

SEMIANNUAL REPORT TO THE CONGRESS



U.S. DEPARTMENT OF COMMERCE
Office of Inspector General

March 31, 2001

IG's Message for the Secretary



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

April 30, 2001

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

Mr. Secretary:

I am pleased to provide you with the Office of Inspector General's semiannual report to the Congress for the first 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 its receipt.

In your initial months as Secretary, I'm sure you have been impressed by the breadth of the Department's important missions and the variety of the issues confronting its managers. This diversity is clearly reflected in our discussion of what we view as the major challenges facing the Department.

Some of the challenges, such as those dealing with export controls, the decennial census, and fishery management, primarily involve one Commerce operating unit. Others, like those related to financial management, information security, and acquisition reform, cut across operating units. But these challenges all have something in common; namely, that they will be met only through strong leadership and a commitment to cooperative action by the Department, the operating units, the OIG, and other stakeholders.

I look forward to working with you and your senior managers to address these challenges and the many other issues facing the Department. I am confident that through a sustained, coordinated effort, we can continue to make substantial improvements in Commerce operations.

Sincerely,

A handwritten signature in black ink that reads "Johnnie E. Frazier". The signature is written in a cursive, flowing style.

Johnnie E. Frazier



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FOREWORD

During this semiannual period, we have continued to direct our work at addressing the top management challenges facing the Department, identifying weaknesses in Commerce programs and recommending needed improvements, and aggressively promoting measures to prevent problems. Among the major audit and inspection reports we recently issued are the following:

- ★ A review of the Commerce trade mission policy, which was developed in 1997 in response to criticism from various parties claiming that political considerations were a factor in the recruitment and selection of private sector participants for trade missions, concluded that the policy has strengthened management of the missions, but that further improvements were needed.
- ★ Our inspection of the Department's information technology security program found that despite a recent increased focus on strengthening security, an earlier neglect of IT security matters created vulnerabilities that jeopardize the confidentiality, integrity, and availability of information and IT resources.
- ★ Another recent report discussed whether the Census Bureau's approach for handling suspected duplicate enumerations in the 2000 Decennial Census was effective in minimizing the impact on the Accuracy and Coverage Evaluation operation, the statistical survey of a sample of the population whose results are used to measure the accuracy of the decennial counts.
- ★ In the latest of a series of congressionally mandated annual reviews of the effectiveness of U.S. export controls, we identified ways to strengthen BXA's management of the Commerce Control List, an important tool that businesses use to determine whether they need to apply for export licenses.
- ★ A review of ITA's on-line delivery of export promotion information and services found that the agency had made considerable progress in making its web presence more user-friendly, but that a number of weaknesses still needed to be addressed.
- ★ In reviews that examined cooperative research and development agreements that two Commerce bureaus—NOAA and NIST—entered into with private firms, we concluded that such arrangements should be better scrutinized to ensure that they are not unfairly competing with or duplicating products or services available in the marketplace.

Through reviews such as these, we strive to identify the key issues facing departmental programs and ensure that management attention is focused where it is most needed and prompt actions are taken to correct existing problems and avert new ones.

MAJOR CHALLENGES FOR THE DEPARTMENT

In pursuing its programs and missions, the Department of Commerce is faced with a number of problems, concerns, and difficult issues, including some that we view as major management challenges. In this section, we highlight what we consider to be the Top 10 Management Challenges facing the Department at the close of this semi-annual period.

We have identified these issues as the top 10 challenges because they meet one or more of the

following criteria: importance to the Department's mission or the nation's well-being, complexity, sizable expenditures, or need for significant management improvements. Given the diverse nature of Commerce activities, a number of these challenges cut across bureau and program lines. We believe that, by addressing these challenges, the Department can enhance program effectiveness, eliminate serious operational problems, decrease vulnerability to fraud and waste, and achieve substantial savings.

Top 10 List

- 1. Successfully implement a Department-wide financial management system**
- 2. Strengthen Department-wide information security**
- 3. Successfully implement USPTO's transition to a performance-oriented organization**
- 4. Increase the accuracy and control the cost of the 2000 Decennial Census**
- 5. Address the issues regarding NTIS's mission and financial viability**
- 6. Enhance export controls for dual-use commodities**
- 7. Increase the effectiveness of fishery management**
- 8. Continue to improve the Department's strategic planning and performance measurement in accordance with GPRA**
- 9. Strengthen financial management controls in order to maintain a "clean" opinion on the Department's consolidated financial statements**
- 10. Successfully implement acquisition reform initiatives**

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Successfully Implement a Department-Wide Financial Management System

The Department has long been working to develop and implement a single, integrated financial system that is in compliance with OMB requirements. For more than 10 years, Commerce's lack of such a system has been of great concern to us and others and has been reported as a material internal control weakness in the Secretary's annual reports to the President under the Federal Managers' Financial Integrity Act.

To correct this weakness, Commerce began planning for the acquisition and development of a Department-wide financial system in 1992 and awarded a contract for a federal accounting software package and development services in 1994. However, development of the Commerce Administrative Management System (CAMS) progressed slowly, in part because of the contractor's inability to produce an accounting package that met Department requirements.

In 1997 the Department released the original contractor, took responsibility for the accounting package, and hired a different contractor to reprogram the software to meet Commerce's requirements. In FY 1998, to address continuing cost growth and schedule delays, the Department reduced the functionality of CAMS (calling it core CAMS), revised the implementation strategy, and reorganized the project management structure.

The revised strategy called for pilot implementation and testing of core CAMS at the Census Bureau before implementing it at NOAA, NIST, and the operating units cross-serviced by NIST. The Census CAMS pilot implementation was completed in June 1998. An independent verification and validation review of the pilot, performed by a consulting firm, concluded that core CAMS would meet departmental requirements and was as good as or better than financial management systems that had been implemented at other large federal agencies.

The Department's current plan is to complete implementation at the various Commerce operating units serviced by NIST by the end of FY 2001, at NOAA by October 2002, and at NIST by October 2003. The Department-wide financial database (Corporate Database) is scheduled for completion this calendar year and is expected to give the Department the capability to generate consolidated financial statements, as required by OMB, for FY 2001. The Department intends for all 14 of its reporting operating units to be using financial management systems that are compliant with OMB requirements and integrated with the Corporate Database by FY 2004.

During this semiannual period, we surveyed the Department's overall management of the CAMS program and suggested actions that it should take to gain better control of the program. We believe, and the Department also recognizes, that the Office of the Secretary, under the leadership of the Chief Financial Officer and Assistant Secretary for Administration, needs to take a more prominent role in managing the program to ensure that Commerce's goals for CAMS are met. Specifically, we have identified the need for the Department to:

- ★ Review its authority and the resources it has available to manage the CAMS program.
- ★ Develop an integrated master program plan to better define, prioritize, standardize, and control its CAMS-related work.
- ★ Develop a management control system for tracking work against budget and schedule.
- ★ Improve the CAMS Support Center's process for developing software.
- ★ Review the Support Center's staffing to ensure that the center has the right number people with the right mix of skills.

- ★ Complete the Corporate Database by December 2001, consistent with the current schedule.
- ★ Review the CAMS distributed operating approach to assess its efficiency and economy.

We are currently conducting a review of the administration and management of the two principal CAMS contracts. We will report on our review results during the next semiannual period. Until the Department is in compliance with the OMB requirements for a single, integrated financial system, we will view the CAMS effort as a major challenge warranting the close attention of senior officials and continued oversight by our office.

Strengthen Department-wide Information Security

Numerous interconnected, widely distributed computer systems support vital Commerce operations and provide essential services to the public. As the Department's systems have become more widely distributed and interconnected, security vulnerabilities have also increased, creating a need to improve procedural and technical security measures. Effective computer security is critical for protecting the secrecy and privacy of information, the integrity of computer systems and their networks, and the availability of services to users.

In March 2001, we completed a review of the effectiveness of the CIO's policy and oversight of the Department's IT security program (see page 69). We found that the IT security policy needs to be updated and that additional procedures for ensuring compliance with the policy need to be implemented.

The Department's security policy was developed before the security-related portion of OMB Circular A-130, *Management of Federal Information*

Resources, was significantly revised in 1996. Moreover, it has not kept pace with recent trends in technology usage and related security threats. Because it is the foundation of the security policies of its operating units, the Department's security policy must be current and complete.

Although the CIO has recently made significant improvements in ensuring compliance with OMB's IT security policy, departmental oversight was minimal for several years. As a result, IT security for many of the Department's systems has not been adequately planned, and security reviews have not been performed. In addition, several operating units do not have adequate security awareness training programs or adequate capabilities for responding to IT security lapses.

The audits of the Department's FY 2000 financial statements included systems security reviews of Commerce's financial management systems and their related networks. These reviews used as a guide GAO's *Federal Information System Controls Audit Manual* and included intrusion detection analysis—also called penetration testing—of selected bureaus. The GAO Manual provides guidance on assessing the reliability of computer-generated data that supports financial statements, including physical security and logical access controls designed to prevent or detect unauthorized access or intrusion into systems and networks.

In the report on our audit of the Department's FY 2000 Consolidated Financial Statements, we noted that these systems security reviews disclosed weaknesses in controls over major financial management systems at the seven locations that provide data processing support (see page 71). Specifically, these reviews found that:

- ★ Entity-wide security program planning and management need improvement at five locations.

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- ★ Access controls for both operating systems and the financial management systems need strengthening at all seven locations, and monitoring of external and internal access to systems needs strengthening at four locations.
- ★ Application software development and change control need improvement at two locations.
- ★ System software improvements are needed at two locations.
- ★ Duties and responsibilities need to be segregated at three locations.
- ★ Contingency plans and/or disaster recovery plans need to be prepared, updated, or improved at four locations.

We issued audit reports with recommendations to correct the control weaknesses identified at each of the seven data processing locations. Responsible entities are required to prepare audit action plans to address each of the recommendations.

As required by the Government Information Security Reform Act, we are performing the annual evaluation of the Department's information security program and practices. This evaluation is using information from our own security reviews, as well as the results of related evaluations performed by bureaus, agencies, GAO, and contractors.

Successfully Implement USPTO's Transition to a Performance-Oriented Organization

The American Inventors Protection Act of 1999 (P.L. 106-113) established the U.S. Patent and Trademark Office as a performance-oriented

organization, providing it with greater flexibility and independence to be run more like a business. As such, USPTO has increased authority and responsibility for decisions regarding the management of its operations and exercises greater control over its budget allocations and expenditures, personnel decisions and processes, and procurement operations. USPTO's transition to a performance-oriented organization officially began last year.

Despite the act's potential benefits, the transition is a formidable undertaking. USPTO must formulate the necessary personnel, procurement, and administrative policies and develop a performance-oriented process and standards for evaluating cost-effectiveness, while meeting its performance goals under GPRA. USPTO management views the passage of the act and the successful transition to a performance-oriented organization as critical in addressing three primary challenges, which have been the subject of OIG reviews in recent years.

First, USPTO has experienced a massive increase in patent and trademark filings and appeals, leading to the hiring of hundreds of new examiners and administrative judges. In FY 2000, USPTO received more than 293,000 patent applications and 375,000 trademark applications, representing 12-percent and 27-percent increases, respectively, over FY 1999, and continuing a trend of double-digit percentage increases in recent years. To address this increased workload, USPTO hired 1,173 patent examiners and 210 trademark examiners during FY 1999 and 2000. However, during that same period, the agency lost 801 patent examiners and 108 trademark examiners through attrition.

In prior audits of the Office of Patent Publications and the Board of Patent Appeals and Interferences, we reported on some of the challenges facing USPTO in hiring and training examiners and additional administrative judges to hear examination appeals. USPTO's status as a performance-oriented organization will allow it greater flexibility to design performance and retention programs with

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incentives for these highly skilled employees, who are often recruited by private sector firms. According to USPTO management, the transition to a performance-oriented organization will enable it to more efficiently manage its resources and make the rapid decisions needed to process the increased number of patent and trademark filings and appeals in a timely manner, while maintaining high quality.

Second, as it moves through this transition, USPTO, along with the General Services Administration, will also face the challenge of overseeing one of the largest real estate ventures that the federal government will undertake in this decade—the construction of USPTO's new 2.4 million-square-foot, five-building office complex in Alexandria, Virginia. When completed in 2004, the new complex will provide space for USPTO employees and operations now scattered among approximately 18 buildings in nearby Crystal City.

Now that the General Services Administration has awarded the construction contract, USPTO's challenge is to aggressively hold the line on project costs, including remaining within the legislatively mandated cap on the cost of completing the build-out of the building's interior once the structure is in place. Construction is scheduled to begin once the city of Alexandria has approved the project plans, in August or September 2001. We plan to monitor the project during construction in order to stay abreast of USPTO's project management and the cost control measures it plans to put in place for the building structure, interior build-out, and new furniture.

Third, USPTO continues to face significant challenges in delivering essential information technology capabilities. With its increased focus on operational efficiency and the new provisions requiring information technology solutions, the 1999 legislation has intensified the demands placed on automated systems and further strained the organization's ability to deliver systems.

We recently completed an evaluation of the implementation of USPTO's new search system (see page 54). We found that the system performed poorly when it was first put into operation, providing slow response times and crashing frequently. Although USPTO management responded quickly to resolve many of the problems, this experience illustrated why it is essential for the organization to improve its systems development process.

USPTO recognizes this and has begun implementing many of our recommendations, including (1) developing a life-cycle metrics process for evaluating program progress and system quality; (2) changing requirements development procedures to improve the quality of requirements specifications; (3) strengthening test procedures; (4) increasing end users' involvement early and throughout the system life-cycle; and (5) providing additional opportunities for end-user training. These actions should lower system development costs, improve system quality, and promote end user acceptance of new systems in the future.

Increase the Accuracy and Control the Cost of the 2000 Decennial Census

On December 31, 2000, the Census Bureau released the nation's population count: 281,421,906. This number resulted from the information collected when approximately 77 million households returned their census forms and approximately 42 million households were subsequently visited by enumerators to collect census information. Having a reliable population count is of enormous importance to the Congress and the Administration, as well as the various state governments and local communities, because, among other things, it is the basis for determining how many seats each state will have in the House of Representatives and for developing state redistricting plans.

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As part of the census design, the bureau embarked on a program referred to as the Accuracy and Coverage Evaluation (A.C.E.) to sample the population of the United States in an attempt to measure the potential undercount and overcount in the decennial and, if appropriate, increase the accuracy of the counts through statistical adjustment for redistricting purposes. However, on March 1, 2001, the Acting Director of the Census Bureau, in consultation with the bureau's Executive Steering Committee for A.C.E. Policy, recommended against using statistically adjusted numbers for redistricting, and on March 6, 2001, the Secretary announced that the unadjusted data would be released as the official redistricting data.

According to the Acting Director, the committee reached this recommendation because it was unable to conclude, based on the information available and within the time available before the statutory deadline, that the adjusted data would be more accurate than the unadjusted data. The primary reason for arriving at this conclusion was the disparity in population growth estimates from two sources: the recently completed A.C.E. and the ongoing demographic analysis. The bureau is continuing to study the inconsistencies between the demographic analysis estimates and the A.C.E. estimates and plans to release the results of the study by the end of 2001.

During this semiannual period, we evaluated the bureau's handling of suspected duplicate enumerations in the decennial as they may have affected the A.C.E. (see page 32). As the decennial progressed, the bureau became increasingly concerned about address duplication and developed a process to resolve the problem, with the goal of producing more accurate apportionment numbers. However, the bureau concluded that there was not enough time to resolve the status of the suspected duplicates before the census results were needed for the tightly scheduled operations of the A.C.E. and decided to remove all suspected duplicates from A.C.E. processing.

After the bureau determined which of the suspected duplicates to remove from the decennial, it incorporated the remaining records into the final A.C.E. calculations using the bureau's established approach for dealing with late census data. According to the bureau, treating the reinstated records as late data introduced little or no error into the A.C.E. results if certain assumptions held true. We were concerned about the validity of the assumptions; however, the bureau subsequently satisfied our concerns by performing various analyses, which it discussed in its reports supporting the adjustment recommendation.

We have made oversight of the decennial one of our top priorities over the past several years. Since 1998, for example, we have issued some two dozen audit and inspection reports on various aspects of the bureau's decennial efforts and have made numerous recommendations aimed at helping to improve the accuracy of the decennial and control its cost. We have also actively monitored the bureau's actions to address our recommendations.

Although we are continuing to address remaining decennial-related issues as the 2000 decennial draws to a close, the enormous operational challenges of the decennial have been met, and this issue is receding as a top management challenge for the Department. Because of the tremendous difficulties and high cost of the just-completed census, the bureau is planning to significantly change its approach to the 2010 decennial. We intend to monitor this effort and, more importantly, work with the bureau, the Department, and the Congress to ensure that the many important lessons of the current decennial are not overlooked in planning for 2010.

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Address the Issues Related to NTIS's Mission and Financial Viability

In recent years, questions have been raised about NTIS's role and mission in the 21st century and whether it will be able to remain self-supporting as currently required. Partly as a result of actions taken in response to previous OIG reports that focused on NTIS's serious financial problems, the agency is now financially solvent and expects to record a net profit of more than \$1 million for FY 2001. However, questions concerning its role and mission in the 21st century remain.

A working group of senior Commerce officials proposed closing NTIS by the end of FY 2000 and transferring its collection of scientific, technical, business, and engineering publications to the Library of Congress to ensure permanent public access to such documents. However, due to congressional concerns, the closure was delayed pending the outcome of both a GAO review of NTIS's functions and a comprehensive study by the U.S. National Commission on Libraries and Information Science of the federal government's information dissemination activities.

The Library Commission released its study on January 26, 2001. Although the majority of Commission experts believed that NTIS's fundamental mission remains valid, they concluded that the agency needs a new vision and business model to provide for expanded public access to its information and annual appropriations to help pay for the associated costs. The Commission also concluded that NTIS's focus should be on its statutory mission of acquiring, preserving, and disseminating federally sponsored science, technology, and engineering information, noting that the agency has expanded the scope of its coverage well beyond that primary mission in order to remain self-sustaining.

While NTIS no longer faces an immediate financial crisis, questions concerning its role and mission and its ability to continue to support itself as currently authorized still exist. Accordingly, we believe that the current management challenge is to ensure that the Department continues working on the broader policy issues that face NTIS.

Enhance Export Controls for Dual-Use Commodities

The United States controls the export of certain goods and technologies for national security and foreign policy purposes. Within Commerce, the Bureau of Export Administration issues licenses authorizing the export of certain dual-use commodities—goods and technologies that have both civilian and military uses. The adequacy of controls for dual-use commodities is a subject of continuing controversy, generating a wide range of opinions 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 not to unduly hamper U.S. trade opportunities and competitiveness. Striking this balance can pose a significant challenge.

New comprehensive legislative authority is needed to replace the Export Administration Act of 1979 and implement effective export control policies in order to strengthen the federal government's export licensing and enforcement process. The act was passed during the Cold War primarily to help block the export of critical goods and technologies to Communist bloc countries for national security reasons. In the post-Cold War era, there are new threats to U.S. national security and foreign policy goals posed by rogue countries and terrorist groups who seek to acquire weapons of mass destruction and weapon delivery systems.

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A comprehensive revision of the act is also needed to demonstrate that the United States is firmly committed to maintaining strong export controls, as it encourages other countries to do the same, by strengthening BXA's regulatory authority and penalties, which have been weakened under interim export control regulations.

Given the importance of export licensing controls to national security, we have devoted considerable attention to the challenges facing BXA in controlling exports of dual-use commodities. In 1993 we participated in a special interagency review of export licensing processes for munitions and dual-use commodities. The 1993 report highlighted the need for more transparency in the dual-use export licensing process. To meet this need, in 1995 the President issued Executive Order 12981, which expanded the authority of the Defense and State Departments and other involved federal agencies to review all export license applications.

In October 1998, at the request of the Chairman of the Senate Governmental Affairs Committee, the OIGs of the Departments of Commerce, Defense, Energy, State, and the Treasury, and the Central Intelligence Agency, undertook a follow-up review to evaluate the status of actions taken to implement the recommendations from the 1993 review. We also evaluated the effectiveness of the Department's current policies, procedures, and practices for licensing dual-use commodities. In our report, issued in June 1999, we stated our conclusion that the multi-agency export licensing process for dual-use commodities is balanced and attempts to bring divergent policy views and information to bear on decision-making for export licenses.

While our follow-up review identified significant areas of improvement in export controls since the 1993 review, it also found that some weaknesses in the licensing process identified in the earlier review still needed to be addressed. Specifically, we found that (1) more transparency was needed in the commodity classification and license appeals

processes, (2) the intelligence community was not reviewing all dual-use export license applications or always conducting a comprehensive analysis of applications it did review, (3) license applications needed to be screened against a key database maintained by the U.S. Customs Service, (4) BXA needed to improve its monitoring of license conditions with reporting requirements, and (5) BXA needed a new automated system to process export license applications efficiently and effectively.

The National Defense Authorization Act for FY 2000 directed the same six OIGs to report to the Congress by March 30, 2000, and annually until the year 2007, on the adequacy of current export controls and counterintelligence measures to prevent the acquisition of sensitive U.S. technology and technical information by countries and entities of concern.

In response to the first-year reporting requirement, each OIG reviewed selected aspects of its agency's export controls and counterintelligence measures and reported on the results. Two interagency reports highlighting cross-cutting issues among federal agencies were also prepared. Our report focused on three activities that the Commerce Department, principally through 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 the Committee on Foreign Investment in the United States.

To meet the act's second-year requirement, a recently completed interagency OIG review 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 page 16). Our review looked at BXA's policies and procedures for the design, maintenance, and application of the Commerce Control List. Specifically, our objectives were (1) to examine how the Commerce list is managed, including whether it is user-friendly and how commodities and technologies are

added to or removed from it; (2) to determine whether there is still a need for greater transparency in BXA's commodity classification process, as stated in our June 1999 export control report; and (3) to determine whether there is a need for more transparency in State's commodity jurisdiction process. Our report on the Commerce Control List and the multi-agency OIG report on the Commerce list and the Munitions List were issued in March 2001.

However, the challenge continues for BXA, as well as for the Administration and the Congress, to pass a comprehensive revision of the Export Administration Act and to focus the federal government's licensing and enforcement efforts on targeting those exports that present the greatest proliferation and national security risks and on relaxing or eliminating controls that unnecessarily hamper trade. Through our export control reports, we hope to play a useful role in congressional and public debates on the reauthorization of the Export Administration Act and the revamping of the nation's export controls. 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 for FY 2000.

Increase the Effectiveness of Fishery Management

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 NOAA's National Marine Fisheries Service (NMFS) and eight regional fishery management councils under the Magnuson-Stevens Fishery Conservation and Management Act of 1976, as amended, the Marine Mammal Protection Act of 1972, the Endangered Species Act of 1973, and other legislation. Among other things, NMFS and the councils track the condition of fish and other marine species, determine the levels of catch that will provide the greatest benefit to the nation, and

measure the economic impact of fishery regulations and policies. Measures to manage various species are generally developed by the councils, subject to review by NMFS and approval by the Secretary of Commerce. These measures are often controversial because they impose fish quotas that affect both 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 certain species protected under the Endangered Species Act. These include both marine and 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 that have been listed for protection under the Endangered Species Act.

In its Federal Columbia River Power System 2000 Biological Opinion, NMFS set performance standards and recovery actions that guide the operations of 29 federally owned dams. These guidelines are incorporated in the Basinwide "All-H" Salmon Recovery Strategy issued by the Federal Caucus in December 2000. The strategy covers areas essential to recovery—harvest, hatcheries, hydro power, and most importantly, habitat. NMFS will assess the implementation of each of these strategy 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.

When the Basinwide Salmon Recovery Strategy was issued, we were in the process of completing a review of certain aspects of NMFS's role in the Columbia River Basin recovery effort. While NMFS has helped move the Federal Caucus

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toward a comprehensive strategy of coordinated ecosystem management, we believe, as reported to NMFS in a management memorandum, that NMFS needs to (1) complete detailed recovery plans for each Evolutionarily Significant Unit, which is a segment of a species that is reproductively isolated and contributes substantially to the species' genetic diversity, and (2) strengthen its collaboration with federal agencies, states, tribes, and other stakeholders in fulfilling its responsibilities under the Endangered Species Act.

With regard to the recovery plans, NMFS needs to ensure that they include site-specific management actions, estimates of the time and cost needed to carry out the actions, and objective, measurable criteria that, when met, will result in the Evolutionarily Significant Units being removed from the endangered or threatened list. With regard to collaboration, many stakeholders in the salmon recovery effort, including some members of the Federal Caucus, have been critical of NMFS's performance in this area. NMFS needs to carefully assess and, as appropriate, address concerns expressed by stakeholders in strengthening its collaborative efforts.

The importance of fishery management to NOAA and the Department, the sheer complexity of the issue, and the significant resources involved makes this a formidable challenge. We will continue to monitor developments concerning the management and conservation of fisheries for which NMFS has responsibilities under the various acts.

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

The Department continues to make progress in meeting the challenge of how to best plan and measure its performance in accordance with the

Government Performance and Results Act of 1993 (GPRA). The Department submitted to the Congress its revised strategic plan for FY 2000 to FY 2005 in January 2001 and its second Accountability Report, which reports both financial and performance results for FY 2000, in March 2001.

In its FY 2001 Annual Performance Plan and FY 1999 Annual Program Performance Report, the Department made efforts to address concerns raised by the Congress, GAO, and the OIG about its previous GPRA implementation efforts. However, reviews of these documents found that the Department needed to improve its system for scoring and communicating performance results, its description of actions to be taken to address the top 10 management challenges, and its discussion of performance targets not met and efforts to improve performance. Also, in our judgment, the Department needed to continue to take actions to ensure that the data used to measure performance is accurate, complete, and reliable. The Department worked to address these concerns in its combined FY 2000 Annual Program Performance Report and FY 2002 Annual Performance Plan, which were submitted to the Congress after the close of the semiannual period.

We have regularly provided advice and assistance to the Department on the implementation of GPRA, as well as on the linkage between the act's required performance reporting and the financial reporting contained in the annual financial statements. As part of an incremental approach to reviewing the Department's performance data, we also have issued reports offering recommendations for improving the reporting of performance information and, more recently, for strengthening internal controls at two Commerce bureaus. In addition, we have made presentations to departmental officials on the importance of ensuring that the information related to performance results can be relied upon, and have provided comments and suggestions on various planning and reporting documents prepared in support of GPRA.

We worked with the Department to ensure that its Accountability Report for FY 2000 contained a statement of net cost that accurately reflected the Department's activities and a management discussion and analysis that contained required information and reported its most significant performance results. Our audit of the Department's FY 2000 financial statements included an evaluation of the consistency between the Accountability Report and the revised Strategic Plan. We also ensured that performance data contained within the report were subjected to basic review procedures. In our Report on Compliance with Laws and Regulations, we noted that the Department had failed to submit its revised strategic plan by the date required by GPRA and OMB.

We will continue to monitor the Department's efforts to implement GPRA, provide advisory comments on GPRA-related documents, and, where resources permit, perform targeted reviews of GPRA-related issues. A major challenge for the Department is to ensure that concerns raised about its initial annual performance report and its prior annual performance plans are addressed in its combined FY 2000 performance report and FY 2002 performance plan. While the Department has been responsive to past criticisms of the documents it has produced to meet GPRA requirements, continued management attention is needed to produce further improvements in performance planning and reporting.

Strengthen Financial Management Controls in Order 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 the

financial management practices of federal agencies. The statutes require audited 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.

Despite continuing obstacles—including the absence of a single, integrated financial management system—the Department received its second unqualified (clean) opinion on its FY 2000 consolidated financial statements (see page 69).

Although substantial improvements have been made in financial management, further improvements are essential in order for the Department and its reporting entities to correct the material weaknesses and other deficiencies identified in the audits of the FY 2000 statements and to maintain their clean opinions in future years. 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.

The audits of the FY 2000 statements identified six material weaknesses, seven reportable conditions, and several instances of noncompliance with laws and regulations that need to be resolved, of which three material weaknesses, three reportable conditions, and one instance of noncompliance were new matters. Despite the decrease in the total number of deficiencies from previous years, they still represent obstacles that the Department must overcome to avoid jeopardizing future clean opinions.

The Department recognizes that ongoing efforts are needed to create a financial management environment that provides timely, accurate financial and performance information and complies with federal laws and regulations, and we are pleased with the Department's continued focus on strengthening financial management controls. However, maintaining clean audit opinions on Commerce's

IG's Message for the Congress

consolidated financial statements, as well as on all reporting entity statements, remains a major challenge.

Successfully Implement Acquisition Reform Initiatives

The Department of Commerce and other federal agencies are increasingly relying on contractors to provide the goods and services essential to their operations. The Department spends more than \$1 billion each year, or about one-quarter of its annual appropriations, through large contracts and other procurement vehicles.

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

The Federal Acquisition Reform Act of 1996 provided for governmentwide acquisition reform, including the repeal of the Brooks Act (which covered automated data processing procurements); shortened the time allowed for GAO to issue bid protest decisions; and revised the Procurement Integrity Act. The Information Technology Management Reform Act of 1996 emphasized results-based acquisition and life-cycle management of information technology as a capital investment. These two laws were subsequently combined and renamed the Clinger-Cohen Act of 1996.

Although these new laws aim to promote greater efficiency and uniformity in procurement practices among government agencies, GAO has reported some concerns about the implementation of acquisition reform, including problems with the use of government-wide agency contracts (GWACs). The

Office of Federal Procurement Policy, within the Office of Management and Budget, has also expressed concerns about the use of GWACs and other multiple award contracts, as well as about service contracting, criticizing in particular many agencies' lack of focus on results. For FY 2002, OMB has directed all agencies to include in their performance plans the goal to award not less than 20 percent of service contracting dollars using performance-based methodology. Likewise, we have identified specific problems at Commerce concerning improper use of task order contracts, inadequate documentation of market surveys, insufficient planning for contract administration and monitoring, and inadequate administration of the purchase card program (see, for example, pages 48 and 59).

The Department has actively participated in the implementation of acquisition reform. Commerce developed a streamlined acquisition process known as CONOPS, which has reduced procurement lead times. In addition, performance-based service contracting was used in acquisitions for the 2000 Decennial Census. The Department also awarded the Commerce Information Technology Solutions contract (known as COMMITTS), the only GWAC for information technology services set aside for small, disadvantaged, and women-owned businesses.

The laudable purpose of acquisition reform and its streamlining initiatives is to reduce the time and money spent in acquiring needed goods and services. At the same time, the new focus on considering past performance in awarding contracts, including the use of performance-based service contracting, requires innovative approaches in monitoring contractor performance, including the use of performance-based measurement tools, such as earned value and risk management. It also requires acquisition teams (including the contracting officer and the contracting officer's technical representative) to develop specialized business management skills. Given the general concerns expressed by GAO and the Office of Federal Procurement Policy, and the specific concerns identified by our office, we believe that suc-

Successful implementation of acquisition streamlining initiatives within the Department of Commerce remains a major challenge and warrants extra scrutiny.

In recognition of the challenges facing acquisition reform and our concerns, the Department's Senior Procurement Executive briefed us in January on the risk management program being executed by the Office of Acquisition Management concerning several of the office's initiatives, including the ongoing implementation of acquisition reform initiatives, automation of the Department's procurement process, priority emphasis on career development for contracting employees, partnering with the Department's Chief Information Officer and the Budget Officer to integrate the budgeting and planning activities for information technology acquisitions, and oversight and performance measurement of acquisition activities. The Office of Acquisition Management has initiated a review of how the Department is using the General Services Administration Schedule and GWACs. We will periodically review the results of these initiatives.



Bureau of Export Administration

The **Bureau of Export Administration** is primarily responsible for the administration and enforcement of the nation's system for controlling exports of sensitive dual-use goods and technologies. Under the Export Administration Act and regulations, 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 act and regulations.

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 base activities.

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

Management of the Commerce Control List and Related Processes Should Be Improved

The National Defense Authorization Act for Fiscal Year 2000 directed the OIGs of the Departments of Commerce, Defense, Energy, State, the Treasury, and the Central Intelligence Agency, in consultation with the Federal Bureau of Investigation, to assess the adequacy of export controls and counterintelligence measures to prevent the acquisition of militarily sensitive U.S. technology and technical information by countries and entities of concern. The OIGs are mandated to report to the Congress by March 30 each year until 2007.

For the current year, the Commerce, Defense, Energy, and State OIGs conducted an interagency review of the Commerce Control List and the U.S. Munitions List. The Control List, maintained by BXA, specifies the commodities, software, and technology that are subject to the Export Administration Regulations, as well as the controls that are placed on these items, depending on the country to which they are to be exported. Each item on the Control List is grouped by type of commodity and assigned an Export Control Classification Number (ECCN). The Munitions List, administered by the State Department, specifies items subject to the International Traffic in Arms Regulations. Businesses use both lists to determine whether they need to apply for an export license for items they want to export.

The Commerce OIG review focused on BXA's policies and procedures covering the design, maintenance, and application of the Control List. Specifically, we examined how the Control List is managed and determined whether there is a need for greater transparency in BXA's commodity classification process and in State's commodity jurisdiction process. Our observations are as follows:

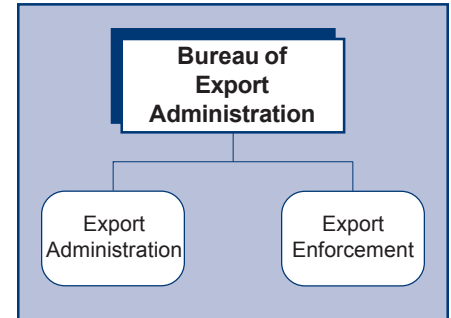
Improvements Are Needed in BXA's Management of the Control List

We found several areas in which BXA could improve its management of the Control List:

- ★ BXA has taken a long time—from 6 months to over a year—to update the Control List with changes agreed to at meetings of the multilateral regimes to which the U.S. government belongs.

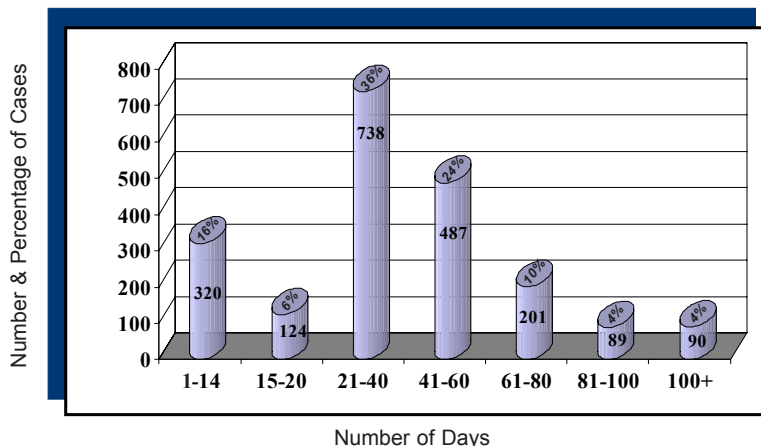


- ★ Some items covered by several ECCNs are being included on the Control List for national security reasons, yet they are not controlled by the multilateral regime from which the largest number of ECCNs are derived. BXA generally does not have the authority to unilaterally impose national security controls for items not controlled by the multilateral regimes.
- ★ While numerous users we spoke with reported that the Control List was easier to use than the Munitions List, they cited many examples of how it could be made easier to navigate, such as by removing some outdated terminology from the list.



The Commodity Classification Process Continues to Cause Concerns

Through the commodity classification process, BXA advises exporters on whether an item is subject to the Control List and, if so, which ECCN it falls under. In a 1999 export licensing review (see September 1999 issue, page 17), we identified two weaknesses in the process: (1) the processing of classification requests was too slow, a problem that could delay U.S. exporter shipments, and (2) the process was not transparent (that is, visible to all involved parties) because BXA was not referring all munitions-related classifications to Defense and State, thereby creating the potential for incorrect classifications. Our current review found that slow processing was still a problem, as 84 percent of the classification requests processed in FY 2000 exceeded the legislatively mandated deadline of 14 days (see figure below). Moreover, while BXA agreed in 1999 to develop specific criteria and procedures for the referral of munitions-related classifications, it has not yet done so.



Processing Time for Commodity Classification Requests (FY 2000)

Source: BXA Office of Administration

Commodity Jurisdiction Process Needs Improvement

Exporters who need assistance in determining whether an item is subject to the Munitions List can request a commodity jurisdiction determination from the State Department, which has export licensing jurisdiction for items on that list. As part of its review process, State is to refer all such requests to BXA and Defense to obtain their views about whether the item involved is covered by the Munitions List or the Control List. We found that, contrary to 1996 National Security Council guidance, the determination requests are not being processed in a timely manner by any of the involved agencies. In addition, these requests are being processed manually, which inhibits the efficient exchange of information between agencies. Finally, we are concerned that State may be making incorrect determinations because it does not always consult with BXA or Defense.

Other OIG Concerns Related to the Commerce Control List

Our review revealed a breakdown in the interagency process for resolving jurisdictional disputes involving night vision equipment and “space qualified” items, which are used in satellites and other high-altitude systems. The issue concerning the night vision equipment is whether it should be licensed as a dual-use item by BXA, as was agreed to by the licensing agencies in a 1992 memorandum of understanding, or licensed by State as munitions. Because the agencies have been unable to resolve this issue, license applications are being delayed, and exporters are confused as to which agency they should be dealing with. Moreover, BXA and State disagree about which of them has jurisdiction for certain space qualified items currently on the Control List. The National Security Council, which was tasked with resolving this dispute, was expected to rule in May 2000, but had not done so as of March 2001.



We made a number of recommendations to BXA to address our concerns. BXA generally agreed with those related to the Control List, but did not agree with most of those related to the commodity classification process. BXA’s position on the latter recommendations is troubling because it concurred with similar recommendations we made in a 1999 report, and since that time, neither the timeliness nor the transparency of the process has improved.



BXA agreed with most of our recommendations related to the commodity jurisdiction process, but said that efforts to improve the timeliness of the process were hampered by resource and staffing shortages. We contend that if BXA needs additional staff for this purpose and lacks the resources to fund or reallocate the needed positions, it should justify this need in its budget submissions. BXA also asserted that many of our recommendations should have been addressed to other federal agencies. We maintain that although many of our recommendations require BXA to work in concert with other agencies, BXA is the appropriate agency to initiate our recommended actions. (*Office of Inspections and Program Evaluations: IPE-13744*)

Follow-up Review Determines That Most Prior Year Recommendations Are Being Implemented

In addition to requiring annual reports on the adequacy of U.S. government export controls and counterintelligence measures (see previous section), the National Defense Authorization Act requires us to report annually on the status of recommendations made in earlier reports submitted under the act.

Our report for 2000 focused on three activities that the Department, principally through BXA, carries out or participates in to help prevent the illicit transfer of sensitive U.S. technology: deemed export control initiatives, the Visa Application Review Program, and efforts in support of the Committee on Foreign Investment in the United States (see March 2000 issue, page 21). In that report, we concluded, in general, that deemed export control regulations needed to be better defined and compliance improved, that the Visa Application Review Program showed promise but needed to be refined, and that federal efforts to monitor foreign investment should be reviewed. We made a series of recommendations to address our specific findings.

Our follow-up review determined that for 16 of the 24 recommendations made in our 2000 report, the actions that BXA either was taking or had completed met the intent of the recommendations. However, we reported that BXA's actions for the remaining 8 recommendations, particularly in the deemed export control area, were not adequate. Given BXA's central role in administering the dual-use export control process, we believe that the agency needs to implement the open recommendations as soon as possible. (*Office of Inspections and Program Evaluations: IPE-14246-1*)



Most Allegations Concerning Nonproliferation Export Control Cooperation Program Unfounded

BXA's Nonproliferation Export Control Cooperation (NEC) program was established in 1993 to help Russia and the Newly Independent States develop export control programs by providing them with training and technical assistance on export controls and advice on drafting export control laws and regulations. BXA has since expanded the program to include the support of initiatives that prevent the proliferation of nuclear, biological, and chemical weapons and the diversion of weapons-related scientific and technical information and expertise of the independent states to countries and entities of concern. The State Department is the program's primary funding source, but the Defense Department and the Customs Service have also provided funding.

In December 1999, the OIG received an anonymous letter containing numerous allegations of irregularities in the NEC program, including alleged mismanagement by senior BXA officials. After conducting a review of the matters raised in the letter, we concluded that most of them could not be supported, but that some improvements could be made in BXA's management of the program, as summarized below:

- ★ **Oversight and controls over NEC funds should be improved.** BXA's policy guidance covering funds for official entertainment and representation needs to be clarified and should provide more examples of allowable and unallowable expenditures. In addition, BXA needs to more closely monitor its expenditures of federal funds for NEC conferences and technical exchanges.

- ★ **BXA's agreement with State regarding program activity with China should be modified.** Documentation supporting an interagency agreement between BXA and the State Department mistakenly includes references to BXA's future bilateral and multilateral export control work with China, although there are no plans to conduct such work. BXA should work with State to modify the agreement to exclude China from the list of countries with which BXA will work using State funding.

BXA agreed with all of our recommendations for corrective action and reported that it had already implemented some of them. (*Office of Inspections and Program Evaluations: IPE-13313*)



Audit of FY 2000 Financial Statements

BXA made significant progress in addressing prior internal control deficiencies during FY 2000 and received an unqualified opinion on its financial statements for the third consecutive year. The certified public accounting (CPA) firm conducting the audit did, however, identify one reportable condition, which involved the need to improve controls over undelivered orders. Undelivered orders represent the amount of goods and services ordered by a BXA account from another federal government account or the public, but not yet received. The firm's test of a sample of undelivered order documents identified a number of inaccuracies, which required a corrective adjustment in the financial statements.

In addition, because BXA's accounting transactions are processed on NOAA's automated system, two deficiencies identified in NOAA's system also affect internal controls over BXA's accounting and financial data and resulting reports. Specifically, NOAA's Financial Management System and subsystems do not conform with the Federal Financial Management Improvement Act of 1996, and the auditors determined that these systems do not support the preparation of timely, accurate financial statements.

BXA concurred with the facts, findings, and recommendation contained in the audit report. (*Financial Statements Audits Division: FSD-12848*)



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 recovering from the economic impact of natural disasters, the closure of military installations and other federal facilities, changing trade patterns, and the depletion of natural resources. To accomplish this, EDA provides eligible recipients with technical assistance, as well as grants for public works and economic development, planning, training and research, and economic adjustment.

Financial Assistance Award Programs Would Benefit from More Competitive Procedures

As part of its Department-wide review of Commerce's discretionary financial assistance programs, the OIG conducted an audit of the FY 1997 criteria, procedures, and practices for soliciting, reviewing, and selecting applications for funding under EDA's public works, technical assistance, and other economic development programs.

In FY 1997, EDA received more than 770 proposals from all 50 states, American Samoa, Guam, Micronesia, Puerto Rico, and the District of Columbia and made a total of 657 awards under the five programs covered by our audit, as shown below:

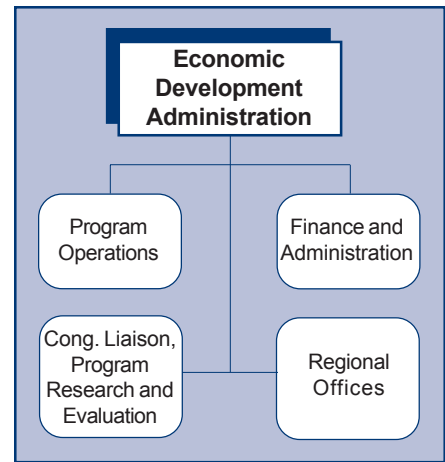
Program	Award	Funding (Millions)
Public Works	190	\$160.2
Technical Assistance	145	11.1
Public Works Impact	8	4.6
State and Local Development Planning	47	3.5
State Economic Development Adjustment Assistance	267	159.8
Total	657	\$339.2

Our audit found that EDA's criteria for reviewing award applications and its procedures and practices for soliciting award recipients generally complied with statutory, departmental, and agency-specific requirements and appeared designed to result in merit-based funding decisions. To evaluate applications for financial assistance, EDA developed and published merit-based technical and public policy criteria that were consistent with its mission and program objectives. In addition, the agency exceeded the Department's minimum requirement for public notice by issuing solicitations and holding six regional conferences for current and prospective applicants that were sufficient to obtain a nationwide response from nearly 800 applicants.



However, we also identified opportunities for improving EDA's procedures and practices. Specifically, we found that EDA:

- ★ Needed to improve its review and selection processes by directing regional project review committees to keep better minutes of their proceedings, retaining for the required 3-year period proposals that are rejected for funding, and ranking competitive proposals for the Technical Assistance Program and the State and Local Development Planning Program.
- ★ Compromised the independence of the regional review process by allowing the regional directors to chair regional review committees and also serve as selecting officials for their regions' awards.
- ★ Awarded certain technical assistance renewal awards without competition and certain noncompetitive awards without adequate written justification.



We made a number of recommendations aimed at improving EDA's documentation of the awards process and promoting greater competition in the review and selection of applications for funding. Although EDA did not fully agree with all of our recommendations, its response indicated its willingness to take actions to significantly improve aspects of its awards processes. (*Denver Regional Office of Audits: DEN-11580*)

Audit of FY 2000 Financial Statements

For FY 2000, the third consecutive year, EDA received an unqualified opinion on its financial statements. While commending the agency for this accomplishment, we also noted that the CPA firm that conducted the audit identified three reportable conditions in EDA's internal control structure, the first of which is deemed to be a material weakness:

- ★ Policies and procedures for the year-end closing and financial statement preparation need improvement.
- ★ Implementation of EDA's financial system caused delays in the year-end closing and financial statement preparation.
- ★ General and environmental controls over automated systems need improvement.



The third reportable condition was identified during a review by the CPA firm of the general controls associated with EDA's information processing environment—specifically, the Commerce Administrative Management System and the Loan Billing and Management System. The firm identified weaknesses in entitywide security program planning and management, access control, segregation of duties, and service continuity. These weaknesses, if not resolved, could adversely affect the security of the data, programs, and hardware maintained at EDA and have a negative effect on EDA's financial statements and those of the Department. The weaknesses, and the firm's recommendations for correcting them, were discussed in a separate report on systems issues.

The firm also identified one instance of material noncompliance with laws and regulations. Specifically, the firm found that the financial system that EDA uses for salaries and expenses does not comply with certain system requirements. Moreover, the financial accounting and reporting system used to process some accounting transactions does not maintain sufficient commonality of data elements and transactions processing to ensure timely, accurate, and effective financial reporting. Although it has made progress in improving its financial management, EDA must continue to address the identified deficiencies, particularly its documentation for the financial statements preparation process.

EDA agreed with the findings and recommendations in both of the firm's reports and reaffirmed its commitment to improving financial systems and internal controls. (*Financial Statements Audits Division: FSD-12851-1 and FSD-12851-2*)

Audits Examine Need for Grants to Recapitalize Revolving Loan Funds

Four OIG audits completed during this semiannual period were conducted largely to determine whether grants awarded by EDA to local economic development organizations to recapitalize revolving loan funds (RLFs) were needed.

Texas Economic Development Organization

A nonprofit economic development organization promotes economic growth in two east Texas counties by assisting local businesses in diversifying the economic base and creating new job opportunities. In September 1992, EDA awarded the organization a \$500,000 grant to establish an RLF. A second grant, also for \$500,000, was awarded in March 1996 to recapitalize the fund.



As of August 2000, more than four years after the second award, the awardee had not drawn down any funds from the recapitalization grant. Our audit of the RLF found that the grantee had not made any draw-downs because the original grant and subsequent loan repayments provided more than enough money to meet the RLF's loan demand. Under federal law and the terms of the grant agreement, any grant funds not disbursed by the end of the fifth fiscal year after the award date—in this case, September 30, 2001—will be automatically deobligated.

Even if a demand for loans were to develop before that date, the grantee would have limited time to adequately evaluate loan applications and ensure that any loans made would be prudent and consistent with program objectives. We therefore recommended that EDA immediately terminate the recapitalization grant and deobligate the \$500,000 in grant funds. In addition, because the organization had failed to follow all EDA and OMB requirements in administering its RLF program, we questioned more than \$34,000 in claimed grant administration costs and recommended that EDA disallow those costs and require the organization to reimburse the RLF in that amount.

Contending that the recapitalization funds would, in fact, be needed, in response to our draft report, the grantee presented information about recent and prospective loan activity, as well as information concerning the reasonableness of the questioned costs. However, because the grantee did not provide a sufficiently detailed explanation of when the loans would be made and the funds would be drawn down or any documentation to support the questioned costs, we reaffirmed our original recommendations. (*Atlanta Regional Office of Audits: ATL-13734*)

Ohio Nonprofit Corporation

A nonprofit organization created to help retain, expand, and attract new business investment in an Ohio county also uses an EDA-funded RLF as a means of accomplishing its mission. In 1987 the organization received a \$650,000 grant to establish the RLF, of which \$480,000 was provided by EDA. In 1996, in response to the grantee's determination that the RLF needed additional capitalization, EDA awarded a \$500,000 recapitalization grant, of which \$250,000 was federal funds.

Again, our audit determined that the grantee had not demonstrated a need for the recapitalization grant. The funds added by the grantee and subsequent loan repayments from the initial grant had provided more than enough money to meet the RLF's loan demand, and as of September 30, 2000, the grantee had not made any drawdowns on the recapitalization grant. In fact, since the grantee had added capital to the RLF before the



award of the second grant, we question whether there was a pressing need for the recapitalization grant in 1996. At any rate, because we projected that the grantee would not need the recapitalization grant funds by September 30, 2001, when all of the funds from the grant would automatically be deobligated, we recommended that EDA terminate the recapitalization grant and recover the \$250,000 in federal funds.

Concurring with our recommendation, the grantee indicated that after it requested the recapitalization grant, higher than expected income from the RLF provided enough funds to operate the RLF so that the recapitalization grant would not be needed. (*Denver Regional Office of Audits: DEN-13741*)

Louisiana Local Government Agency

A Louisiana local government agency uses a federal RLF to promote economic growth in its geographic area by attracting, creating, and retaining quality jobs and by promoting entrepreneurship. EDA awarded the organization a \$500,000 grant to establish the RLF in 1989 and another \$286,686 grant to recapitalize the fund in 1996.

As in the above audits, we concluded that because the original grant and loan repayments provided more than enough money to meet the RLF's loan demand, recapitalization grant funds were not needed. As of June 2000, almost four years after the second grant award, the grantee had not made any drawdowns of the grant's funds, and any of the recapitalization funds not disbursed by September 30, 2001, will automatically be deobligated. Even if a demand for loans should arise before then, the grantee would have limited time to adequately evaluate loan applications. Therefore, we recommended that EDA immediately terminate the recapitalization grant and deobligate the \$286,686 in grant funds.

In response to our draft report, the grantee asserted that it could use most of the grant funds by September 30, and provided a list of prospective borrowers. However, because the grantee did not provide a sufficiently detailed explanation of when the loans would be made and the funds would be drawn down, we did not alter our original recommendation. (*Atlanta Regional Office of Audits: ATL-13214*)



Texas Economic Development District

The objective of an economic development district covering 16 Texas counties is to promote economic growth by assisting in commercial and industrial expansion and providing adequate financing capital for area businesses. Among the district's programs is an EDA-funded RLF. In 1986 EDA awarded the district a \$350,000 grant, which was reduced in 1989 to about \$125,000, to create the RLF. In 1993 and 1996, EDA awarded two additional \$500,000 grants to recapitalize the RLF.

Our audit determined that the repayments from loans funded through the original grant and the first recapitalization grant had provided most of the money needed to meet the district's loan demand. As a result, the district had used only \$210,000 of the \$500,000 second recapitalization grant as of August 2000. In this case, however, we concluded that the district's prospects for making more loans were encouraging, and that it might have a need for the remaining grant funds before they are automatically deobligated on September 30, 2001. Accordingly, we made no recommendations regarding the grant funds.

Our audit also found that because the district did not follow all of EDA's RLF administrative requirements, it submitted inaccurate financial reports and failed to fully document loan files or to ensure that annual audits were correctly performed. We recommended that EDA require the district to correct these administrative deficiencies. (*Atlanta Regional Office of Audits: ATL-13735*)

Audit Confirms Mismanagement, Recommends Termination of Revolving Loan Fund Grant

In 1995 EDA awarded an RLF grant to a regional development organization to assist five flood-distressed counties in Georgia in their recovery from Tropical Storm Alberto. The grant involved \$500,000 in federal funds and required a local match of \$166,667. The OIG conducted an audit of the grant at the request of EDA, which had been alerted to potentially serious problems by an earlier review by the Georgia Department of Community Affairs.

We found that the grantee's management of the RLF had been marked by pervasive problems, poor business judgment, and hundreds of thousands of dollars in inappropriate loans. Our specific findings were as follows:



- ★ As of December 1999, the grantee had awarded six RLF loans totaling more than \$700,000. One loan for \$200,000 was ineligible for funding under the program because it was made primarily to refinance a prior debt; it also involved a possible conflict of interest, as did two other loans, totaling \$220,000. Another loan for \$200,000 was made without adequate documentation to justify the lending decision. In addition, three of the loans, totaling \$420,000, were either in default or seriously delinquent at the time of our review.
- ★ The grantee failed to provide more than \$54,000 of its required matching share.
- ★ The grantee's loan files were lacking numerous required documents.
- ★ The grantee could not demonstrate that it had effectively marketed the RLF program.

Concluding that it was not in the Department's best interest to allow the grantee to continue operating the RLF, we recommended that EDA terminate the grant for cause and require the grantee to refund more than \$575,000, representing the total dollar amount of the RLF award plus interest. (*Atlanta Regional Office of Audits: ATL-12618*)

Utah City Claimed Millions of Dollars of Unallowable Costs

In September 1996, EDA awarded a Title IX Sudden and Severe Economic Dislocation Defense Conversion Grant to a Utah city for the construction of a sewer line from a recently closed Army installation to a new wastewater treatment plant so that the installation could be developed for commercial use. The total approved project cost was \$5,371,000, including a \$2,500,000 federal share. Principal construction funding for the new treatment plant was to be provided by a federal Bureau of Reclamation grant, matched by the proceeds of a loan from the state and a general revenue bond.



As of July 31, 2000, the city had claimed total project costs of roughly \$4.8 million on the EDA grant. An interim OIG audit of the award questioned \$3,416,014 of the costs on the basis that they either duplicated the city's claims under the Bureau of Reclamation grant or were not traceable to supporting documentation. We recommended that EDA disallow the questioned costs and direct the city to remove them from its cost claims. (*Denver Regional Office of Audits: DEN-13104*)

EDA Needs to Closely Monitor Grantee's Progress in Making New Loans

In 1992 EDA awarded a grant to a southern California county agency for the operation of an RLF as part of a larger award made with Department of Defense adjustment moneys to help mitigate the effects of Defense downsizing in the county. The \$1 million RLF grant was designated as a subgrant to a local economic development organization. In 1995, however, recognizing that the RLF was not achieving its intended purpose, the county agency petitioned EDA to have the RLF transferred back to the county. Through no fault of the agency, the transfer was not ultimately effected until 1999, at which time the award balance was \$737,500. At that point, the agency redesignated the RLF as a technology loan program and revised the administrative plan to target high-technology start-ups.

An OIG audit found no significant deficiencies with the RLF project. Nevertheless, we noted that because of administrative delays in the transfer of the RLF back to the county agency, no loans had been made for 4 years. We also raised concerns about whether the RLF could be effectively used under the revised administrative plan because after three loans were made by the agency shortly after the transfer in mid-1999, it was unable to attract viable loan applications. The effective use of the RLF would depend in part on EDA's approving the agency's proposal to explore "equity financing" in addition to traditional debt financing.

After we issued our draft report, there was evidence of increased demand for loans from the RLF, and some loans were being processed. In addition, EDA determined that the RLF is viable under the revised administrative plan and extended the schedule for disbursing the remaining grant funds. We recommended that EDA closely monitor the agency's progress in using the remaining funds, and that, if new loans are not expeditiously funded, EDA deobligate the unused balance of the RLF and put the funds to better use. (*Seattle Regional Office of Audits: STL-13176*)



EDA-Funded Agricultural Facilities in Puerto Rico Found to Be Severely Underutilized

In conjunction with an audit of an RLF in Puerto Rico, the OIG was asked by EDA to review the status of two projects funded by EDA grants to a Puerto Rico government agency—a coffee processing and storage facility and an agricultural exchange and services center, which houses several facilities used to promote and market agricultural goods. In a March 19 management memorandum to EDA, we reported that both projects were severely underutilized and not accomplishing their intended purposes. Specifically, we found that:

- ★ The coffee processing plant had been shut down for almost a year, although many bags of coffee beans were awaiting processing in a building adjacent to the plant. Project officials estimated that the project had been operating at only 30 percent of capacity, but expected an increase in demand for coffee by the end of the year. Officials attributed the low demand to competition from other coffee processors and a large loss of coffee crops due to the devastation caused by Hurricane Georges.
- ★ Several of the facilities of the agricultural exchange and services center had not operated since the EDA grant was awarded in 1993. For example, neither the facility that stores and markets incoming cattle nor the center's cafeteria was being used. In addition, project officials stated that they were using the center's exhibition hall only about 25 percent of the time on weekends for agricultural competitions and exhibitions.

In response to our observations, which we discussed in a March 19 memorandum to EDA, and other EDA concerns, the head of the government agency administering the grants wrote to EDA detailing various actions planned to remedy the underutilization of the agricultural facilities. EDA has requested that the agency submit quarterly progress reports, and has advised us that it will closely monitor the agency's actions.
(Atlanta Regional Office of Audits)



No Major Problems Found with Grantee's Management of Two Revolving Loan Funds

A southern California community development organization, whose mission is to serve low-income distressed communities, was awarded two EDA grants to fund RLFs. The first, awarded in September 1980, was a Long-Term Economic Deterioration implementation grant that provided \$500,000 in EDA funds to capitalize one of the RLFs. The other grant, awarded in September 1994, provided \$5.4 million under the Financial Restructuring Assistance Program to capitalize a second RLF to provide targeted assistance to businesses harmed by the Northridge earthquake, which struck earlier that year.

OIG audits of the grants took no major exceptions to the grantee's loan origination practices, servicing, or accomplishments under the RLFs. We did note some minor problems relating to the capital utilization rate, the level of working capital loans, and various reporting issues.

The grantee agreed with our findings and stated that it had already begun to work with EDA to implement our recommendations. (*Seattle Regional Office of Audits: STL-13178-1 and STL-13178-2*)

Northern California Organization Complied with Grant Requirements

EDA awarded four grants totaling \$8.3 million to a northern California nonprofit corporation, which was established in 1988 to help offset the economic impacts of military base closures and the decline in the defense and aerospace industries in its region. One grant was intended to assist local communities in reducing the impact of 11 military base closures by encouraging the expansion of competitive growth industries and the generation of new jobs. The other three grants were intended to offset the effects of defense downsizing by expanding international trade opportunities and increasing exports in selected industries.

An OIG audit identified no problems with the organization's administration of the grants. An evaluation of its internal control system identified no material weaknesses; the amount of matching funds exceeded requirements; and most contracts had been awarded on a competitive basis. As a result, we made no recommendations. (*Seattle Regional Office of Audits: STL-13173*)

The **Economics and Statistics Administration** analyzes economic developments, develops 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.** Census is the country's preeminent statistical collection and dissemination agency. It publishes a wide variety of statistical data about people and the economy of the nation, 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.** BEA's goal is to provide a clear picture of the U.S. economy by preparing, developing, and interpreting the national income and product accounts (summarized by the gross domestic product), as well as aggregate measures of international, regional, and state economic activity.

Bureau Addresses OIG Concerns About Handling of Possible Duplicate Census Records

The Constitution mandates that a census of the nation's population be taken every 10 years for the purpose of congressional apportionment. In counting the population during the decennial census, the Census Bureau relies on its Master Address File (MAF) to identify where people reside. To overcome the historical undercoverage of housing units for the 2000 decennial, the bureau devised an inclusive approach for retaining addresses in the MAF and used a wider variety of sources to obtain MAF addresses. In a report on the MAF issued last year, we found that these factors had resulted in an unknown number of duplicate addresses, which could result in some people being counted twice (see September 2000 issue, page 26).

As the decennial progressed, the bureau became increasingly concerned about address duplication and developed a process for resolving the problem, with the goal of producing more accurate apportionment numbers. The bureau used this process to identify 6 million people in 2.4 million housing units as potential duplicates. However, the bureau concluded that there was not enough time to resolve the status of the suspected duplicates before the census results were needed for the tightly scheduled operations of the Accuracy and Coverage Evaluation, and decided to remove all suspected duplicates from A.C.E. processing.

The A.C.E. is a statistical survey of a sample of the population, the results of which are compared with decennial records to determine people missed or counted erroneously. The A.C.E. uses a process called "dual system estimation" to estimate the net undercount of various demographic groups of the population and to calculate factors that can be used to adjust the decennial counts. Although the U.S. Supreme Court had ruled that statistical sampling could not be used for congressional apportionment, the Court did not prohibit sampling for other purposes, including redistricting. By law, the Secretary of Commerce was required to report redistricting data from the 2000 decennial to the states by April 1, 2001. The Census Bureau was responsible for recommending to the Secretary whether the redistricting data should be the unadjusted decennial data or the decennial data as adjusted by the A.C.E.

Once the bureau decided which of the suspected duplicate records to remove from the decennial, the remaining records were incorporated into the A.C.E. final calculations using the bureau's usual approach for dealing with late census data. The decision on the duplicates resulted in the



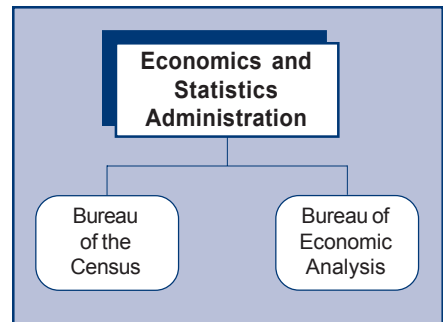
removal of approximately 3.6 million people in 1.4 million housing units from the decennial and the reinstatement of approximately 2.4 million people in 1 million housing units. According to bureau officials, treating the reinstated records as late census data introduced little or no error into the A.C.E. results if certain implicit assumptions held true.

The OIG conducted an evaluation to determine whether the bureau’s approach for handling the reinstatement of the 2.4 million people into the decennial was effective in minimizing the impact on the accuracy and reliability of the A.C.E. We reported our major concern—whether the assumptions implicit in the approach were valid for the reinstated people—to senior bureau officials during meetings held in January and February 2001. We recommended that they prepare an analysis of the likely impact of their method for handling the reinstated person records. We also recommended that they ensure that the impact was considered in the bureau’s process for reviewing the decennial and A.C.E. results in order to make a recommendation to the Secretary of Commerce about whether the decennial counts should be statistically adjusted for redistricting.

The bureau’s actions were responsive to our concerns and recommendations, considering the short time frame available for reviewing the data and making the recommendation on whether to adjust. It considered the likely impact of their method for handling the reinstated person records in its analyses and reports supporting its recommendation. The bureau plans to perform further evaluation studies to assess the impact of the reinstatements.

We believe that such studies are appropriate to better understand both the impact on dual system estimation in the 2000 decennial and the impact of similar late data requirements in future censuses and surveys because dual system estimation is an important bureau methodology for measuring data quality. Further, to help avoid similar problems with the MAF in the future, we reaffirmed the recommendations presented in our earlier report regarding approaches for addressing housing unit overcoverage and undercoverage.

The bureau ultimately recommended that the unadjusted data be released as its official redistricting data because the information available at that time was insufficient to conclude that the adjusted data would be more accurate. On March 6, 2001, the Secretary announced that the unadjusted data would be used. (*Office of Systems Evaluation: OSE-13812*)



Audit of the Census Bureau's FY 2000 Financial Statements

The CPA firm conducting our audit of the Census Bureau's FY 2000 financial statements rendered an unqualified opinion for the second consecutive year. While acknowledging this accomplishment, we emphasize that deficiencies in internal controls still need to be addressed. The firm identified three reportable conditions in the bureau's internal control structure, the first two of which are material weaknesses.

- ★ **Financial management and reporting.** The bureau continued to experience significant difficulties and delays in producing complete, accurate financial statements in accordance with departmental requirements.
- ★ **Account reconciliations.** A number of key financial statement account balances were not reconciled in a timely manner.
- ★ **Information system reporting and controls.** Partly because of the accelerated deployment of systems and procedures to support the decennial census, many bureau improvements in the design and implementation of general and application-level controls were not completed by the end of FY 2000. As a result, a series of management, technical, and cost risks were not adequately mitigated.

In conjunction with its audit of the financial statements, the firm conducted a review of the general controls associated with the bureau's information systems. The firm identified weaknesses in entitywide security program planning and management, and access control. If not resolved, these weaknesses could adversely affect the security of the data, programs, and hardware maintained at the bureau, and could have a negative effect on the financial statements of both the bureau and the Department. The weaknesses, and the firm's recommendations for correcting them, were discussed in a separate report on systems issues.



The firm identified no instances of material noncompliance with laws and regulations, nor any instances in which the bureau's financial management systems did not comply with applicable federal requirements.

The bureau agreed with the findings and recommendations in both of the firm's reports and described some actions planned to address the recommendations. (*Financial Statements Audits Division: FSD-12850-1 and FSD-12850-2*)



International Trade Administration

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

Market Access and Compliance. MAC 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 achieve full compliance by foreign nations with trade agreements signed with the United States.

Trade Development. TD 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. IA 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. & Foreign Commercial Service. US&FCS promotes the exports of U.S. companies 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.

Further Improvements Possible in the On-Line Delivery of Export Information and Services

Technology—and, in particular, the Internet—is changing how the government conducts its business and how it communicates, both internally and externally. In recognition of this, Commerce is planning to move from being a paper-based bureaucracy to a “Digital Department,” in order to obtain, process, produce, and provide information using a variety of formats and delivery mechanisms to meet the diverse needs of its employees and customers. An OIG review examined how well the Department, through ITA, is using the Internet to provide export promotion information and services to the public.

ITA has made considerable progress in improving access to its on-line information through recent efforts to make its web sites more user-friendly. However, we identified a number of weaknesses that still need to be addressed. A summary of our findings follows:

- ★ **Progress has been made in improving ITA's web sites.** While many ITA units have good web sites, we identified four sites as particularly noteworthy (1) The Trade Information Center's web site is one of ITA's first customer resource and referral centers. (2) The U.S. and Foreign Commercial Service has standardized the format of its web site and placed a common logo and banner on the web pages of its 262 domestic and foreign offices. (3) ITA has reorganized its home page so that users can readily access information by topic instead of by organization. (4) The bureau has also developed a portal that will provide access to all federal agency export promotion efforts.
- ★ **Increased coordination is needed to better integrate ITA's web sites.** Although coordination within ITA has improved because of the recent redesign of the home page, more needs to be done to present a cohesive, integrated web presence. Each ITA unit has its own web site, information, and services, and duplication and inconsistencies can be found across many of the sites. To address these problems, increased coordination among these units is needed. Coordination among federal agencies with trade promotion responsibilities is also needed. ITA should establish a permanent governing board for Internet operations to coordinate web site activities, both internally and with other federal trade agencies.



- ★ **Better planning is essential to provide more products and services on-line.** The 1998 Government Paperwork Elimination Act requires that, by October 2003, federal agencies provide the public, when practicable, the option of submitting, maintaining, and disclosing information electronically. To date, ITA's on-line offerings are limited, and the planning for placing information on-line has not been comprehensive. ITA needs to revisit decisions not to put some information on-line, as well as expand its efforts to identify opportunities for new and improvements to existing on-line products.
- ★ **More customer feedback should be sought and used to improve web sites.** ITA has not adequately sought web site users' input regarding their needs. E-mail comments, complaints, and suggestions are solicited and managed haphazardly, and other types of feedback mechanisms have not been used. ITA should establish a formal process to collect and manage customer e-mail messages, use focus groups to pre-test changes and new pages, obtain real-time feedback about content, and use aggregate usage data to improve web sites.
- ★ **Guidance is needed for the construction and maintenance of ITA's web sites.** Because ITA lacks official standards for managing and controlling the production of its estimated 300-plus web publishers and content providers, the quality of the web pages varies significantly. Among the problems we identified were pages that contain outdated or undated information, are indefinitely "under construction," or contain dead links. ITA should establish standards to provide a consistent level of maintenance and quality across its web sites.
- ★ **Compliance with departmental standards is necessary.** While most ITA web sites are in compliance with the Department's standards, some units had pages that were not. Since there are few incentives for the staff in charge of the web sites to implement the standards, ITA must take responsibility for ensuring prompt compliance.
- ★ **Guidance and oversight are needed to ensure compliance with federal law.** The Paperwork Reduction Act seeks to minimize the public's burden in responding to government information requests by requiring that information collections be approved by OMB. However, we found unapproved collections on ITA's site. ITA should prepare appropriate guidance and





monitor web sites for compliance with the law. In addition, Section 508 of the 1998 amendments to the Rehabilitation Act requires federal agencies to provide people with disabilities equal access to agency electronic and information technologies, unless the agency can demonstrate an “undue burden.” ITA should ensure compliance with Section 508 once it becomes effective in June 2001.

We were pleased with ITA’s willingness to respond to the concerns we raised during our review. In response to our report, the agency agreed with our findings and began or continued taking actions to implement our recommendations. However, ITA also expressed concern about the timing of our review, given that the agency is in the process of redesigning its web presence. We believe that the timing of our review was beneficial because ITA can address our concerns as part of its redesign process. (*Office of Inspections and Program Evaluations: IPE-13213*)

US&FCS Mexico Post Needed Better Financial and Administrative Management

Mexico is a natural market and its firms are natural partners for companies in the United States. In addition to sharing a 2,000-mile border, the two countries are bound by the North American Free Trade Agreement, under which all tariffs are scheduled to be phased out by January 2004. The U.S. share of the Mexican import market is nearly 85 percent. In 1999 the United States had a \$22.8 billion trade deficit with Mexico, its second leading trading partner, with nearly \$200 billion in total trade.

To assist U.S. exporters seeking to penetrate this market, ITA’s U.S. and Foreign Commercial Service (US&FCS) established offices in Mexico City, Tijuana, Guadalajara, and Monterrey. As of October 31, 1999, US&FCS Mexico employed 11 American officers, 34 foreign service nationals, and 31 personal services contractors, as well as a number of part-time trade aides on an as-needed basis. The post’s FY 1999 operating budget was just over \$2 million.

An OIG inspection in the summer of 1999 found that US&FCS Mexico was generally responsive to the needs of its export promotion clients and maintained an active trade event schedule. Nevertheless, we identified a number of areas needing management attention:



The existence of the trade center, rather than exporter needs, was driving the post's activities. US&FCS Mexico was overemphasizing trade shows and events, in part because it resides in a U.S. government-owned trade center building and has historically maintained a heavy events schedule. The post had not developed an adequate strategic plan to identify other areas where it could focus its efforts. In addition, several of the post's partners indicated that its market research was deficient.

The trade center has beneficial relationships with its collocated partners, but the relationships were lacking in other areas. Although benefits were achieved through the interaction between US&FCS staff and the non-Commerce occupants of space, the agreements signed by US&FCS staff in Mexico with the partners were inadequate in several respects.

US&FCS Border initiatives needed to be better coordinated. The growth of economic activity along both sides of the U.S.-Mexico border has focused US&FCS's attention on business opportunities for U.S. exporters in the region. However, US&FCS needed to better coordinate the efforts of its domestic and international offices on border initiatives in



order to avoid overlap and duplication, as well as the potential waste of resources or confusion on the part of U.S. exporters facing multiple US&FCS points of contact.

Trade aides are not appropriately used. Trade aides, foreign nationals hired on a part-time basis to provide basic support to the office's trade promotion efforts, were inappropriately producing a large part of the core products and services that are typically handled by trade specialists. Moreover, the post was inappropriately using a blanket purchase agreement to hire trade aides, lacked a formal assignment and evaluation system for these staff, and inappropriately assigned some of them to the state trade offices.

Post staffing needed to be reexamined. In FY 2000, US&FCS planned to have 13 American officers and 60 locally employed staff throughout Mexico, with 85 percent of all employees located at the trade center in Mexico City. In our view, US&FCS may have more staff than it needs in Mexico City.

Some administrative matters needed attention. Although certain administrative areas were being adequately handled, we questioned (1) the post's procedures for documenting inventory, gifts and bequests, and security certifications; (2) the disorganization of the post's warehouse and the potential fire, safety, and theft hazards it presented; and (3) staff members' use of official vehicles for non-business purposes, as well as the need for five vehicles in Mexico City.

Management of deposit fund was problematic. Our review of the deposit fund account revealed inadequate record-keeping, unidentified embassy-posted transactions, unliquidated obligation balances dating back to FY 1996, an absence of trade event final obligation reporting, and inadequate reporting of purchase card expenses. The post also lacked an effective system to rationally identify and assign costs, both direct and overhead, associated with activities conducted in the US&FCS facility in Mexico City.

Border conference problems suggest a need for better handling of high profile trips and travel expenses. Concerns were raised by embassy staff regarding several US&FCS expense vouchers related to a June 1999 Tijuana conference attended by senior Department officials. Our review of the conference-related documentation, including authorization cables and travel vouchers, revealed a number of irregularities.



Effectiveness of constituent offices varied. In reviewing the activities of the three constituent offices outside of Mexico City, we concluded that the staff in Monterrey were productive, but appeared overburdened; Guadalajara's lagging productivity and poor consulate and business relations needed attention; and although Tijuana had produced a number of successes, the level of activity at the office may not warrant a full-time, on-site officer.

We made a number of recommendations to address our concerns. US&FCS generally agreed with our observations and outlined corrective actions being taken. Among these actions was the deobligation of \$762,028 in both the operations and administration account and the trust fund account. We commended US&FCS and the post for their plans for addressing our recommendations. (*Office of Inspections and Program Evaluations: IPE-11844*)

Audit of FY 2000 Financial Statements

For FY 2000, the second consecutive year, ITA received an unqualified opinion on its financial statements. Nevertheless, the CPA firm conducting the audit identified two reportable conditions, both of which were considered to be material weaknesses.

- ★ **Financial management processes.** The firm concluded that ITA needed to do more to ensure that its financial statements are prepared on a timely basis from complete, accurate information. Specifically, certain property transactions were not accurately recorded, and certain payroll-related transactions were not promptly approved or recorded.
- ★ **Potential for misstatement on the consolidating statements of net cost.** Initially, ITA allocated the same percentages of expenses and revenues to its four goals in FY 2000 that it had in the prior year, without verifying that the FY 1999 percentages were still appropriate. After the financial statements had been prepared and we brought this matter to its attention, ITA performed verification procedures, which resulted in a change in the revenues and expenses allocated to one of the goals.



Upon testing ITA's compliance with certain provisions of laws and regulation, the firm identified one instance of material noncompliance:

- ★ **User charges.** Because ITA lacks adequate procedures to ensure compliance with OMB's policy on user charges, there is a significant risk that revenues from its trade events may not be sufficient to cover costs.

On a positive note, the firm did not identify any instances in which ITA's financial management systems did not substantially comply with applicable federal requirements. Moreover, in conjunction with its audit of the financial statements, the firm conducted a review of the general controls associated with the Department of the Interior's National Business Center, which provides accounting services for ITA. The firm concluded that the risk was low that any material misstatement of ITA's financial statements would be caused by improperly designed or ineffectively applied information technology controls. (*Financial Statements Audits Division: FSD-12854-1 and FSD-12854-2*)

OIG Reviews Cooperative Agreements Awarded to a Trade Association

The OIG conducted audit work related to three ITA cooperative agreements awarded to an industry trade association:

- ★ The first agreement, with an award period of October 1994 through September 1998, had a total project budget of about \$1.5 million, with a federal share of \$440,000. The purpose of the agreement was to establish a U.S. Information Technology Office in Beijing, China. Our audit of the agreement questioned \$597,914 out of total claimed costs of about \$1.2 million. Of the questioned costs, \$367,454 consisted of unsupported or unallowable personnel costs, and \$230,460 involved nonsalary costs lacking supporting documentation. We recommended that ITA disallow the questioned costs and recover \$116,466 disbursed in excess of allowable costs.
- ★ The second agreement, with an award period of October 1995 through December 1996, had a total budget of about \$260,000, with a federal share of about \$50,000. Its purpose was to produce a training course on software asset management for use throughout Central and South America. Out of total claimed costs of about \$250,000, we questioned \$17,654, which consisted



primarily of nonsalary costs lacking supporting documentation. Again, we recommended that ITA disallow the costs and recover about \$5,000 in excess disbursements.

- ★ The trade association also has a third cooperative agreement with ITA, with an award period of October 1999 through September 2001, and a total budget of roughly \$400,000, of which ITA intends to provide about \$130,000. The purpose of this agreement is to further develop an electronic commerce website to help U.S. businesses generate increased exports through the Internet. Our accounting system survey of the award determined that the awardee's accounting and financial management systems were generally adequate to safeguard government assets. However, we recommended that the awardee establish a detailed activity report to support personnel costs and obtain fidelity bonds covering any personnel authorized to disburse federal funds.
(Business and Trade Audits Division: BTD-12650)

Minority Business Development Agency

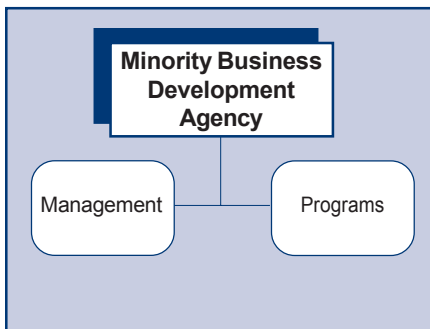
The **Minority Business Development Agency** was created to help minority-owned and operated businesses achieve effective and equal participation in the American free enterprise system, and overcome the social and economic disadvantages that have limited their participation in the past. MBDA provides management and technical assistance to minority firms upon request, primarily through a network of business development centers. It also promotes and coordinates the efforts of other federal agencies in assisting or providing market opportunities for minority businesses.

Puerto Rican Bank Did Not Provide Adequate Support for Personnel Costs

MBDA's Minority Business Opportunity Committee program is designed to identify and coordinate local business resources to benefit minority business development. A bank in Puerto Rico received two MBDA cooperative agreement awards under the program. The first was a one-year \$207,640 award for calendar year 1998 that required a \$146,183 matching share. The second was an award for the 3-year period 1999-2001 that is funded annually. The award agreement called for \$234,333 in MBDA funds and a \$247,946 matching share for 1999, and \$239,874 in MBDA funds and a \$243,821 matching share for 2000.

The OIG conducted an audit of the completed 1998 award, and an interim audit covering the first two years of the second award. According to MBDA, the bank had achieved its quantitative project goals and performed at a satisfactory level. However, our audit found that the bank:

- ★ Claimed \$534,395 in questioned costs, including over \$500,000 in inadequately supported salary and fringe benefit costs for employees who worked part time on the project.
- ★ Reported a combination of budgeted and actual costs, instead of only actual costs, on its quarterly status reports and submitted most of the reports late.
- ★ Did not include the MBDA awards on its schedule of expenditures of federal awards, which resulted in the awards being excluded from testing for federal compliance during two annual organization-wide audits.



We recommended that the Department direct the bank to maintain detailed time records for all bank employees who work part time on the project, report only actual project costs on its status reports and submit the reports on time, and include the MBDA award on its annual schedule of expenditures of federal awards for inclusion in future annual audits. We also recommended that the Department disallow the questioned costs and recover and deobligate \$246,168 in excess federal funds disbursed. The bank did not dispute our findings, but did disagree with our recommendation regarding the questioned costs. (*Atlanta Regional Office of Audits: ATL-13950*)

National Oceanic and Atmospheric Administration



Work on Electronic Charting Database Should Be Reopened

The Federal Technology Transfer Act of 1986, as amended, authorizes the government to enter into cooperative research and development agreements (CRADAs) with nonfederal partners to conduct research or development that is consistent with governmental missions. CRADAs are intended to promote the commercialization of federally developed technology by providing the private sector with access to federal research. Under CRADAs, both partners may exchange personnel, services, facilities, equipment, and intellectual property, but only the nonfederal partner may contribute funds to the project. Because a CRADA is not a procurement instrument, the public notice and competition requirements of the Competition in Contracting Act do not apply.

In 1993 NOAA decided to solicit non-federal partners for work on its electronic charting database and, in October 1994, entered into a CRADA with a private firm to perform research and development on electronic nautical charts and related data, systems, and software. The CRADA granted the partner firm exclusive access to the NOAA data files that are used to produce the charts, and the exclusive right to sell the agency's official electronic nautical charts. The CRADA requires the partner firm to pay to NOAA 5 percent of the net revenues derived from the sale of products produced under the agreement.

The CRADA was scheduled to expire on April 6, 2001, but would automatically renew for 4 years unless either party opted not to renew by February 5. A NOAA review panel was convened in September 2000 to consider the CRADA, as well as alternatives to it, and to make a recommendation to NOAA management for renewal, recompetition, or termination.

However, a coalition of private sector nautical charting firms complained that they believed NOAA was improperly using its CRADA authority to create an anti-competitive, sole-source monopoly with its partner. Specifically, the coalition asserted that the nautical charts to be created under the CRADA already existed in the private sector and that there was no need for NOAA to expend tax dollars to duplicate this capability. The coalition also argued that NOAA's policy limiting access to hydrographic data to the partner must be changed to stimulate competition, which should lead to better products at lower prices.

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. It does this through the following organizations:

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

National Ocean Service. NOS issues nautical and aeronautical charts; performs geodetic surveys; conducts research; and develops policies on ocean mining and energy.

National Marine Fisheries Service. NMFS 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. NESDIS observes the environment by operating a national satellite system.

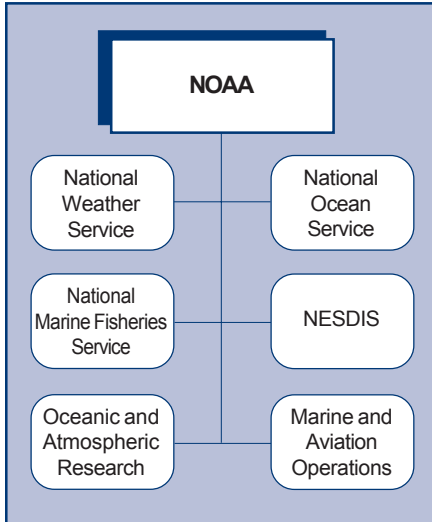
Office of Oceanic and Atmospheric Research. OAR conducts research related to the oceans and inland waters, the lower and upper atmosphere, space environment, and the Earth.

Office of Marine and Aviation Operations. OMAO 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

The OIG conducted an audit of the CRADA that focused on determining whether NOAA should renew the CRADA, and reported the following:



- ★ **NOAA should recomplete the work on its database.** To ensure delivery of the best value product to chart purchasers, we recommended that NOAA recomplete the work on its electronic nautical charting database before the CRADA was automatically renewed. We also recommended that NOAA determine whether a CRADA is still the most appropriate legal instrument for continuing such work. Although NOAA is not required to complete work conducted through a CRADA, it should strengthen its CRADA policy by including periodic reassessments of whether the work should be recompleted, in order to ensure that it is providing electronic nautical charts with the highest quality, in a timely manner, and at the lowest cost to chart purchasers.

- ★ **NOAA should strengthen internal controls over partner research payments.** We concluded that if NOAA determined that a CRADA was still the most appropriate instrument for continuing the work on its charting database, it should strengthen internal controls over partner research payments by regularly verifying the underlying basis for those payments. Although allowed to do so under the terms of the CRADA, NOAA had not reviewed the partner’s accounting records to verify reported revenues. As a result, it could not ensure that the partner was paying the full amount to which NOAA is entitled.

- ★ **NOAA should retain and enforce the CRADA’s reporting requirement.** We further concluded that if NOAA determined that a CRADA was still the most appropriate instrument for the project, it should ensure that both parties fully comply with the agreement’s reporting requirement. We found that the parties had failed to exchange written progress reports, as required by the CRADA. NOAA believes the requirement is unnecessary and is planning to remove it from the agreement, but we believe such reports are essential for complying with federal internal control standards.



NOAA agreed with all but one of our recommendations. It disagreed that it should compete its electronic nautical charting work as soon as possible. NOAA stated that it had determined that a CRADA remains the best legal instrument for continuing the development of its electronic nautical charting work. However, it restricted the scope of the CRADA to address some of the concerns raised by the private-sector nautical charting firms. In addition, NOAA plans to take certain actions to promote competition for the production of the next-generation electronic nautical charts. We continue to believe that seeking competition for all of the charts would have been in NOAA's best interests. (*Science and Technology Audits Division: STD-13440*)

Audit of FY 2000 Financial Statements

As it had in FY 1999, NOAA received an unqualified opinion on its FY 2000 financial statements. In addition, the CPA firm conducting the audit found no material weaknesses in the agency's internal control structure. However, the following two reportable conditions were identified:

- ★ Controls over fund monitoring should be improved.
- ★ Information technology processing access control weaknesses and other financial system deficiencies should be addressed.

In a separate review of the general controls associated with NOAA's information systems, the firm identified weaknesses in access control and service continuity. If not resolved, these weaknesses could adversely affect the security of NOAA's data, programs, and hardware and have a negative effect on both the agency's and the Department's financial statements. The weaknesses, and the firm's recommendations for correcting them, were discussed in a separate report on systems issues.

In evaluating NOAA's compliance with laws and regulations and with federal financial management system requirements, the firm identified several instances of noncompliance. Specifically, NOAA did not fully fund its capital leases during FY 2000; its financial management system neither complies with all applicable requirements nor adequately supports the budget execution process; and its financial accounting system does not support the preparation of timely, accurate financial statements through an integrated system.



NOAA concurred with the findings and recommendations in both of the firm's reports. NOAA's and the Department's corrective action for certain of the identified deficiencies will be addressed through the continued implementation of the Commerce Administrative Management System. (*Financial Statements Audits Division: FSD-12855-1 and FSD-12855-2*)

Evaluation of the National Data Buoy Center's Technical Services Contract Was Inadequate

The National Data Buoy Center, located at the Stennis Space Center in Mississippi, operates a system of approximately 130 weather observing buoys and land-based stations for the National Weather Service. The system is operated by a contractor, whose technical services are purchased through a 5-year cost-plus-award-fee contract that gives NOAA the right to re compete it annually. The center's previous contract ran from July 1995 through June 2000 and had an estimated value of about \$33.7 million as of October 1999. In May 2000, the center awarded a new 5-year cost-plus-award-fee contract to a different contractor. The contract, which has an estimated value of \$32.4 million, became effective on July 1, 2000.

The OIG conducted an audit to follow up on NOAA's actions to implement the recommendations we made in a July 1995 report on the Data Buoy Center's contract (see September 1995 issue, page 59). In that earlier audit report, we recommended that NOAA convert the contract to a performance-based contract, to the extent practicable, reevaluate the contract type and consider converting all or parts of it to a firm fixed-price format, and then consider re competing the contract before it expired if the benefits of such a conversion appeared to outweigh the costs.

NOAA agreed with our 1995 recommendations.

NOAA's audit action plan called for it to reevaluate the contract and consider converting all or part of it to a performance-based contract and to conduct an extensive contract review to determine if the contract should be converted, in whole or in part, to a firm fixed-price format. NOAA subsequently reported that it had fully implemented the audit action plan as of September 1997, and based on NOAA's reported actions, the audit recommendations were closed.



However, our follow-up audit found that the center:

- ★ Had reviewed only the relatively minor support services area of the contract, which accounts for just 15 percent of the estimated cost, and excluded from its review more significant contract areas, such as operations and maintenance.
- ★ Had conducted only a cursory contract review instead of the extensive review described in the audit action plan.
- ★ Did not document its review findings and could not show that NOAA's Office of Finance and Administration, which has expertise in procurement issues and reportedly assisted the center in implementing the audit action plan, had reviewed and approved the findings.

Because of these deficiencies, the center's limited contract review does not convincingly demonstrate that performance-based contracting techniques cannot be effectively incorporated into the contract and that a fixed-price contract should not be used to perform some, if not all, of the center's technical services work.

Various studies and experience suggest that converting the center's technical services contract could produce significant savings. For example, based on the Department of the Navy's experience, OMB found that between 20 and 40 percent of a contract's cost can be saved through conversion to a performance-based contract. Applying OMB's most conservative 20-percent estimate means that if NOAA were to convert the contract as of June 30, 2001, the end of the contract's first year, it could save \$5.2 million over the remaining four years of the contract.

We recommended that NOAA direct center officials to (1) conduct an analysis of the contract to determine which portions can be converted to a performance-based contract, (2) conduct an analysis to determine which portions should be converted to a fixed-price format, (3) provide documentation of the analyses to NWS headquarters and the Office of Finance and Administration for review, (4) consider recompeting the contract at the end of the first year if the analyses show that the benefits of recompeting outweigh the costs, and (5) if the contract is not recompeted at the end of the first year, convert the appropriate portions of it to a performance-based contract and/or firm fixed-price format when the contract expires. We also recommended that the Office of Finance and Administration review the center's analyses and direct that the contract be converted to the extent appropriate at its expiration if it is not recompeted at the end of the first year.



In response to our report, NOAA asserted that the center had conducted an in-depth review of all contract areas and concluded that the work required of the contractor was generally unpredictable and could not be converted to a performance-based or fixed-price contract. However, the documents that NOAA provided did not support its assertion that the review was sufficiently comprehensive. Moreover, NOAA's arguments against a fixed-price contract strongly suggest that the current contract is being administered as an inappropriate personal services contract; that is, a contract that by its express terms or as administered makes it appear that contractor personnel are acting as government employees. (*Atlanta Regional Office of Audits: ATL-12319*)

NOAA Laboratory's Decisions Related to Supercomputer Acquisition Were Proper

NOAA's Geophysical Fluid Dynamics Laboratory engages in research in the fields of meteorology, oceanography, hydrology, physics, fluid dynamics, chemistry, applied mathematics, and numerical analysis. Among the laboratory's important research tools is a supercomputer, which recently reached the end of a five-year lease. To replace the supercomputer, the laboratory procured an enhanced computer system for use from FY 2000 through FY 2006. The contract was awarded on September 27, 2000, for a total cost of approximately \$67 million.

The OIG conducted a review to determine whether the need for the supercomputer was properly justified, whether laboratory officials had performed an appropriate analysis of the various lease and purchase options, and whether the resulting contract incorporates the laboratory's preferred terms. Because of time constraints imposed by the contracting schedule, we could not conduct a complete cost audit of the firm-fixed-price proposals and resulting contract before its award. Instead we reviewed the available financing options that would comply with the laboratory's contractual requirements without compromising its technological needs.

In a March 2001 management memorandum to NOAA, we reported that the laboratory's decision and the resulting contract, which provides for leasing substantially all of the supercomputer components, appeared to be in the best interests of the laboratory and the government. For example, the laboratory adequately justified its need for the supercomputer and properly performed analyses comparing lease versus purchase. In addition, the contract incorporates the laboratory's preferred terms, including leasing major components while purchasing other components



and related maintenance. Since the funding for the supercomputer will be awarded annually over 6 years, leasing major components allows the laboratory to terminate the contract if its annual appropriation is not available and to upgrade the system as technological advances are made. *(Denver Regional Office of Audits)*

Allegations of Improper Use of Federal Funds at Washington Fish Hatchery Unsubstantiated

The Mitchell Act (16 U.S.C. §755 *et seq.*) provides funds to the states of Washington, Oregon, and Idaho for the enhancement and conservation of anadromous fish species (those that ascend rivers from the sea to breed). Among activities authorized by the act are constructing and maintaining fish hatcheries, conducting research, clearing streams, and building and maintaining devices and structures for the fish.

NOAA awarded about \$5.6 million in Mitchell Act funds to the Washington State Department of Fish and Wildlife primarily for the operation and maintenance of six fish hatcheries along the Columbia River from October 1997 through September 1999. An anonymous letter to the OIG alleged improper use of funds at one of the hatcheries. The specific allegations were that personnel costs were improperly charged to the hatchery, fish food purchased for the hatchery was not used there, hatchery funds were “borrowed” until the beginning of a new fiscal year, equipment and tools were missing or were taken to other hatcheries, travel costs were improperly charged, vehicles purchased with Mitchell Act funds were not used or were not available to hatchery personnel, and funds were transferred from the hatchery to an over-budget construction project.

In response to the letter, we performed a limited-scope review of the allegations of misuse of funds, which included testing Department of Fish and Wildlife financial records and reviewing state audit reports to determine whether the alleged activities took place and, if so, whether they violated the Mitchell Act or the financial terms and conditions of the award.

Our review revealed no corroborating evidence to support the anonymous allegations of misuse of hatchery funds. In some cases, the complainant’s lack of specificity prevented us from identifying the particular actions being criticized as improper. Moreover, the Mitchell Act and the terms of the award to the state are sufficiently broad to allow a wide range of activities to conserve and enhance anadromous fish resources on the



National Oceanic and Atmospheric Administration

Columbia River. Because we found no evidence of misuse of federal funds, we made no recommendations. (*Seattle Regional Office of Audits: STL-13177*)

National Telecommunications and Information Administration



Grantee Failed to Provide Matching Share and Adequately Safeguard Equipment

In October 1997, NTIA awarded a \$614,701 Telecommunications and Information Infrastructure Assistance grant to a city agency in Pennsylvania to develop an integrated information database linking agencies that deliver human services in low-income communities. The grant agreement required \$663,379 in matching funds, bringing the total project budget to \$1,278,080. A March 1999 amendment extended the grant period and increased the matching share requirement to \$857,642, for total project funding of \$1,472,343. The amended grant period was from October 1997 to September 1999.

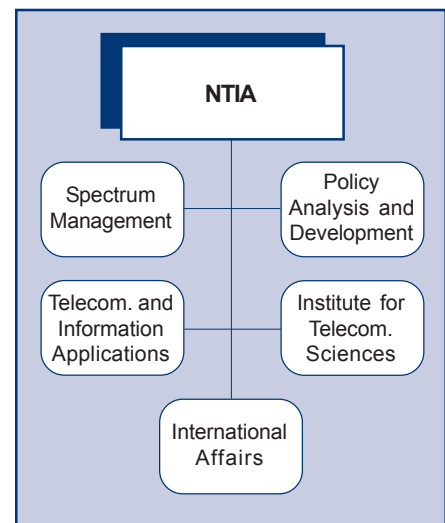
An OIG audit of the award revealed that the grantee had failed to meet the grant's matching share requirement. We questioned \$256,821 claimed as a matching share, including \$207,109 from another federal agency that was unallowable as a match under the NTIA grant. We also found that the grantee had violated the terms and conditions of the award by failing to adequately safeguard equipment in its possession, maintain accurate equipment records, or submit timely quarterly progress reports.

We questioned a total of \$394,873 claimed costs, which included \$243,202 for salaries and fringe benefits, \$52,976 for equipment, \$41,489 for contracts, and \$57,206 for travel, supplies, and other costs. The grantee had been reimbursed \$471,406, which exceeded the amount of federal funds earned by \$164,860. In addition, grant funds totaling \$308,155 could be deobligated. We recommended that the Department's grants office:

- ★ Disallow the \$394,873 questioned costs and recover the \$164,860 excess federal disbursements.
- ★ Deobligate the remaining \$308,155 in grant funds.
- ★ Require the grantee to conduct a complete inventory of all equipment costing \$500 or more that was purchased with grant funds and to submit the required inventory report to the Department.

The grantee disagreed with our findings, but did not supply sufficient documentation to support its position. (*Atlanta Regional Office of Audits: ATL-13174*)

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





United States Patent and Trademark Office

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

Search System Problems Being Addressed, but Improvements Needed for Future Systems

Patent examiners determine the uniqueness of an invention submitted for patent by searching previously granted U.S. and foreign patents, as well as other technical documents. Since USPTO introduced its first computerized patent search system in 1986, examiners have increasingly relied on automated searching, which is designed to improve patent quality and maintain examiner productivity as the volume of patent filings increases.

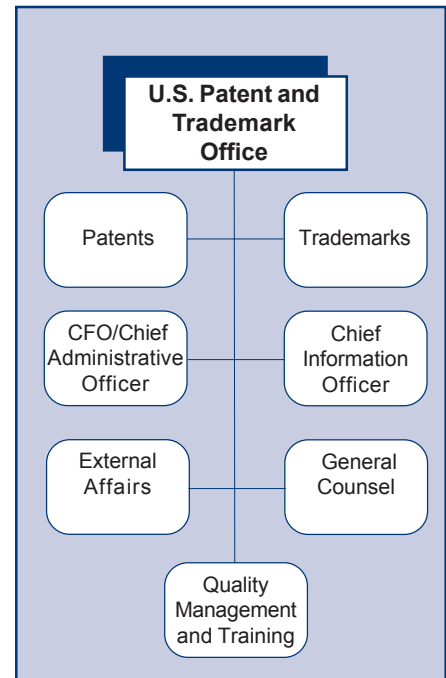
In 1994 USPTO decided to replace its primary search system because the technology was becoming obsolete, the system had severe capacity limitations, and making it year 2000 compliant would not be economical. USPTO planned to remove the system from operation by September 30, 1999, at which time a new search system had to be ready. The Patent Commissioner and USPTO's Chief Information Officer (CIO) were the designated "decision authorities" for the new system, with responsibility for monitoring progress and approving key decisions.

The OIG conducted an evaluation of the development and operation of USPTO's new search system to determine whether it is adequately supporting patent application processing and to identify improvements that can be applied to future systems acquisitions. We found that the fixed deadline, coupled with schedule delays, put a great deal of pressure on the program and contributed to a number of problems. When it began operating, the system performed poorly, providing slow response times and crashing frequently, causing examiners to lose work and time and making it more difficult for them to meet their production quotas. Compounding these problems was the fact that examiners were not adequately trained on the new system.

USPTO management acted quickly to resolve these problems, fixing most of the system's slow response time and instability problems, relaxing examiners' work rules to mitigate the impact on their production rates, and increasing communications with examiners. The new system's performance has improved, and it has largely fulfilled its primary goal of overcoming the former system's limitations. Nevertheless, we identified the following steps that should be taken to improve future systems development efforts:



- ★ **Decision authorities need to be more involved and have better information.** Although the decision authorities were monitoring progress, they were not involved in some key decisions and did not have the information they needed to effectively assess progress and risks. Consequently, they missed opportunities to mitigate problems. USPTO should strengthen the role of the decision authorities at the end of each system life-cycle phase and provide them with quantitative information (metrics) about program progress so that they can better manage major information systems acquisitions.
- ★ **System requirements need to be fully specified.** Two critical requirements were not adequately addressed in the requirements specifications for the new search system: Text search response time was not fully specified, and stability requirements were not specified at all. Because specifications are the basis for system design, development, testing, and acceptance, we believe that the incomplete specifications contributed to the system's initial problems. USPTO should strengthen its process for defining and documenting requirements to ensure that all requirements are fully delineated in requirements specifications.
- ★ **Acceptance testing needs to be improved.** USPTO conducted tests to determine if the new search system was ready to be placed into operation, but significant problems with stability and response times were overlooked. USPTO should strengthen its acceptance testing procedures in order to improve its ability to field systems that are ready for operation.
- ★ **Communication with end users needs to be improved.** Although examiners participated in some system life-cycle activities, many stated that they were not adequately involved in the process and expressed dissatisfaction with the new system. We believe that the examiners' dissatisfaction stems from inadequate communication with the program manager and developers and lack of a significant, formalized role in the development process. USPTO should involve the examiners throughout the life-cycle process and formally define their roles in order to increase the likelihood that their needs will be met.
- ★ **Users' proficiency needs to be ensured before systems become operational.** Despite delays in completing examiners' training on the new search system, USPTO believed that they were proficient enough to use it. However, training proved to be





United States Patent and Trademark Office

insufficient, and examiners had difficulty using the system. USPTO should evaluate the proficiency of examiners before new systems are placed into operation and adjust training accordingly.

USPTO agreed with our findings and all but two of our recommendations, and has begun implementing many of the recommendations. Specifically, it has begun making substantive changes to its system life-cycle management methodology that should lower development costs, improve system quality, and enhance end user acceptance of new systems. The recommendations that USPTO disagreed with concerned the role of the program decision authorities. USPTO believes that they are adequately involved in system programs through regular briefings from program managers and quarterly progress meetings. We believe that they should be required to approve, and have the accountability associated with signing off on, the completion of each life-cycle phase of major information systems. (*Office of Systems Evaluation: OSE-12679*)

Audit of FY 2000 Financial Statements

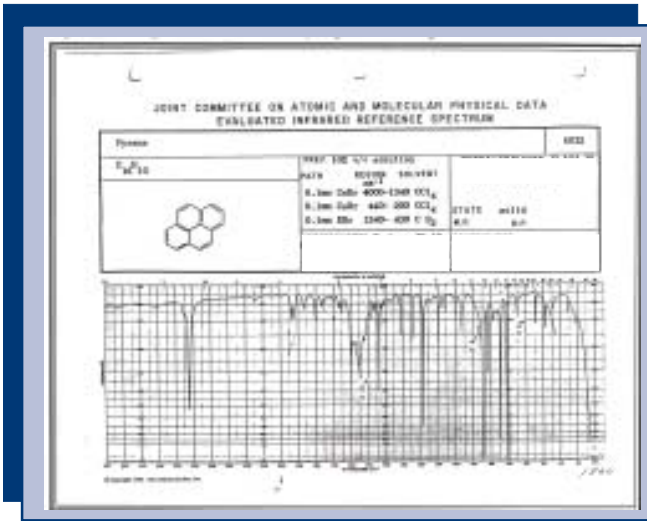
In FY 2000, for the seventh consecutive year, USPTO received an unqualified opinion on its financial statements. The CPA firm conducting the audit identified no reportable conditions in USPTO's internal control structure, nor did it identify any material instances of noncompliance with laws and regulations or with other federal financial management requirements. As a result, the firm made no recommendations.

In conjunction with its audit of the financial statements, the firm's review of the general controls associated with USPTO's information systems identified weaknesses in four areas: entitywide security program planning and management, access control, system software, and service continuity. If not resolved, these weaknesses could adversely affect the security of USPTO's data, programs, and hardware and have a negative effect on the financial statements of both USPTO and the Department. The weaknesses, and the firm's recommendations for correcting them, were discussed in a separate report on systems issues. USPTO agreed with the findings and recommendations in both of the firm's reports and expressed its intent to take the necessary corrective actions. (*Financial Statements Audits Division: FSD-12858-1 and FSD-12858-2*)

NIST's Research Agreement with Nonprofit Organization Should Receive Greater Scrutiny

In November 1994, NIST entered into a 10-year cooperative research and development agreement with a nonprofit professional organization to establish a joint infrared spectral database. Infrared spectra, commonly regarded as the “fingerprint” of chemical substances, are used in a wide range of applications, such as identifying substances and determining their composition to solve problems encountered in the work of forensic or crime laboratories.

To develop the database, approximately 10,000 spectra in paper format (see example below) owned by the organization were provided to NIST for conversion into an electronic format. These spectra are to be combined with approximately 10,000 spectra in NIST's possession to form the database, which NIST planned to sell to the public beginning in early spring 2001. Over time, NIST and the organization had planned to enlarge the collection by soliciting contributions of spectra from the many laboratories—private, government, and academic—where infrared spectra are measured.



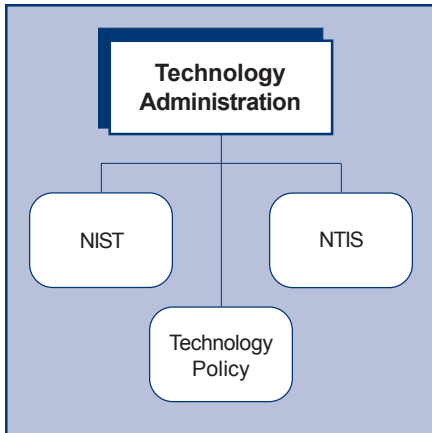
In May 2000, the House Committee on Science referred to the OIG a complaint from a private sector firm that the infrared spectral database to be created under the CRADA would unfairly compete with one sold by the firm. We conducted an inspection to determine whether NIST is unfairly competing with the private sector by entering into this CRADA

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. OTP 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. NIST 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. NTIS is a self-supporting agency that promotes the nation's economic growth and job creation by providing access to voluminous information that 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.



and whether the CRADA being used is consistent with the law and an appropriate instrument for the project. In conducting our review, we received technical assistance from the National Science Foundation OIG. A summary of our findings follows:

Competition with Private Sector Firms Is Not Prohibited, but Projects Must Be Scrutinized

Two legislative mandates, the Standard Reference Data Act and NIST’s organic legislation, authorize the agency to provide high-quality standard reference data to the scientific community. While neither mandate expressly prohibits the creation of databases that compete with the private sector, both contain terms that could be interpreted as discouraging NIST from duplicating reference data available elsewhere.

Our review concluded that the database under this CRADA would compete with the databases of private sector vendors because both NIST, in its capacity as a database vendor, and the private sector database firms meet most of the same customer needs for infrared spectral databases. We also found that, before proceeding with the project, NIST did not adequately assess whether the database was needed or whether it would duplicate or compete with data already available from other sources.

We recommended that, before the database is made available to the public, NIST perform the planning and analysis that it should have performed before entering into the CRADA. In addition, because of the plan to add spectra to the database in the future, we believe that NIST should develop policies and procedures to ensure that any substantial additions are sufficiently publicized and analyzed before proceeding. NIST should also submit a project expansion, as well as any future projects of this nature, to a peer review.

A CRADA Was Not the Appropriate Instrument for the Project

The key criterion for entering into a CRADA—the transfer of technologies for future commercial application—was not met in this instance because no technology transfer is taking place under this CRADA. Accordingly, we believe that another type of legal agreement would have been preferable for this project. For any future database collaborations with outside entities, NIST should carefully assess its options to ensure that it employs the most appropriate legal instrument.



NIST stated that it generally agreed with our findings and recommendations, and we concurred with its proposed corrective actions. We are pleased that NIST has agreed to establish policies and procedures to ensure that future additions to the database, as well as any future projects of this nature, are sufficiently evaluated before proceeding. We look forward to reviewing the policies and procedures when they are completed. (*Office of Inspections and Program Evaluations: IPE-13200*)

Internal Controls over NIST's Bankcard Program Need Improvement

As part of its periodic review of Commerce units' use of bankcards, the OIG conducted an audit of bankcard program implementation and usage during FY 1998 by the four NIST laboratories in Boulder, Colorado. Although our audit found no misuse of NIST funds, we did identify internal control weaknesses in four areas. Specifically, NIST needs to:

- ★ **Improve cardholders' performance** by requiring them to use competitive procurement procedures, use the required purchase order log, avoid purchases of prohibited items and obtain required approvals, prevent use of bankcards by noncardholders, obtain management pre-approval of purchases of significant and sensitive items, avoid splitting purchase transactions, and obtain required training.
- ★ **Better control property purchased with bankcards** by improving property recording procedures and recording accountable property built from parts bought with bankcards.
- ★ **Improve procedures** by requiring approving officials to obtain cardholders' records upon termination of employment, documenting alternate approving officials, maintaining bankcard reports in order to monitor cardholder accounts every six months, requiring certification of bankcard statements before payment, and improving separation of duties over transactions.
- ★ **Improve payment practices** by requiring that the original certified and approved bankcard statement packages be submitted to the servicing NIST finance office before payment.

NIST generally agreed with our findings, and its proposed corrective actions appear responsive to our recommendations. (*Denver Regional Office of Audits: DEN-11787*)

NIST User Fee Programs Are Generally Well Managed

User fees are levied on classes of individuals or businesses directly benefiting from, or subject to regulation by, a government program or activity. User fees are based on the principle that identifiable individuals or businesses that receive benefits from a governmental service beyond those that accrue to the general public should bear the cost of providing the service.

The OIG performed an audit survey to assess how NIST identifies, reviews, charges, and reports user fees and how it maintains control over its user fee programs. For our sample period, FY 1999, user fee collections accounted for only about 3.1 percent of total NIST funding, but almost 19 percent of the agency's working capital fund. In that year, the five programs that were the focus of our survey collected over \$23 million, which represented 99 percent of all NIST user fee collections.

Our survey revealed no material weaknesses in the way NIST identifies, charges, collects, reviews, or reports user fees. However, we identified three areas in which NIST could improve its management of user fees:

- ★ When its programs do not price their products or services to recover full costs, either because they are exempt from the requirement or the amounts involved are deemed immaterial, NIST should disclose this fact in its biennial reports to the Department.
- ★ NIST should ensure that collections from federal sources are excluded from its biennial reports on user fee income.
- ★ NIST should periodically reassess its programs' departures from full-cost recovery in the event of changes in circumstances.

Because of NIST's substantial compliance with major user fee requirements, we made no recommendations. (*Science and Technology Audits Division*)

Audit of TA's, NIST's, and NTIA's FY 2000 Financial Statements

The CPA firm conducting the audit rendered an unqualified opinion on the FY 2000 combined financial statements of TA, NIST, and NTIA. In prior years, the financial statements of the three entities had been reported individually. However, because TA and NTIA receive accounting services from NIST using NIST's accounting system, it was decided to combine their reporting for FY 2000 in order to improve audit efficiency and reduce duplication of effort.

The firm identified no material weaknesses, but did identify one reportable condition in NIST's internal control structure; namely, that the agency needed to strengthen its information systems' general controls procedures. This condition was identified during the firm's review of the general controls associated with NIST's information processing systems. The firm identified weaknesses in four areas: entitywide security program planning and management, access control, application software development and change control, and segregation of duties.

These weaknesses could adversely affect the security of the data, programs, and hardware maintained at NIST and have a negative effect on the financial statements of NIST, TA, NTIA, and the Department. The weaknesses, and the firm's recommendations for correcting them, were discussed in a separate report on systems issues. Because of these weaknesses, NIST did not substantially comply with the Federal Financial Management Improvement Act of 1996.

NIST generally agreed with the firm's findings and recommendations in both reports and has begun taking corrective actions. (*Financial Statements Audits Division: FSD-12859-1 and FSD-12859-2*)

Audit of NTIS's FY 2000 Financial Statements

NTIS again received an unqualified opinion on its financial statements. The CPA firm conducting the audit identified no reportable conditions in NTIS's internal control structure, nor any material instances of noncompliance with laws and regulations or with other federal financial management requirements. As a result, the firm made no recommendations. In conjunction with its review of the financial statements, the firm's review of the general controls associated with NTIS's information systems identified weaknesses only in access control. These weaknesses, however, could adversely affect the security of NTIS's data, programs,

and hardware and have a negative effect on both NTIS's and the Department's financial statements. The weaknesses, and the firm's recommendations for correcting them, were discussed in a separate report on systems issues. NTIS agreed with the firm's findings and recommendations and indicated that it had implemented corrective actions for the systems weaknesses. (*Financial Statements Audits Division: FSD-12857-1 and FSD-12857-2*)

Millions of Dollars of MEP Award Costs Questioned as Unallowable or Unsupported

In 1996 NIST awarded a cooperative agreement under its Manufacturing Extension Partnership (MEP) program to an organization whose mission is to provide manufacturing extension services to small and medium-sized manufacturers throughout Illinois. The award covered the period from October 1996 through June 2000 and had total estimated costs of approximately \$20 million. The organization is divided into three regions, each of which is responsible for covering a portion of the state through a subagreement.

The OIG performed an interim audit of the Northern Region subagreement covering the period from October 1996 through September 1999. This subagreement, which is administered by a local college as subrecipient, had estimated costs of \$4.2 million, with the federal share not to exceed approximately \$1.7 million. For the 3-year award period, the subrecipient claimed total costs of about \$4.9 million.

Our audit questioned a total of \$2,480,335 in costs, most of which fell into the following three categories:

- ★ **Training expenses.** We questioned \$972,917 in costs claimed for training services that were inappropriately billed at a flat rate, and were not supported by payroll and time distribution records.
- ★ **Third-party expenses.** We questioned \$790,726 in third-party in-kind contributions, which consisted of consulting fees paid by various clients of the subrecipient directly to outside consultants for services purportedly brokered by the subrecipient. The subrecipient had no demonstrable involvement in these transactions: It did not collect money for the services, perform the services, or ensure the quality of the services. In addition, the consultants did

not contribute any services to the program or to clients, since they charged their full fee, making claimed “in-kind” contributions incorrect.

- ★ **Indirect costs.** We questioned \$570,575 in claimed indirect costs because the subrecipient did not have a negotiated and approved indirect cost rate.

We also questioned \$60,913 paid for services performed by a consultant that were not allowable project costs, \$50,998 in unsupported personnel costs, and \$34,206 in undocumented contractual and construction costs. We recommended that NIST require the award recipient to reduce its total program cost claims by the amount of the questioned costs and direct the subrecipient to revise its accounting procedures to claim only supported and allowable costs.

In response to our draft report, the subrecipient agreed to reduce its cost claims by a total of \$378,066, which included all of the unsupported personnel costs, all of the undocumented contractual and construction costs, and \$292,862 of the costs for third-party expenses. It asserted, however, that the remainder of the costs that we questioned should be allowed. We continue to question those costs. (*Denver Regional Office of Audits: DEN-12525*)

NIST and MEP Award Recipient Take Actions to Eliminate Questioned Costs

A cooperative agreement awarded under NIST’s MEP program to a Louisiana university in 1996 was amended in 1999 to include as co-recipient another organization that provides manufacturing extension services to small and medium-sized manufacturers. The amended agreement covered the period from September 1996 through December 2000 and had estimated costs of approximately \$7 million, with the government’s share not to exceed \$3.2 million. As of June 17, 2000, the co-recipient had claimed total costs of \$6.6 million, including a federal share of \$2.7 million.

At NIST’s request, the OIG conducted an audit of the award to the co-recipient covering the period from September 1996 through May 2000. The purpose of our audit was to determine whether the co-recipient’s accounting and financial management systems complied with federal requirements, evaluate the claimed costs, and identify any instances of noncompliance with award terms and conditions. We also looked into

issues raised in a state auditor's report, which reported several violations of federal regulations, including an inadequate financial management system and weaknesses in internal controls.

Our audit found that the co-recipient had corrected the deficiencies in its financial management system and internal controls to bring them into compliance with federal regulations. However, we questioned \$59,628 in claimed costs, consisting of \$29,094 in costs incurred before the award period, \$26,794 in costs that lacked supporting documentation, and \$3,740 in indirect costs calculated using an incorrect rate. In response to our draft report, the co-recipient deducted from its claim the costs questioned for lack of supporting documentation and the improperly calculated indirect costs. In addition, NIST amended the award to accept virtually all of the costs incurred before the award period. As a result, our final report contained no recommendations. (*Denver Regional Office of Audits: DEN-13102*)

Millions of Dollars of Costs Claimed Under ATP Cooperative Agreement Are Questioned

In 1992 NIST awarded an Advanced Technology Program (ATP) joint venture cooperative agreement to two firms to conduct research on the visible spectrum. For the 5-year award period of October 1992 through September 1997, the project had estimated costs of \$18,030,000, with the federal government's share not to exceed 49.5 percent of allowable costs. One of the firms in the venture served as project administrator, and its portion of the project budget was \$6,859,971, with a proposed federal share of \$3,911,953. The total joint venture cost claim for the award was \$20,789,490, of which the administrator firm's share was \$9,618,095. Based on the cost claims, NIST disbursed \$8,735,364 in federal funds, of which \$3,721,809 went to the administrator firm.

NIST requested that the OIG perform an audit of the costs claimed by the administrator firm under the award. As a result of our audit, we questioned more than \$6.3 million (or about two-thirds) of the firm's claimed costs. The questioned costs involved improper claims of commercial sales of the firm's products, fees claimed for management of the venture in violation of the approved cost structure, costs for which the firm did not provide evidence of allocability to the award, and indirect costs claimed in excess of approved rates.

We recommended that NIST disallow the questioned costs and recover from the firm the resulting excess federal disbursements of over \$1.8 million. (*Denver Regional Office of Audits: DEN-12590*)

Audits of ATP Joint Venture Cooperative Agreements Identify Questioned Costs

Two other OIG audits of ATP cooperative agreements also identified questioned costs.

A Massachusetts firm that was a member of a joint venture had claimed \$1,018,227 in costs under an ATP cooperative agreement. Our audit found that the firm's accounting system was adequate to meet federal requirements and that it was generally in compliance with the agreement's terms and conditions. However, we questioned \$240,106 in costs, including \$68,925 of material costs obligated shortly before or immediately after the expiration date of the award, and \$171,181 of indirect costs that were related to the questioned material costs or calculated using incorrect rates. We recommended that NIST disallow the questioned costs and recover \$102,853 of excess federal disbursements.

The firm agreed that most of the material costs should not be allowed, but claimed that some of these costs were necessary to continue the ATP project after the award period. We note, however, that costs incurred for continuing a project after award expiration are expressly unallowable under applicable criteria. The firm also asserted that the indirect costs exceeding the negotiated rate should be allowed because they were included only in the matching share, and not in the federal share. However, indirect costs in excess of approved rates are not allowable regardless of how they are claimed. (*Denver Regional Office of Audits: DEN-13532*)

We also audited the costs claimed by a New Mexico firm that was a member of a second joint venture. The firm's portion of the total project budget was \$1,799,911, with a proposed federal share of \$899,956. The firm withdrew from the joint venture during the second year and claimed a total of \$215,967 in incurred costs. Our audit questioned \$67,413 of the claimed costs related to equipment costs the firm charged as direct costs, but later improperly transferred to its depreciable equipment account. We recommended that NIST disallow the questioned costs and recover excess federal disbursements of \$33,757.



Although the firm changed its treatment of the equipment costs in response to our draft report, it continued to assert that the transfer of the costs from direct expense to depreciation was justified. We believe that the firm's position is not only without merit, but also contradicts its auditors' previous treatment of the equipment as a direct expense, and we reaffirmed our original recommendation. (*Denver Regional Office of Audits: DEN-13965*)

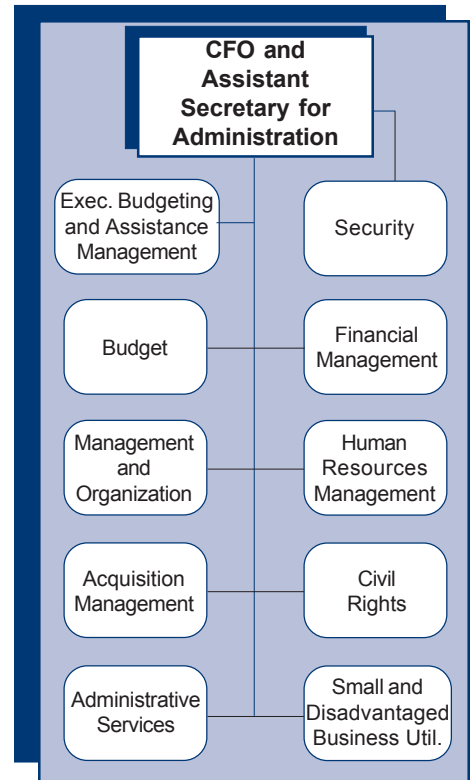
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Policy Has Strengthened Management of Trade Missions, but More Improvements Can Be Made

The Department of Commerce, primarily through the Office of the Secretary and ITA, organizes and leads trade missions, on which U.S. business leaders travel overseas with the Secretary or other senior departmental officials to meet with foreign business leaders, companies, and government officials. The missions are designed to open markets, identify and secure export and investment opportunities for U.S. companies, showcase American products and technology, and further U.S. commercial and foreign policy objectives.

Until 1997, Commerce did not have a written policy governing trade missions or their management, and it was subjected to sharp criticism from various parties claiming that political considerations were a factor in the recruitment and selection of private sector participants for the missions. In March 1997, the Department unveiled a comprehensive policy covering the trade mission authorization process, the recruitment and selection of private sector participants, mission costs, and post-mission reports. The policy explicitly prohibits considering referrals from political parties or references to political contributions or activities in the recruitment and selection of participants.



Trade Mission Application and Selection Process

1. Trade Mission Applications filed out by potential participants.
2. Applications mailed or faxed to the Department of Commerce



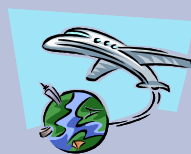
3. Applications reviewed by Tier I panel members against trade mission participation criteria.
4. Panel recommends inviting some applicants, not inviting others, and/or collecting additional information on applications prior to recommendation decisions.
5. Recommendations on applicants forwarded to Tier II panel.



6. Applicants recommended by the Tier I panel for participation are vetted through the Department to determine if there is any information that raises questions about their participation.
7. Tier I recommendations and vetting information are considered by the Tier II panel.



8. Final decision are made by the panel on which applicants to invite on the trade mission.



10. Accepted applicants participate on the trade mission.



9. Letters of invitation to chosen applicants and letters to unsuccessful applicants are sent out.



The OIG conducted a review of the Department's March 1997 trade mission policy and its implementation. In a report issued shortly after the end of the semiannual period, we concluded that the policy has provided a more disciplined and consistent approach to the conduct of Commerce trade missions. However, we also identified actions that can be taken to increase the policy's effectiveness and further improve the Department's management of trade missions. Following are our specific findings:

- ★ **Policy has strengthened management of trade missions.** Our review of all 20 trade missions led by either the Secretary or other high-level Commerce officials from March 1997 to October 2000 showed that many of the objectives and requirements of the trade mission policy were met. We noted, for example, that for each of the missions, trade mission statements were prepared that specifically defined the goals of the missions and the criteria for participation. In addition, recruitment efforts appeared to be broad-based, as required by the policy. Most importantly, decisions as to which private sector individuals went on the missions, where documented, appeared to be appropriate and based on objective criteria.

- ★ **Improvements are needed in the policy and its implementation.** We identified areas in which the policy could be improved and its application to future trade missions could be strengthened. For example, the policy may not be appropriate for all "reverse" trade missions, which bring foreign buyers to visit U.S. companies, and the "diversity" criterion used on the trade mission application and in the selection process needs clarification. In addition, documentation of trade missions has not been consistently maintained. Key documents related to trade mission planning were well maintained, but documents related to the participant recruitment and selection processes, mission results, and cost reports were not present in all files. Maintaining appropriate documentation is key to demonstrating that the missions are being managed in a fair, objective manner.

- ★ **The application process could be made more efficient.** The Department has not taken full advantage of opportunities to reduce the paper-intensive nature of the trade mission application process and improve its efficiency through wider use of information technology. Although the Office of the Secretary had used the Internet for the receipt and delivery of some trade mission applications, ITA had not used it at all. Considering the widespread use of the Internet by ITA and the Department to promote exporting, and the Department's role in promoting



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e-commerce nationwide, we believe that the trade mission application process and payment transactions could be more efficiently handled electronically.

- ★ **Certain policy areas need additional implementing guidelines and procedures.** The topics covered by the trade mission policy run the gamut from broad policy goals and objectives to specific implementing steps. Although the policy is clear on how to implement some of its steps and criteria, it is less clear on others, such as documentation requirements. Therefore, we believe that the policy needs to be refined and supported by specific implementing guidelines to help ensure full and consistent compliance. In our view, a revised policy statement, along with a set of implementing guidelines, would help both Commerce officials and trade mission applicants more readily understand what information and steps are required to successfully conduct trade missions.

We made a number of recommendations to further strengthen the trade mission policy and its implementation. In response to our report, the Secretary indicated that he is committed to following a process of evaluation and action to ensure that trade missions serve their intended public purpose. (*Office of Inspections and Program Evaluations*)

Additional Focus Needed on Information Technology Security Policy and Oversight

Information technology (IT) security is an increasing concern in government as vulnerabilities, threats, and attacks grow with the dramatic rise in the number of government networks and use of the Internet. Although no network can be guaranteed to be completely secure, agencies can take steps to mitigate risk, such as developing and overseeing an effective security program based on sound policy.

Commerce's Chief Information Officer (CIO) is responsible for developing and implementing a departmental IT security program to ensure the confidentiality, integrity, and availability of information and IT resources. The CIO's responsibilities include developing policies, procedures, and directives for IT security and providing oversight of the IT security programs of the Department's operating units.

During this semiannual period, the OIG conducted an inspection to assess the effectiveness of the CIO's policy and oversight of the Department's



IT security program. We did not examine classified systems, which are the responsibility of the Office of Security. Our review focused on the CIO's compliance with laws and regulations governing IT security and the CIO's actions in recent years to oversee the Department's IT security program.

We found that over the past several years, the CIO's office has expanded its focus on and increased the resources devoted to IT security. For example, the office conducted its first Department-wide assessment of IT security planning in 1999 and reviewed operating unit self-assessments in 2000, which resulted in increased compliance with security requirements. However, because IT security did not receive enough attention in the past, policy and oversight need further improvements, as discussed in the following sections:

IT Security Policy Needs to Be Revised and Expanded

The Department's IT security policy is out of date because it was developed in 1993 and 1995, prior to a significant revision of Appendix III to OMB Circular A-130, which deals with the security of federal automated information resources. The policy is also missing important components because it has not kept pace with recent trends in technology and related security threats. The Department's policy must be kept current and complete because the operating units use it as the foundation of their general policies and to write system-specific policies.

The major areas of the policy that need to be revised are IT security planning, certification of system controls, periodic reviews of individual systems, security incident reporting, risk assessment, contingency and disaster recovery planning, security awareness and training, authorization of systems to process sensitive information, and referencing of related federal requirements. In addition, issue-specific policy regarding Internet usage, e-mail, Web security, and communications needs to be added. We recommended that the CIO revise the outdated program policy and incomplete issue-specific policies for the Department's IT security program as soon as possible.

Additional IT Security Compliance Procedures Are Needed

Although the CIO has recently made strides in improving IT security compliance, for several years Departmental oversight was minimal. As a result, security for many of the Department's systems has not been adequately planned, and security reviews have not been performed. In addition, several operating units do not have adequate awareness and



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training programs or adequate capabilities for responding to IT security incidents.

The Government Information Security Reform Act requires the CIO to conduct annual reviews of IT security in 2001 and 2002 similar to the 2000 self-assessments it oversaw. We recommended that the CIO commit to a program of operating unit reviews that extends beyond the act's 2-year review requirement. The reviews should determine whether all operating unit policy is in compliance with federal criteria, IT security awareness and training programs have been developed, and formal incident response capabilities have been implemented.

Moreover, the CIO should work with the Department's acquisition and budget managers to ensure that IT-related procurement specifications include security requirements and that the requirements are included in operating unit budgets. The CIO should also ensure that deficiencies in IT security are reported as material weaknesses pursuant to OMB Circular A-123 and the Federal Managers' Financial Integrity Act.

The program should also include sampling of operating unit IT security documents to ensure that IT security planning for the Department's most critical systems is complete, systems are properly approved for processing information, the security controls in each system are reviewed periodically, and a mechanism exists for ensuring that only legal copies of software are being used.



The CIO agreed with all of our recommendations for further improving IT security and cited a number of corrective actions planned to implement them. Specifically, the CIO agreed to revise, expand, and update the Department's IT security policy; continue the compliance review program beyond the 2-year period required by the act; begin security reviews as soon as possible; and make specific security improvements at the operating unit level. (*Office of Systems Evaluation: OSE-13573*)

Audit of the Department's FY 2000 Consolidated Financial Statements

For the second consecutive year, FY 2000, the Department received an unqualified opinion on its consolidated financial statements, and all of its reporting entities also received clean opinions.



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Moreover, during FY 2000, sufficient progress was made to warrant removing from the consolidated report on internal control, the reportable conditions dealing with controls surrounding property and accounts payable and accrued grant expenses.

Nevertheless, our audit of the consolidated statements identified four reportable conditions, of which three are repeat conditions from the prior year and one—involving prompt recognition and recording of appropriations—is new. Although the Department made progress in correcting certain aspects of these conditions during the year, further improvements are needed in the following areas:

- ★ **Financial management systems.** The Department needs to integrate its financial systems and improve general controls to provide assurance that the data used to prepare financial statements is reliable. While progress is being made, much remains to be done. In addition, the audits of Commerce reporting entities' FY 2000 financial statements included reviews of the general controls associated with the major financial management systems. These reviews disclosed system security weaknesses in all six major review areas identified by the General Accounting Office's *Federal Information System Controls Audit Manual*. These weaknesses, if not resolved, could adversely affect the entities' ability to produce accurate data for financial statements.
- ★ **Reporting entities' financial management and reporting.** Several entities need to improve the timeliness and accuracy of their financial statements, and provide better financial management oversight and supervisory review of the statements. Specifically, three entities, representing more than half of the Department's budgetary resources, had material weaknesses identified in their financial management and reporting processes. In addition, the entities need to strengthen statement of net cost preparation, improve implementation of financial systems, and more closely monitor the budget execution process to reduce the possibility that funds are overobligated.
- ★ **Prompt recognition and recording of appropriations.** Appropriations need to be promptly recognized when enacted into law and promptly recorded in the appropriate accounting period. Appropriated amounts relating to the Emergency Steel Loan Guarantee Program and the Emergency Oil and Gas Loan Program were not recorded in the general ledger in FY 1999, and as a result were excluded from the FY 1999 financial statements.



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The appropriations were not recorded in a departmental accounting system until almost six months into FY 2000. Reportedly, confusion existed as to whether or where the appropriations had been recorded.

- ★ **Reconciliations.** The Department and its reporting entities need to strengthen their procedures related to reconciliations. Consistent with the prior year, internal control deficiencies continued to be identified in some reporting entities' reconciliation process. Reconciliations were identified as a material weakness at one reporting entity and as a component of a material weakness at another reporting entity. In addition, the Department did not complete the required reconciliations of intragovernmental balances with other federal and non-federal entities.

We consider the first three reportable conditions described above to be material weaknesses, and we made recommendations to the Department to address all four conditions.

In performing tests of the Department's compliance with selected provisions of applicable laws and regulations that could materially affect the FY 2000 consolidated financial statements, we noted four instances of noncompliance:

- ★ The Department was not in substantial compliance with the requirements of the Federal Financial Management Improvement Act of 1996 in that it did not meet the requirements for a single, integrated financial management system. In addition, three of the Department's financial management systems did not fully comply with federal financial management systems requirements.
- ★ The Department did not comply with the Government Performance and Results Act of 1993 and the implementation guidance in OMB Circular A-11. Specifically, it did not submit its Strategic Plan for FY 2000-05 to the Congress until more than 3 months after the mandated deadline.
- ★ NOAA did not fully fund its capital leases, a practice that is contrary to OMB Circular A-11, which requires agencies to have sufficient budgetary resources up front to cover the present value of the lease payments for capital assets and lease purchases.



- ★ ITA has not fully complied with OMB Circular A-25, which requires federal agencies to recover the full cost of providing goods and services unless it has received a waiver from OMB.

All of the findings and recommendations included in this report and the individual reporting entity reports have been reviewed by appropriate departmental managers. They generally concurred with our audit findings but did not agree that the deficiency related to the prompt recognition and recording of appropriations should be considered a material weakness. (*Financial Statements Audits Division: FSD-12849*)

Section 803 of the Federal Financial Management Improvement Act requires agencies to determine whether they are in substantial compliance with the act. If not, they are required to prepare a remediation plan outlining the actions to bring them into compliance. The Department of Commerce determined that it is not in compliance with the act and has prepared a remediation plan.

Under Section 804(b) of the act, the OIG is required to notify the Congress when the Department does not meet intermediate target dates in its remediation plan. We did not identify any instances that would necessitate notifying the Congress. The Department plans to update its remediation plan on the basis of progress made and the results of the audit of its FY 2000 statements.

Audit of the FY 2000 Combined Financial Statements of Several Departmental Entities

An unqualified opinion was received on the FY 2000 combined financial statements of ESA and BEA, MBDA, and the Department's Working Capital and Salaries and Expense Funds and its Emergency Steel Loan Guarantee and Emergency Oil and Gas Guaranteed Loan Programs. All of these entities receive accounting services from NIST, which uses the Financial Accounting and Reporting System, operated by the Department's Office of Computer Services. Therefore, in an effort to improve audit efficiency and reduce duplication of effort, the financial statement reporting for these entities was combined.

The CPA firm conducting the audit identified one material weakness in the combined entities' internal control structure involving the recording of the beginning balances of the unexpended appropriations for the two loan guarantee programs. The audit revealed that the appropriated amounts for these programs—totaling \$270 million—were not recorded in the



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general ledger in FY 1999, and as a result, the FY 2000 beginning balances for the two programs were not in the accounting system. Appropriations need to be promptly recognized when enacted into law and promptly recorded in the appropriate accounting period. The firm also determined that the reporting entity's financial management systems did not substantially comply with applicable requirements, as required by the Federal Financial Management Improvement Act.

In addition, the firm conducted a review of the general controls associated with the Financial Accounting and Reporting System. Following up on a number of recommendations made in prior years, the firm found that most had been implemented. It also made two new recommendations involving entitywide security program planning and management and access control. The Office of Computer Services agreed with the systems-related findings and recommendations and began implementing corrective actions. (*Financial Statements Audits Division: FSD-12852-1 and FSD-12852-2*)

Preaward Financial Assistance Screening

As part of our continuing emphasis on prevention, 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 485 proposed awards. On 17 of the awards, we found major deficiencies that could affect the ability of the proposed recipients to maintain proper control over federal funds. On the basis of the information we provided, the Department withdrew some awards, delayed other 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 withdrawn	7	\$140,000
Awards delayed to resolve concerns	9	5,425,515
Special award conditions established	1	370,000

Indirect Cost Rates

Under OMB policy, a single federal agency—the “cognizant agency”—is responsible for the review, negotiation, and approval of indirect cost rates for public and private entities receiving funds under various federal programs. Normally, the federal agency providing the most direct funding to an entity is designated as its cognizant agency. OMB has designated Commerce as the cognizant agency for about 280 economic development districts, as well as a number of state and local government units. From time to time, the Department also has oversight responsibilities for other recipient organizations. The Department has authorized the OIG to negotiate indirect cost rates and review cost allocation plans on its behalf. The OIG reviews and approves the methodology and principles used in pooling indirect costs and establishing 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 18 indirect cost rate agreements with nonprofit organizations and governmental agencies, and reviewed and approved 16 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. Further, we continued to work closely with first-time for-profit 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 OIG-performed audits, certain of the Department’s financial assistance recipients are periodically audited by state and local government auditors and by independent public accountants. OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organiza-*

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tions, sets forth the audit requirements for most of these audits. For-profit organizations that receive Advanced Technology Program funds from NIST are audited in accordance with *Government Auditing Standards* and *NIST Program-Specific Audit Guidelines for ATP Cooperative Agreements*, issued by the Department.

We examined 155 audit reports during this semiannual period to determine whether they contained any audit findings related to Department programs. For 117 of these reports, the Department acts as oversight agency and monitors the auditee's compliance with the applicable OMB circulars or the NIST program-specific reporting requirements. The other 38 reports are from entities for which other federal agencies have oversight responsibility.

Report Category	OMB A-133 Audits	ATP Program-Specific Audits	Total
Pending (October 1, 2000)	7	34	41
Received	76	86	162
Examined	72	83	155
Pending (March 31, 2001)	11	37	48

The following table shows a breakdown by bureau of the \$243 million in Commerce funds audited.

Bureau	Funds
EDA	\$25,766,231
MBDA	262,753
NIST	162,595,856*
NOAA	22,904,165
NTIA	333,679
Multi-Agency	31,085,872
Agency not identified	339,063
Total	\$243,287,619

*Includes \$154,887,994 in ATP program-specific audits.



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We identified a total of \$645,391 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 15 reports with Commerce findings are listed in Appendix B-1. (*Atlanta Regional Office of Audits*)



Investigative Highlights

The OIG's Office of Investigations (OI) is responsible for investigating allegations of fraud and other wrongdoing that affect Commerce Department 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, OI special agents are authorized to exercise full law enforcement powers as special deputy U.S. marshals under a deputation agreement with the Justice Department. We also work cooperatively with the Federal Bureau of Investigation and other federal law enforcement agencies on a regular basis to investigate matters of mutual interest. The results of OIG investigations of employee misconduct are provided to agency officials to support disciplinary and administrative actions.

During this semiannual period, OIG investigations led to six convictions and the filing of either indictments or criminal informations against seven individuals. There were also six personnel actions taken by the Department as a result of OI case work. The following are highlights of our investigative activity over the past six months.

Former Census Employee Indicted for Accepting Bribes

On October 13, 2000, a former community partnership specialist in the Dayton regional office was indicted by a federal grand jury in the Southern District of Ohio on charges of wire fraud and bribery after a joint OIG/FBI investigation disclosed that he had misused his position to solicit and receive at least \$1,750 from four local vendors in exchange for favorable treatment in purchasing promotional items, such as t-shirts and mugs, for the 2000 Decennial Census campaign. The six-count indictment charges the defendant with one count of wire fraud and five counts of bribery. Bribery offenses carry a maximum penalty of 15 years' imprisonment and a \$250,000 fine; wire fraud carries a maximum penalty of 5 years' imprisonment and a \$250,000 fine. As of the end of this reporting period, a trial date had not been set. (*Washington Field Office of Investigations*)



NOAA Employee Convicted for Conflict of Interest Violation

In December 2000, a NOAA employee pleaded guilty to a violation of 18 U.S.C. §208 after an OIG investigation revealed that he had engaged in a scheme to obtain rebates from a computer vendor under a secret “self-servicing” agreement for warranted repairs to government computers. The terms of the agreement allowed the employee—rather than the vendor’s technicians—to repair equipment that was under warranty, in return for which the vendor issued rebate checks to the government in care of the employee. Over a period of approximately 4 years, the employee received and appropriated checks totaling \$5,229 that were intended as credits to the government’s account.

On March 13, 2001, the employee was sentenced in U.S. District Court for the Eastern District of Virginia to 10 days in jail with 2 years’ supervised probation, and was ordered to pay a \$1,000 fine and make full restitution to the government. He remains on an indefinite suspension without pay, which NOAA had imposed following his indictment last October. (*Silver Spring Field Office of Investigations*)

Census Employee Pleads Guilty to Downloading Child Pornography

A joint Commerce OIG/U.S. Customs Service investigation resulted in the December 2000 conviction of a Census employee for possession of child pornography, which he had downloaded onto his government computer. On February 28, 2001, the subject was sentenced in U.S. District Court for the District of Maryland to 3 years’ probation, mandatory psychiatric counseling, and a \$2,500 fine. (*Washington Field Office of Investigations*)

Employee Receives 30-Day Suspension for Misuse of Government Equipment

A NOAA employee was suspended for 30 days after an OIG investigation disclosed that he had used agency photographic equipment for personal purposes on multiple occasions, and had



Investigative Highlights

downloaded approximately 400 sexually explicit pictures and stored them in a password-protected file on his government computer. *(Silver Spring Field Office of Investigations)*

Felony Theft Conviction for Personal Use of Government Purchase Card

On December 12, 2000, a former employee in the Office of Acquisition Management entered a guilty plea on one count of theft of government property after an OIG investigation disclosed that she had charged about \$50,000 on her government purchase card to make numerous purchases of clothing, jewelry, and other luxury items, and to pay her rent and fees for various personal services. Sentencing has been scheduled for April 2001 in U.S. District Court for the District of Columbia. *(Washington Field Office of Investigations)*

Bench Trial Results in Guilty Verdict on Theft Charge

A former USPTO contract employee was convicted of theft of government property on January 4, 2001, after trial before a U.S. district judge in the Eastern District of Virginia on charges that she had used a government purchase card to make nearly \$700 worth of purchases for personal use. An OIG investigation revealed that a departing USPTO employee had surrendered her government-issued purchase card to the defendant in the course of completing agency separation procedures. The defendant and a companion then used the card to charge various items of apparel at a women's clothing store in Virginia. Sentencing was scheduled for April 2001. *(Silver Spring Field Office of Investigations)*

Conspiracy to Defraud the Government Leads to Conviction of NOAA Employee

On March 14, 2001, a NOAA employee was convicted of conspiracy to defraud the government based on an arrangement with another employee to falsify the latter's payroll records to reflect regular and overtime hours that were not actually worked. For five



pay periods when the second employee was on leave without pay, the defendant entered false information into the payroll system, which enabled the absent employee to receive more than \$9,800 in pay to which she was not entitled; she then paid \$1,500 of the proceeds to the defendant. Both employees have resigned from federal employment, and further action against the second employee is pending. The defendant's sentencing is scheduled in U.S. District Court for the District of Columbia for May 31, 2001. *(Silver Spring Field Office of Investigations)*

Former USPTO Employee Convicted of Theft of Government Property

On October 26, 2000, a former USPTO employee pleaded guilty to one count of theft of government property after a search warrant executed during the course of a U.S. Secret Service credit card/identity fraud investigation turned up numerous Commerce personnel and payroll records at her residence. On January 9, 2001, she was sentenced in U.S. District Court for the Eastern District of Virginia to one year of supervised probation. *(Silver Spring Field Office of Investigations)*

Two Senior Managers Reprimanded for Misconduct

A senior executive was issued a letter of reprimand based on the results of an OIG investigation that found he had used his position to pressure another senior manager into accepting the reassignment of an employee to his division, and then later pressured the same manager into authorizing a cash award for the transferred employee. The manager who made the award also received a letter of reprimand for making the improper award, as well as for awarding the employee two additional bonuses that were not appropriate under the agency's performance award program. *(Silver Spring Field Office of Investigations)*



Investigative Highlights

Employee Suspended for Misuse of Government Equipment

A patent examiner received a 5-day suspension after an OIG investigation revealed that he had used government equipment to make nearly 500 personal telephone calls and telefax transmissions over a five-month period, many of which were in furtherance of his private business ventures. (*Washington Field Office of Investigations*)

MBDA Employees Cited for Ethics Violation

An MBDA employee was admonished and required to attend supplemental ethics training after an OIG investigation established that she had solicited subordinate employees to contribute to the purchase of a gift for a senior agency official in violation of the standards of ethical conduct. The senior official was reminded of the prohibitions regarding acceptance of gifts, and required to reimburse the employees for the cost of the gift. (*Denver Field Office of Investigations*)



Office of Inspector General

Audit Resolution and Follow-up

The Inspector General Act Amendments of 1988 require us to present in this report those audits issued before the beginning of the reporting period (October 1, 2000) for which no management decision had been made by the end of the period (March 31, 2001). We are pleased to report that there are no audit reports that have been unresolved over six months.

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

Report Category	Modifications	Appeals
Actions Pending (October 1, 2000)	0	5
Submissions	0	5
Decisions	0	3
Actions Pending (March 31, 2001)	0	7

External Peer Review Finds OIG Audit Operations in Compliance with Standards

During this semiannual period, a team from the Department of State OIG completed an external peer review of our audit operations. In its report, the State team concluded that the system of quality controls for our audit function has been designed in accordance with the quality standards established by President's Council on Integrity and Efficiency and was being complied with in a manner that provides reasonable assurance of conforming with professional standards in the conduct of our audits.

The State team performed a comprehensive review of our audit operations, including both an examination of our policies and procedures and a critique of the internal quality assurance program managed by our Office of Compliance and Administration. The team evaluated a number of completed assignments and the audit files at Office of Audits divisions in the Washington, D.C., area and regional offices in Atlanta and Denver.

Office of Inspector General



The final report's recommendations centered on updating the OIG manual and encouraging the Office of Audits to adhere more closely to established policies. The Office of Audits has already responded, and we will emphasize these areas during future internal quality reviews.

During this semiannual period, we completed a similar peer review of the audit activities of the National Aeronautics and Space Administration OIG. Our final report, presented in January, concluded that the agency's OIG also had a quality control system that complied with professional standards.



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	87
5(a)(1)	Significant Problems, Abuses, and Deficiencies	16-83
5(a)(2)	Significant Recommendations for Corrective Action	16-83
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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 on page 74.



Reporting Requirements

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 that 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 in the administration 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 an identification of each significant recommendation described in previous semiannual reports on which corrective action has not been completed. Section 5(b) requires that the Secretary transmit to the Congress statistical tables for audit reports for which no final action has been taken, plus an explanation of the reasons final action has not been taken on each such report, 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 March 31, 2001, based on semiannual status reports due from the bureaus in mid-April. An accurate database was therefore not available to the OIG for reference here. However, additional information on the status of any audit recommendations may be obtained through the 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 the reasons such management decision has not been made, and a statement concerning the desired timetable for achieving a management decision on each such report. There were no reports for this period.

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 revision of a management decision. For performance audits, the OIG must be consulted and must approve, in advance, any modification to an audit action plan. For financial assistance audits, the 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 three appeals of audit-related debts were finalized with the full participation and concurrence of the OIG.

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

This section requires information concerning any significant management decision with which the Inspector General is in disagreement. Department Administrative Order 213-5 provides procedures for the elevation of unresolved audit recommendations to higher levels of Department and OIG management, including 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	\$6,744,585
Value of audit recommendations made this period that funds be put to better use	\$7,638,948
Value of audit recommendations agreed to this period by management	\$3,070,943
Value if inspection recommendations made this period that funds be put to better use	\$762,028

Investigative Statistical Highlights

Matters referred for prosecution	10
Indictments and informations	7
Convictions	6
Personnel actions*	6
Fines, restitutions, judgments, and other civil and administrative recoveries	\$9,714

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

Allegations Processed by OIG Investigators

OIG Hotline (202) 482-2495 (800) 482-5197 oighotline@oig.doc.gov	Accepted for investigation	22
	Referred to operating units	48
	Evaluated but not accepted for investigation or referral	67
	Total	137

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



Tables and Appendixes

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DEFINITIONS	
<p>The term questioned cost refers to 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>The term unsupported cost refers to a cost that, at the time of the audit, is not supported by adequate documentation. Questioned costs include unsupported costs.</p>	
<p>The term recommendation that funds be put to better use 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>The term management decision 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	22	\$4,675,622	\$1,641,276
B. Reports issued during the reporting period	18	6,744,585	2,782,829
Total reports (A+B) requiring a management decision during the reporting period	40	11,420,207	4,424,105
C. Reports for which a management decision was made during the reporting period	22	4,675,622	1,641,276
i. Value of disallowed costs		2,912,954	1,646,820
ii. Value of costs not disallowed		1,787,401	98,790
D. Reports for which no management decision had been made by the end of the reporting period	18	6,744,585	2,782,829

Notes and Explanations:

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

Four 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.



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	2	\$157,989
B. Reports issued during the reporting period	8	7,638,948
Total reports (A+B) requiring a management decision during the reporting period	10	7,796,937
C. Reports for which a management decision was made during the reporting period	2	157,989
i. Value of recommendations agreed to by management		157,989
ii. Value of recommendations not agreed to by management		--
D. Reports for which no management decision had been made by the end of the reporting period	8	7,638,948

Notes and Explanations:

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

Four 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.

Office of Inspector General Reports

Appendix A



Type	Number	Appendix
Performance Audits	4	A-1
Inspections	9	A-2
Financial Statements Audits	19	A-3
Financial Related Audits	19	A-4
Total	51	



Performance Audits Appendix A-1

Agency	Subject	Number	Date	Funds to Be Put to Better Use
EDA	Financial Assistance Programs' Award Processes Promote Merit-Based Selection Decisions, CFDA Nos. 11.300, 11.303-11.305, and 11.307	DEN-11580	12/00	--
NOAA	NWS National Data Buoy Center's Evaluation of Technical Services Contract Was Inadequate	ATL-12319	03/01	\$ 5,200,000
	Work on Electronic Charting Database Should Be Re-competed	STD-13440	03/01	--
TA	Internal Controls Over NIST's Bankcard Program Need Improvement	DEN-11787	03/01	--

Inspections

Appendix A-2



**Funds to Be
Put to
Better Use**

Agency	Subject	Number	Date	Funds to Be Put to Better Use
BXA	Most Allegations of Irregularities in Nonproliferation Export Control Cooperation Program Could Not Be Supported	IPE-13313	02/01	--
	Management of the Commerce Control List and Related Processes Should Be Improved	IPE-13744	03/01	--
	Annual Follow-up Report on Previous Export Control Recommendations, as Mandated by the National Defense Authorization Act for Fiscal Year 2000	IPE-14246(1)	03/01	--
ESA	Actions to Address the Impact on the Accuracy and Coverage Evaluation of Suspected Duplicate Persons in the 2000 Decennial Census	OSE-13812	03/01	--
ITA	US&FCS Mexico Requires Better Financial and Administrative Management as It Undertakes an Ambitious Export Promotion Program	IPE-11844	01/01	\$762,028
	Although Progress Has Been Made, More Needs to Be Done to Deliver On-Line Export Promotion Information and Services	IPE-13213	03/01	--
O/S	Additional Focus Needed on Information Technology Security Policy and Oversight	OSE-13573	03/01	--
USPTO	Search System Problems Being Addressed, but Improvements Needed for Future Systems	OSE-12679	03/01	--
TA	CRADA with the Coblenz Society Should Receive Greater Scrutiny	IPE-13200	02/01	--



Financial Statements Audits

Appendix A-3

Agency	Subject	Number	Date
BXA	Financial Statements for FY 2000	FSD-12848	03/01
EDA	Improvements Needed in the General Controls Associated with Financial Management Systems	FSD-12851(1)	01/01
	Financial Statements for FY 2000	FSD-12851(2)	03/01
ESA	Improvements Needed in the General Controls Associated with Census Bureau Financial Management Systems	FSD-12850(1)	01/01
	Census Bureau's Financial Statements for FY 2000	FSD-12850(2)	03/01
ITA	Review of General and Application System Controls Associated with the FY 2000 Financial Statements	FSD-12854(1)	01/01
	Financial Statements for FY 2000	FSD-12854(2)	03/01
NOAA	Improvements Needed in the General Controls Associated with Financial Management Systems	FSD-12855(1)	12/00
	Financial Statements for FY 2000	FSD-12855(2)	03/01
O/S	Department of Commerce's Consolidated Financial Statements for FY 2000	FSD-12849(1)	03/01
	FY 2000 Federal Agencies' Centralized Trial-Balance System Data Verification Agreed-Upon Procedures	FSD-12849(2)	03/01
	Follow-up Review of the General Controls Associated with the Office of Computer Services/Financial Accounting and Reporting System	FSD-12852(1)	01/01

Financial Statements Audits

Appendix A-3 (continued)



Agency	Subject	Number	Date
O/S	ESA and BEA, MBDA, WCF, S&E, and ELGP FY 2000 Combined Financial Statements	FSD-12852(2)	03/01
USPTO	Improvements Needed in the General Controls Associated with Financial Management Systems	FSD-12858(1)	12/00
	Financial Statements for FY 2000	FSD-12858(2)	03/01
TA	Improvements Needed in the General Controls Associated with NIST Financial Management Systems	FSD-12859(1)	02/01
	TA, NIST, and NTIA Combined Financial Statements for FY 2000	FSD-12859(2)	03/01
	Improvements Needed in the General Controls Associated with NTIS Financial Managemnt Systems	FSD-12857(1)	01/01
	NTIS Financial Statements for FY 2000	FSD-12857(2)	03/01



Financial Related Audits Appendix A-4

Agency/Auditee	Number	Date	Questioned Costs	Unsupported Costs	Funds to Be Put to Better Use
EDA					
Bay Area Economic Forum, CA	STL-13173	01/01	--	--	--
Community Development Commission, Los Angeles County, CA	STL-13176	03/01	--	--	--
East Los Angeles Community Union, CA	STL-13178(1)	03/01	--	--	\$45,000
East Los Angeles Community Union, CA	STL-13178(2)	03/01	--	--	--
Jefferson Parish Economic Development Commission, LA	ATL-13214	03/01	--	--	286,686
Lower Chattahoochee Regional Development Center, GA	ATL-12618	03/01	--	--	575,247
North East Texas Economic Development District	ATL-13735	03/01	--	--	--
Stark Development Board Finance Corporation, OH	DEN-13741	03/01	--	--	250,000
Tooele City Corporation, UT	DEN-13104	03/01	\$1,605,527	\$1,605,527	--
Tyler Economic Development Council, TX	ATL-13734	03/01	--	--	534,582
ITA					
Software and Information Industry Association, DC	BTD-12650	03/01	163,494	--	--
MBDA					
Economic Development Bank for Puerto Rico	ATL-13950	03/01	268,927	266,405	297,592

Financial Related Audits

Appendix A-4 (Continued)



Agency/Auditee	Number	Date	Questioned Costs	Unsupported Costs	Funds to Be Put to Better Use
NOAA					
Review of Allegations of Improper Use of Mitchell Act Funds at the Ringold Hatchery	STL-13177	02/01	--	--	--
NTIA					
Philadelphia Mayor's Office of Community Services, PA	ATL-13174	02/01	164,860	65,738	449,841
TA-NIST					
Manufacturing Extension Partnership of Louisiana	DEN-13102	11/00	--	--	--
SDL, Inc., CA	DEN-12590	02/01	3,627,336	675,314	--
Genome Therapeutics Corporation, MA	DEN-13532	03/01	102,853	--	--
Illinois Manufacturing Extension Center	DEN-12525	03/01	132,440	86,960	--
TPL, Inc., NM	DEN-13965	03/01	33,757	--	--



Processed Reports Appendix B

The Office of Inspector General reviewed and accepted 155 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	42
Minority Business Development Agency	1
National Institute of Standards and Technology	89*
National Oceanic and Atmospheric Administration	11
National Telecommunications and Information Administration	3
Multi-Agency	6
Agency Not Identified	3
Total	155

*Includes 83 ATP program-specific audits.

Processed Financial Related Audits

Appendix B-1



Agency/Auditee	Number	Date	Questioned Costs	Unsupported Costs
EDA				
Kenai Peninsula Borough Economic Development District, AK	ATL-09999-1-0661	03/01	\$37,500	--
NOAA				
The Jason Foundation for Education, MA	ATL-09999-1-0295	12/00	--	--
TA-NIST				
General Motors Corporation, MI	ATL-09999-1-0066	10/00	--	--
General Motors Corporation, MI	ATL-09999-1-0067	10/00	--	--
Allied Signal, Inc., Ceramic Components, CA	ATL-09999-1-0186	11/00	33,273	--
Design Evolution 4, Inc., OH	ATL-09999-1-0188	01/01	98,909	--
The Black Emerald Group, Inc., MA	ATL-09999-1-0189	03/01	6,226	--
Pepin Associates, Inc., ME	ATL-09999-1-0191	01/01	37,856	--
General Motors Corporation, MI	ATL-09999-1-0199	11/00	--	--
General Motors Corporation, MI	ATL-09999-1-0200	11/00	--	--
Osmonics, Inc., MN	ATL-09999-1-0342	03/01	11,070	--
Brunswick Technologies, Inc., ME	ATL-09999-1-0359	03/01	316,393	--
E.I. DuPont de Nemours and Company Microcircuit & Component Materials, OH	ATL-09999-1-0481	03/01	12,304	--
Lincoln Electric Company, Inc., OH	ATL-09999-1-0547	12/00	85,414	\$ 82,885
CommerceNet Consortium, Inc., CA	ATL-09999-1-0652	01/01	6,446	--



Definitions of 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 guaranties. 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.

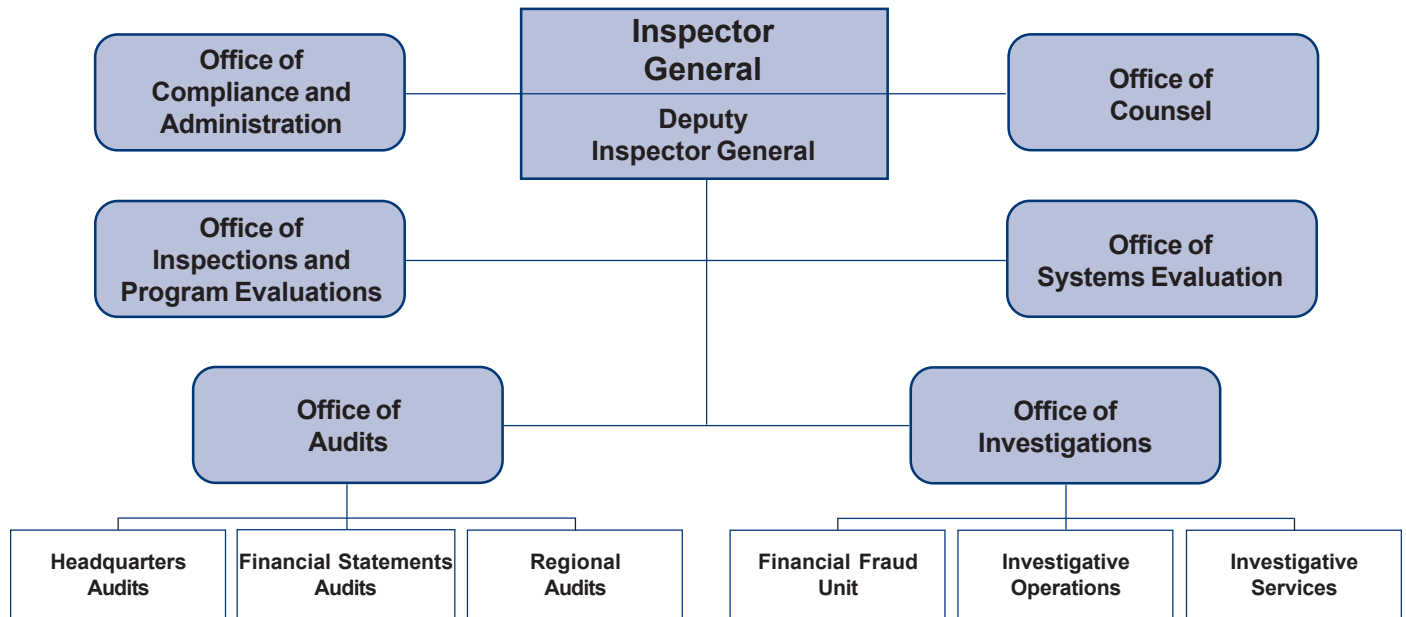
Systems Evaluations—These are reviews of system development, acquisitions, operations, and policy in order to improve efficiency and effectiveness. They focus on Department-wide computer systems and other technologies and address all project phases, including business process reengineering, system definition,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

Glossary of Abbreviations



A.C.E.	Accuracy and Coverage Evaluation
ATP	Advanced Technology Program
BEA	Bureau of Economic Analysis
BXA	Bureau of Export Administration
CAMS	Commerce Administrative Management System
CIO	Chief Information Officer
CPA	Certified Public Accounting
CRADA	Cooperative Research and Development Agreement
ECCN	Export Control Classification Number
EDA	Economic Development Administration
ESA	Economics and Statistics Administration
GAO	General Accounting Office
GPRA	Government Performance and Results Act
GWAC	Government-wide Agency Contract
IG	Inspector General
IT	Information Technology
ITA	International Trade Administration
MAF	Master Address File
MBDA	Minority Business Development Agency
MEP	Manufacturing Extension Partnership
NEC	Nonproliferation Export Control Cooperation
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
OI	Office of Investigations
OIG	Office of Inspector General
OMB	Office of Management and Budget
RLF	Revolving Loan Fund
TA	Technology Administration
US&FCS	U.S. and Foreign Commercial Service
USPTO	U.S. Patent and Trademark Office

Office of Inspector General Organization Chart



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