/A
Wisconsin Center for Manufacturing and Productivity, Inc.	DEN-14103	09/01	N/A	N/A	\$641,182

# Processed Reports

## Appendix B



The Office of Inspector General reviewed and accepted 159 financial-related 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	50
Minority Business Development Agency	1
National Institute of Standards and Technology	61*
National Oceanic and Atmospheric Administration	8
National Telecommunications and Information Administration	4
Multiagency	30
Agency Not Identified	5
<b>Total</b>	<b>159</b>

\*Includes 54 ATP program-specific audits.



## Processed Financial-Related Audits Appendix B-1

Agency/Auditee	Number	Date	Questioned Costs	Unsupported Costs
<b>EDA</b>				
City of East Palo Alto, CA	ATL-09999-1-0788	09/01	\$558,217	N/A
Town of Talihina, OK	ATL-09999-1-0799	09/01	\$177,873	N/A
Crawford County Development Corporation, IA	ATL-09999-1-0881	09/01	\$22,708	N/A
Terrebonne Parish Consolidated Government, LA	ATL-09999-1-0914	09/01	\$673,800	N/A
<b>NIST</b>				
E.I. DuPont de Nemours and Company, Engineering Polymers, DE	ATL-09999-1-0195	09/01	\$974,324	\$16,756
Supertex, Inc., CA	ATL-09999-1-0685	09/01	\$23,072	\$145
BCL Computers, CA	ATL-09999-1-0765	09/01	\$60,830	N/A
BusinessBots, Inc., CA	ATL-09999-1-0770	09/01	\$53,214	\$22,540
NonLinear Dynamics Incorporated, MI	ATL-09999-1-0682	09/01	\$305,905	\$301,530
<b>NOAA</b>				
State of Louisiana	ATL-09999-1-0791	09/01	\$71,174	\$71,174

# Definitions: Types of OIG Reviews



## OIG Reviews

### *Audits*

**Performance Audits**—These audits look at 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.

**Financial-Related Audits**—These audits review the Department’s contracts, grants, cooperative agreements, loans, and loan guarantees. They assess compliance with laws, regulations, and award terms; adequacy of accounting systems and internal controls; allowance of costs; and the degree to which a project achieved the intended results.

**Financial Statements Audits**—These audits determine whether a reporting entity’s financial statements are presented fairly in accordance with generally accepted accounting principles, the entity has an internal control structure that provides reasonable assurance of achieving the control objectives set forth by OMB, and 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 as prescribed by OMB.

### *Inspections*

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

**Program Evaluations**—These are in-depth reviews of specific management issues, policies, or programs.

**Systems Evaluations**—These are reviews of system development, acquisitions, operations, and policy in order to improve efficiency and effectiveness. They focus on Department-wide computer systems and other technologies and address all project phases, including business process reengineering; system definition; system development, deployment, operations, and maintenance.



# Acronyms

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A.C.E.	Accuracy and Coverage Evaluation
ACOTR	Alternate Contracting Officer's Technical Representative
A&R	Advances and Reimbursements Program
ATP	Advanced Technology Program
BXA	Bureau of Export Administration
CAMS	Commerce Administrative Management System
CFIUS	Committee on Foreign Investment in the United States
CIO	Chief Information Officer
DAO	Department Administrative Order
EDA	Economic Development Administration
ESA	Economics and Statistics Administration
ESU	Evolutionarily Significant Unit
FAA	Federal Aviation Administration
FMFIA	Federal Managers' Financial Integrity Act
GAO	General Accounting Office
G&B	Gifts and Bequests Fund
GISRA	Government Information Security Reform Act
GPRA	Government Performance and Results Act
GSA	General Services Administration
GWAC	Governmentwide Agency Contract
IA	Import Administration
IG	Inspector General
IT	Information Technology
ITA	International Trade Administration
MASC	Mountain Administrative Support Center
MAF	Master Address File

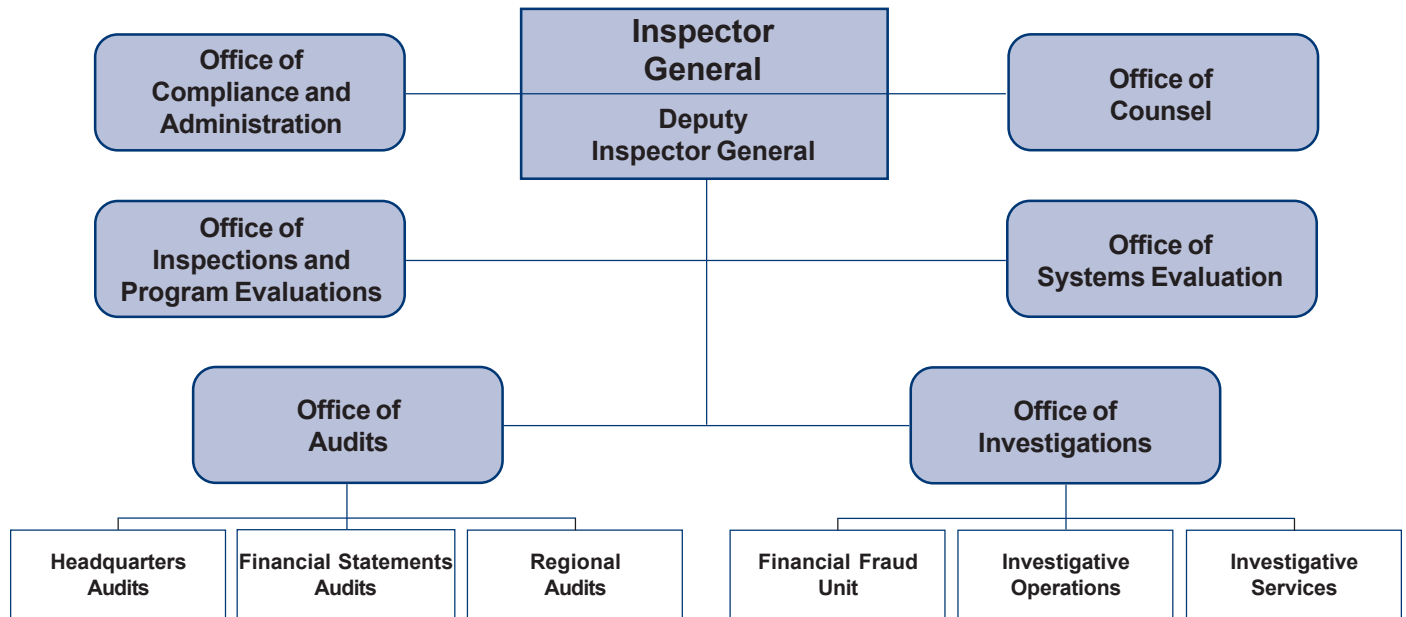
# Acronyms

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MBDA.....	Minority Business Development Agency
MEP.....	Manufacturing Extension Partnership
NESDIS.....	National Environmental Satellite Data and Information Service
NIST.....	National Institute of Standards and Technology
NMFS.....	National Marine Fisheries Service
NOAA.....	National Oceanic and Atmospheric Administration
NTIA.....	National Telecommunications and Information Administration
NTIS.....	National Technical Information Service
NWS.....	National Weather Service
OBL.....	Office of Business Liaison
OCS.....	Office of Computer Services
OGC.....	Office of General Counsel
OHRM.....	Office of Human Resources Management
OI.....	Office of Investigations
OIG.....	Office of Inspector General
OMB.....	Office of Management and Budget
OPM.....	Office of Personnel Management
OSY.....	Office of Security
RLF.....	Revolving Loan Fund
TA.....	Technology Administration
TAAC.....	Trade Adjustment Assistance Center
TIGER.....	Topologically Integrated Geographic Encoding and Referencing
US&FCS.....	U.S. and Foreign Commercial Service
USPTO.....	U.S. Patent and Trademark Office
WCF.....	Working Capital Fund
WFO.....	Weather Forecast Office

# Office of Inspector General Organization Chart



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