

U.S. DEPARTMENT OF COMMERCE

FY 2004 PERFORMANCE &
ACCOUNTABILITY HIGHLIGHTS

AMERICAN JOBS, AMERICAN VALUES

THE DEPARTMENT AT A GLANCE



Strategic Goals

Goal 1: Provide the information and tools to maximize U.S. competitiveness and enable economic growth for American industries, workers, and consumers.

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

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

Management Integration Goal: Achieve organizational and management excellence.

Location

The Department is headquartered in Washington, D.C., at the Herbert Clark Hoover Building, which is located on eight acres of land covering three city blocks. The Department also has field offices in all states and territories and maintains offices in more than 86 countries worldwide.

Employees

The Department is an agency with approximately 35,000 employees.

Financial Resources

The Department's FY 2003 budget was approximately \$5.6 billion and its FY 2004 budget is about \$6.0 billion.

Internet

The Department's Internet address is www.doc.gov.

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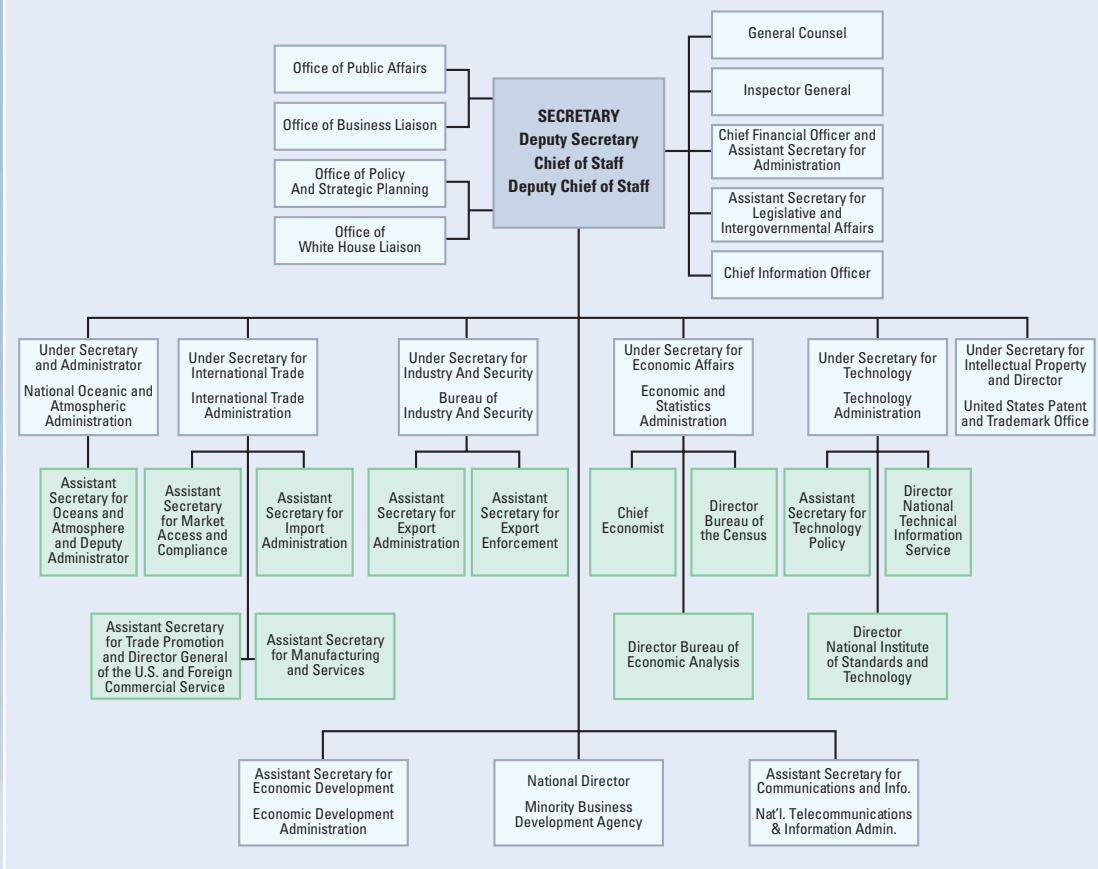


U.S. DEPARTMENT OF COMMERCE

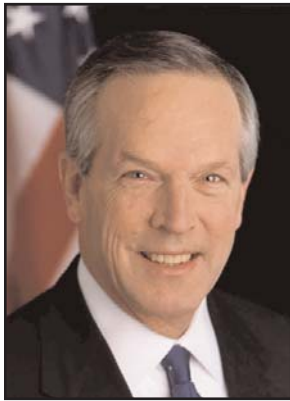
MISSION

THE DEPARTMENT OF COMMERCE PROMOTES JOB CREATION AND IMPROVED LIVING STANDARDS FOR ALL AMERICANS BY CREATING AN INFRASTRUCTURE THAT PROMOTES ECONOMIC GROWTH, TECHNOLOGICAL COMPETITIVENESS, AND SUSTAINABLE DEVELOPMENT.

U.S. DEPARTMENT OF COMMERCE



STATEMENT FROM THE SECRETARY



It is my honor to submit this report on the performance of the Department of Commerce during fiscal year 2004. This combined *Performance and Accountability Report* includes our consolidated financial statements, which received an unqualified opinion for the sixth consecutive year; our report on the progress we are making toward achieving the goals of the President's Management Agenda; and our annual program performance report under the Government Performance and Results Act (GPRA). The Department has continued its fine performance under GPRA, and, in collaboration with our bureaus and the Inspector General, we are working to continuously strengthen its implementation and assure that our performance information is appropriate, complete, and reliable.

This has been a year of significant challenge and significant progress, as the Department has achieved its objectives in areas critical to both the fiscal and the physical well being of our Nation. During FY 2004 the Department continued its commitment to maximizing U.S. competitiveness and enabling economic growth through initiatives such as publication of our Manufacturing Report, which recommended reforms that address challenges to U.S. manufacturers competing in global markets, and through our contributions to the development of a sound and fair trade relationship with China. Similarly, by investing in local U.S. economies, the Department has made it possible for economically distressed communities to attract private capital investment, create new jobs, and save existing jobs.

We have provided the Nation's companies with technical, economic, and statistical information to help them develop business plans and make business decisions beneficial to themselves and their communities. In order to inform the growing debate about outsourcing by American firms, we accelerated by months the release of summary statistics on the operation of multinational companies. Our accelerated release of state personal income data has given states needed information for their budget and policy deliberations. At sites in Georgia and New York, the Department prepared for future information-gathering by successfully testing proposed 2010 Census innovations, including improved questionnaire wording and the use of hand-held computers for personal follow-up visits.

The Department's leadership in fostering advances in science and technology, and in protecting intellectual property continues to help U.S. businesses maintain their technological advantage in world markets, and represents a powerful force in encouraging technological innovation. This year we dedicated the Advanced Measurement Laboratory, considered the most technologically advanced research facility of its kind in the world. The new facility, with its impressive environmental controls, will permit our scientists to develop sophisticated measurements and standards needed by U.S. industry and the scientific community for 21st century technologies such as nanotechnology, biotechnology, and others.

In the patent and trademark area, the Department deployed a new system that permits anyone in the world with Internet access to track the status of a public patent application. Electronic filing of trademark applications has reached historic levels, with over 70 percent now being filed via the Internet using our electronic application system.

Because success in a global economy is linked to our ability to anticipate or forecast events, and not just to react to them, the Department is dedicated to fulfilling its responsibility for environmental stewardship, assessment, and prediction. In FY 2004 we collaborated with the Western Governors' Association to develop a plan to create an early warning system to improve our capabilities in monitoring and forecasting drought. We've also entered an agreement with the Department of Homeland Security that allows its critical all-hazard alerts and warnings to be sent via NOAA weather radio. And, of course, every year we work to improve our predictive information about severe weather and coastal emergencies to better prepare state and local officials to save lives and property.

Underlying all of these efforts is our constant attention to ensuring that we can account to the American taxpayer for the resources with which we are entrusted and which make our programs and progress a reality. Accurate and timely financial information makes this possible, and the completed implementation of the Commerce Administrative Management System early in the fiscal year has helped to make this information sound and accessible. The Federal Financial Management Improvement Act of 1996 requires that agencies' financial management systems conform with OMB guidance and other federal standards. The Department of Commerce financial management systems remain in substantial compliance with all government-wide standards. I attest that under the Reports Consolidation Act of 2000, we have made every effort to ensure that the financial and performance data presented in this report are accurate and complete, and are used on a regular basis to manage our programs. Additionally, where information is unavailable we have explained why.

We must also comply with the management control standards established by the Federal Managers' Financial Integrity Act of 1982 (FMFIA). The Department continually evaluates the efficiency of its operations using information from studies conducted by the Government Accountability Office, the Inspector General, others, and self-assessments. These studies and assessments assure that the Department's systems and management controls conform with the FMFIA. Under this system of reviews, one material weakness has been identified— inadequate controls in IT security. We have made significant progress in addressing this problem: 100 percent of our systems are now covered by IT security plans and we have improved the quality of certification and accreditation packages for critical systems. Nevertheless, the Department needs to improve certain aspects of IT security, and has made resolution of this material weakness a management priority. This issue is addressed in more detail in the Management Discussion and Analysis section of this report.

The Department faces other challenges on which we will continue to focus in the months ahead. These include improving the timeliness of patent and trademark processing, advancing knowledge of climate variability and developing better projections of the impact of climate changes, promoting worldwide acceptance of U.S. test and calibration data to diminish trade barriers, strengthening the export control system, expanding global intellectual property rights, improving management of the Nation's airwaves, and controlling the cost and improving the accuracy of Census 2010. This report provides more details about these and a number of other Department of Commerce initiatives and priorities.

I take pride in the progress described in this report. The men and women of the Department of Commerce around the globe are dedicated to serving their country through the many and varied programs for which the Department is responsible. Their accomplishments reflect the Department's effective stewardship of the taxpayers' resources and further strengthen our standards and expectations. I pledge to continue to focus on meeting our management challenges and advancing our contributions to the economic, scientific, and intellectual progress of our Nation.



Donald L. Evans
Secretary of Commerce

November 15, 2004

MESSAGE FROM THE CHIEF FINANCIAL OFFICER

In fiscal year 2004, the Department of Commerce saw many significant accomplishments in providing the information and the framework to enable the economy to operate successfully, and in providing infrastructure for the Department's program managers. Our success is due largely to our focus, our critical missions, and our emphasis on strengthening management at all levels throughout the Department. Solid financial performance and accountability have been an essential component of this endeavor.

This report describes our achievements during FY 2004 in financial and performance management. The Department is strongly committed to the President's priorities of improving financial management and integrating budget and performance. Strengthening the integrity of our financial operations and ensuring the accuracy of our financial records gives all our stakeholders and decisionmakers more confidence in the way the Department manages its resources. This is critical to ensuring the American taxpayers know that their dollars are well spent.

We are proud of having achieved an unqualified audit opinion for the sixth consecutive year. This year also saw the full implementation of the Department's integrated financial management system, the Commerce Administrative Management System (CAMS). As a result of CAMS, program managers can make better-informed decisions more quickly, monthly financial records can now be closed within three days, financial statements can be produced more expeditiously, and the audit process is smoother, in part, because of the ease of extracting information from the system. A portion of the prior-year reportable condition was resolved as a result of the implementation of CAMS, however, some identified deficiencies in general information technology controls remained. The Department also identified a non-compliance with laws and regulations relating to capital leases that were not fully funded in accordance with OMB Circular A-11. Action plans to address these deficiencies are in place and corrective actions have begun with completion scheduled before the end of FY 2005.

We are now striving to reduce operational redundancy and increase overall efficiency of CAMS by reducing the number of computer platforms running the system. Although we fell slightly short of our FY 2004 goal of reducing the number of platforms from five to three (we currently stand at four platforms), we are working diligently toward achieving this milestone.

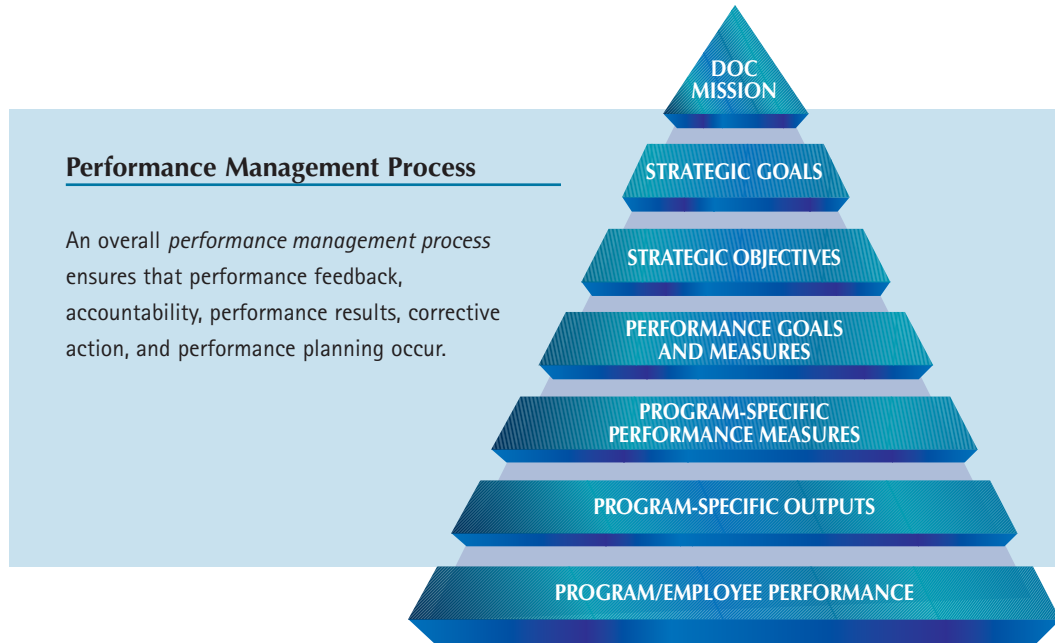
We remain steadfast in our commitment to make our financial management systems even stronger and more efficient, and to continually refine our financial products in response to the needs of our stakeholders. Through the efforts described in this report, we will continue to maximize the effectiveness of our programs and their benefit to the American taxpayers.



Otto J. Wolff
*Chief Financial Officer and
Assistant Secretary for Administration*

THE DEPARTMENT OF COMMERCE PROCESS FOR STRATEGIC PLANNING AND PERFORMANCE REPORTING

Management Strategic Framework, Performance Planning, and Reporting at a Glance



The Department's Strategic Plan provides a comprehensive vision for fostering the conditions that create jobs; increase the productivity of the American economy; encourage the economic growth that benefits all U.S. industries, workers, and consumers; enhance technological leadership and environmental stewardship; and support market growth strategies. The plan puts forth broad objectives, targets specific outcomes the Department wants to achieve, and identifies its key challenges. The strategic plan released in FY 2003 can be found at: <http://www.osec.doc.gov/bmi/budget/DOCSTPLAN.htm>.

The Department's Annual Performance Plan (APP) defines the strategic plan and provides strong linkages to Commerce's budget request. The Plan defines performance goals and measures used to manage progress toward the Department's strategic objectives. It describes in detail Commerce's fiscal year's (FY) resources and programmatic efforts within a strategic context. The Plan is integrated with the President's budget submission to Congress. The Department-wide FY 2005 APPs can be found at: <http://www.osec.doc.gov/bmi/budget/DOCSTPLAN.htm>.

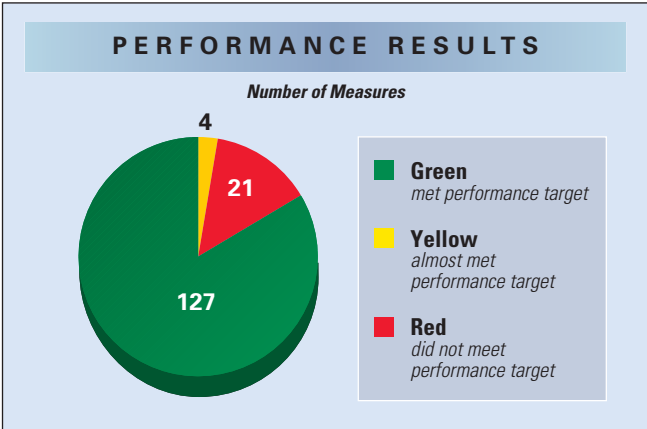
This Department's Performance and Accountability Report (PAR) provides a public accounting of Commerce's FY 2004 performance results and completes the Department's performance management process. The Web address of the FY 2004 PAR is: <http://www.osec.doc.gov/bmi/budget/DOCSTPLAN.htm>.

MOST IMPORTANT RESULTS AND THE FUTURE: PERFORMANCE, PRIORITIES, AND CHALLENGES

The Department's three strategic goals and a Department-wide management integration goal promote the mission of the Department through the various actions of each bureau. Due to the diverse activities within the Department, the table below reflects a sample of the activities by strategic goal. Following each strategic goal, the Priorities, Challenges, and Future Plans to Improve Departmental Performance are identified as the foundation for identifying the actions being taken to further the Department's mission.

FY 2004 PERFORMANCE HIGHLIGHTS

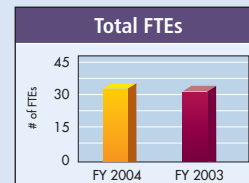
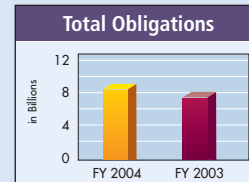
Overall performance results for the Department show that of the 152 performance targets, we achieved 84 percent at or above target, 2 percent slightly below our target, 14 percent did not achieve the target. The Department performance indicators reflect increased performance results over last year, from 79.6 percent to 84.0 percent. On the following page are the performance results by strategic goal. Achieving results in each of the strategic goals helps further the Department's mission. Discussions and highlights of successes can be found in the performance discussions of each performance goal. This simply provides a snapshot of our targeted achievements.



These performance goals are only a small representation of the Department's goals. It should be noted that the Department did not meet some of its performance goals at this time. In addition, the Department is not able to report two performance goals due to the unavailability of data. Overall performance of each goal can be found in the rainbow charts at the beginning of each performance narrative. The goals not met are addressed in Appendix A at the measure level.

Future Performance and Accountability Reports developed by the Department will include discussions around both achievement and non-achievement of performance goals as well as discussions of those performance goals that do not have results to report on during the reporting cycle.

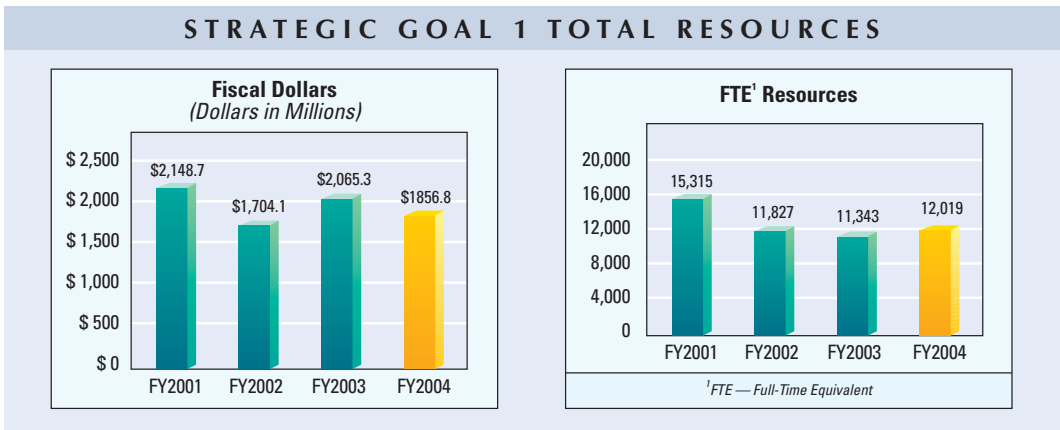
(Dollars In Millions)	Percentage Change	FY 2004	FY 2003
For the Period Ended September 30, 2004 and 2003			
Obligations by Strategic Goal:			
<i>Strategic Goal 1: Provide the Information and Tools to Maximize U.S. Competitiveness and Enable Economic Growth for American Industries, Workers, and Consumers</i>	-10%	1,856.8	2,065.3
<i>Strategic Goal 2: Foster Science and Technological Leadership by Protecting Intellectual Property, Enhancing Technical Standards, and Advancing Measurement Science</i>	-4%	2,147.5	2,241.3
<i>Strategic Goal 3: Observe, Protect, and Manage the Earth's Resources to Promote Environmental Stewardship</i>	+19%	4,100.0	3,458.5
<i>Management Integration Goal: Achieve Organizational and Management Excellence</i>	+3%	75.8	73.4
TOTAL OBLIGATIONS	+4%	8,180.1	7,838.5
Full Time Equivalents (FTEs) by Strategic Goal:			
<i>Strategic Goal 1: Provide the Information and Tools to Maximize U.S. Competitiveness and Enable Economic Growth for American Industries, Workers, and Consumers</i>	+6%	12,019	11,343
<i>Strategic Goal 2: Foster Science and Technological Leadership by Protecting Intellectual Property, Enhancing Technical Standards, and Advancing Measurement Science</i>	-1%	10,005	10,074
<i>Strategic Goal 3: Observe, Protect, and Manage the Earth's Resources to Promote Environmental Stewardship</i>	+2%	12,086	11,898
<i>Management Integration Goal: Achieve Organizational and Management Excellence</i>	-5%	310	326
TOTAL FTEs	2%	34,420	33,641



STRATEGIC GOAL 1

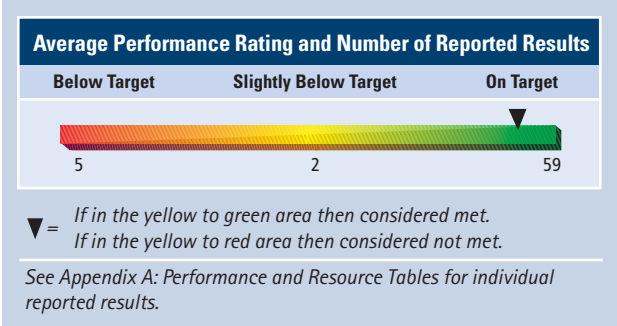
Provide the information and tools to maximize U.S. competitiveness and enable economic growth for American industries, workers, and consumers

Most Important Results



The Department achieved success in 89 percent of the targets that were set. Such achievements can be measured through the many activities that support this goal.

The Department invested \$1.5 million in the Southwest Key Program, Inc., in Austin, Texas, to assist with the construction of an Economic Development Training Center. This Center will house the Southwest Key Program's national corporate offices, as well as provide space for workforce development training and a business incubator. This investment is part of a \$4 million project that will help create over 350 jobs, save an additional 70 jobs, and attract over \$3.7 million in private investment in the first stage. This investment, and others like it, helps to attract private capital investment and jobs that address problems of high unemployment, low per capita income, and severe economic challenges.



The Department established the Economic Development Information Coalition (EDIC) in an effort to expand its information dissemination efforts. With the Economic Development Administration's (EDA) support, EDIC is producing a weekly e-newsletter, a quarterly magazine, 20 economic development forums, and four satellite broadcasts during 2004. The magazine and e-newsletter are distributed to about 12,000 people, and the forums attract between 100 and 150 people at each event. While there is no way to track the actual number of viewers, an agreement reached with DISH NETWORK makes it possible that up to 9.85 million subscribers are now viewing these telecasts. In addition, the Association of Public Television Stations (APTS) promoted the Economic Development Today telecast to affiliate stations nationwide. APTS represents 80 percent of the market of public television stations.

To maximize U.S. competitiveness, the Department ensured the successful completion of ten international inspections of U.S. chemical plants under the Chemical Weapons Convention (CWC). The Department ensured

commercial factors received due consideration in the Administration's development of a strategy to implement the Additional Protocol to the International Atomic Energy Agency Safeguards Agreement. During 2004, the Bureau of Industry and Security (BIS) contributed to the U.S. defense industrial base by processing approximately 22 Defense Priorities and Allocations cases, reviewed 35 cases on foreign investment in the United States, and completed five defense industrial base reports.

On September 16-17, Under Secretary Kenneth Juster met with Indian Foreign Secretary Shyam Saran to conclude Phase One of the Next Steps in Strategic Partnership (NSSP) initiative with India. As part of the NSSP discussions, Under Secretary Juster and Foreign Secretary Saran signed an end-use visit arrangement, which sets forth procedures for conducting end-use checks on U.S.-origin items shipped to India. The government of India also presented a letter to the United States providing assurances meeting U.S. concerns on the diversion of U.S.-origin items and onward proliferation activities.



Under Secretary of Commerce Kenneth I. Juster and Indian Foreign Secretary Shyam Saran discuss the first phase of the U.S.-India Next Steps in Strategic Partnership initiative.

Other Department efforts have contributed to every American man and woman in uniform in Afghanistan and Iraq now having an Interceptor personal body armor vest. For the past 18 months, the Department of Commerce has been responding to "Requests for Special Priorities Assistance (RSPA)," as provided under Defense Priorities and Allocations System (DPAS) regulations, to allocate production of critical materials needed for body armor manufacture. BIS responds to these requests after the Department of Defense endorses the monthly requirement of material needed to manufacture the body armor vests. The Department's Bureau of Industry and Security then issues monthly "Directives" to the individual U.S. companies manufacturing these critical materials. The "Directives" specify the order in which the companies should allocate and ship their production to their contract customers in order to meet the highest priority requirements for body armor.

To enable economic growth for U.S. industries, workers, and consumers, the Department assisted in the development of a trade relationship with China. The Chinese economy is organized under principles that are inconsistent with the World Trade Organization (WTO) rules, resulting in an enormous amount of complexity and friction in joint trade relationships. China has until 2017 to phase in all WTO requirements. This year the United States and China agreed to formalize their bilateral textile dialogue through the creation of a Textiles Consultative Group (TCG). The International Trade Administration (ITA) will co-chair the TCG with Vice Minister Ma Xiuhong of the Ministry of Foreign Trade and Economic Cooperation. TCG will focus on addressing problems where U.S. companies see roadblocks to trade with China, including protecting U.S. intellectual property rights and increasing U.S. textile exports to China.



Manufacturing is important to the economy of the United States.

The Department issued its manufacturing report, *Manufacturing in America, A Comprehensive Strategy to Address the Challenges to U.S. Manufacturers*, in January 2004. The report recognizes the unprecedented challenges to U.S. global leadership, and recommends reforms to strengthen manufacturing competitiveness. ITA has begun implementing recommendations made in the manufacturing report and is fostering an environment in which U.S. firms can compete and succeed in manufacturing.

The Department's Census Bureau, within the Economics and Statistics Administration (ESA), successfully tested planned innovations for the 2010 Census at New York and Georgia sites, including improving Census questionnaire wording and the use of hand-held computers for personal visit follow-up operations. The Department also successfully completed updates to geographic reference features for all planned counties. Testing of these innovations and improving the Census Bureau's geographic data are important in order to improve accuracy, reduce operational risk, and contain the cost of the 2010 Census. Census data are used for the apportionment of seats in the U.S. House of Representatives and for the distribution of billions of dollars in federal funds to states and localities.

The Department exceeded the targeted unit response rates for the annual economic surveys. Meeting response rates is important for maintaining economic surveys data quality, as these data provide government policymakers and private decisionmakers with timely information about the current performance of the U.S. economy. The Department also exceeded the targeted response rates for the demographic surveys that are used to make policy decisions and allocate federal program funds that support schools, employment services, housing assistance, hospital services, and programs for the elderly and disabled. These data are also used to modify programs such as Social Security, Medicare, and Medicaid.

The Department successfully conducted the 2002 Economic Census and Census of Governments. The 2002 Economic Census provided a significant expansion to content and coverage, as well as an accelerated release schedule. In March 2004, the 2002 Economic Census Advance Report was released. The Economic Census provides the nation with comprehensive, detailed facts about the structure of the U.S. economy. The Census of Governments represents the primary source of facts about the public sector of the U.S. economy.

The Department's Bureau of Economic Analysis (BEA), within ESA, accelerated the release of state personal income data. Working with the Bureau of Labor Statistics, the Department was able to accelerate the release of quarterly state personal income from four months after the reference quarter to three months. State budget officers around the country, who rely on quarterly state personal income to produce state budget estimates, praised this acceleration. By getting the data one month earlier, budget officers have more time to provide estimates to governors and state legislators for inclusion in their budget and policy deliberations.

The debate over the extent and the effects of outsourcing by U.S. companies to overseas firms intensified in early 2004. In recognition of this ongoing public interest, the Department accelerated by several months the release of summary statistics on the operations of multinational companies and their employment, sales, and capital expenditures for the year 2002. In addition, the Department published a detailed note describing long-term patterns in the domestic and overseas activities of U.S.-based multinationals in the *Survey of Current Business*. This can be found at www.bea.gov. Noted economists and journalists use the Department's data as their principal source of information for examining the issue of offshore outsourcing.

On May 13, 2004, President George W. Bush signed Executive Order (EO) 13339, an initiative to provide equal economic opportunities and full participation of Asian American and Pacific Islander (AAPI) businesses. The EO houses the Office of the White House Initiative on AAPI at the Department of Commerce's Minority Business Development Agency and renews the President's Advisory Commission on AAPI (Commission) and the Interagency Working Group (IWG) on AAPI. Comprised of 14 members representing the public and private sectors, the Commission has a long-standing history of involvement with the AAPI community. The Commission provides recommendations to the President on efforts that improve economic and community development opportunities for AAPI businesses in the public and private sectors. It looks at ways to increase the diversification of this

business community as well as ways to foster research and data collection on its levels of participation in the national economy. The IWG will be comprised of 34 federal agencies chaired by an individual designated by the Secretary of Commerce. The IWG is responsible for developing and implementing government-wide policies to support economic opportunities for AAPI businesses. To accomplish this, each agency will submit an implementation plan that will address increasing participation in federal programs through equal access, ensuring nondiscrimination in federal contracting and procurement opportunities, providing equal opportunity for public and private-sector partnerships, and fostering research and data collection about this business sector.



White House signing of the Executive Order that establishes the Asian American and Pacific Islander (AAPI) program.

The Future: Performance, Priorities, and Challenges

Continue to meet the needs of the fast growing population: The Department will develop products and services through customer survey feedback such as the ACSI and the Survey of Business Owners. Commerce will further expand the Strategic Growth Initiative for medium to large size minority businesses enterprises, while continuing to provide the same level of service for the smaller minority business enterprises. The Census Bureau's American Community Survey has begun to provide, on an annual basis, decennial census type social and economic data. Data currently are available for 862 local areas, including 241 counties, 206 congressional districts, all 50 states, and the District of Columbia.

Bringing economic prosperity to distressed communities: The Department will work to ensure regions attract private capital investment and create higher-skill, higher-wage jobs through infrastructure investment and capacity building investments.

Strengthening the Export Control System: The Department will continue to improve the business processes in order to strengthen and streamline the dual-use export control system. Further, Commerce will continue to improve its process for writing the regulations that translate law and policy into rules for exporters, while also managing the rising number and complexity of licensing applications and other export control requests. Commerce will continue to improve its enforcement capabilities by prioritizing its efforts, working with other federal law enforcement and intelligence agencies, and increasing outreach with industry to create a robust enforcement environment.

Furthering the use of electronic intervention: The Department will work to create a seamless environment for exporters to research markets, gather trade leads, and conduct a majority of their



Wall Street and business economists rely on the Department's measures of national economic activity.

export transactions using www.export.gov, the government's existing online portal for small business export assistance information.

Meeting needs for quality information: The Department will make improvements in the use of state-of-the-art technology in data collection, processing, and dissemination in order to stay ahead of demand from policymakers for information of emerging economic and societal trends.

Improving both national and international trade for U.S. firms: The Department will develop and implement a joint, public/private global supply chain initiative to promote access for U.S. small to medium enterprise (SME) manufacturers. The Department also is focusing and sharpening expertise in China by creating a China Compliance office that devotes more resources to China and cases and issues unique to non-market economies. Commerce will also focus on trade-related standards issues, allowing the organization to support U.S. industry's desire for more analysis of emerging overseas standards issues and their effect on U.S. companies' competitiveness.

Expanding global intellectual property rights (IPR) enforcement: China and the United States will establish an IPR working group under the Joint Commission on Commerce and Trade (JCCT) through which U.S. and Chinese trade, judicial, and law enforcement authorities will cooperate on the full range of IPR issues. Commerce is also focusing resources to enforce U.S. negotiated trade agreements and combat violators of IPR around the world. The Department will pursue perpetrators along the entire chain, including manufacturers and importers, and will exert pressure on countries where problems are found. The Department will work with U.S. industry and coordinate with other U.S. agencies, and the U.S. Food and Drug Administration (FDA), to investigate allegations of piracy and help resolve market access and trade compliance cases.

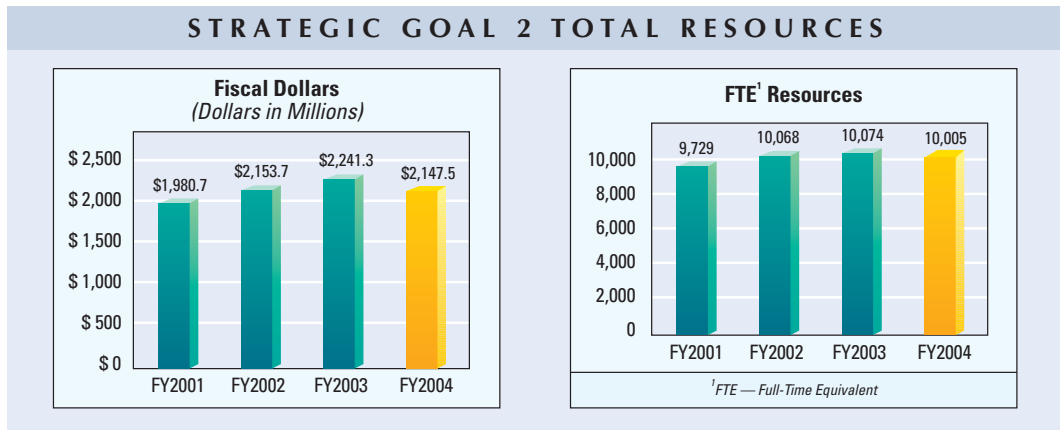
Meeting the needs of policymakers, businesses and non-profit organizations, and the public for current measures of the U.S. population, economy, and government: The Department will continue its efforts to meet the needs and demand for quality data, including obtaining and maintaining targeted response rates for the various surveys conducted, and continuing to maintain respondent confidentiality.

Promoting a better understanding of the U.S. economy by providing the most timely, relevant, and accurate economic data in an objective and cost-effective manner: The U.S. economy is in constant flux. The Department is challenged to understand the structural changes in the economy, improve measurement methodologies, and locate and incorporate data sources to capture the changes. Its challenge is to continue to keep pace with these changes in order to provide the nation with the most timely, relevant, and accurate economic statistics possible.

STRATEGIC GOAL 2

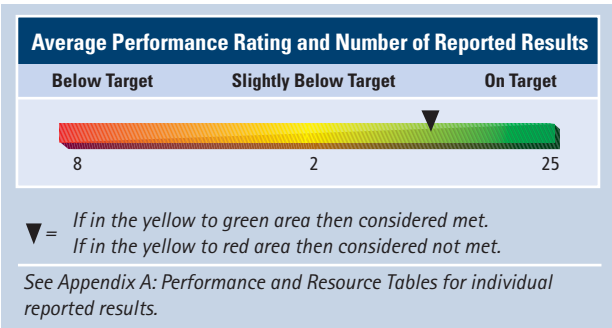
Foster science and technological leadership by protecting intellectual property, enhancing technical standards, and advancing measurement science

Most Important Results



The Department achieved success in 71 percent of the targets that were set.

With a focus on developing next generation measurements and standards needed by industry, the Department completed construction on the Advanced Measurement Laboratory (AML). Considered the most technically advanced research facility of its kind in the world, the \$235 million, 536,507 square foot AML features five separate wings—two of them buried 39 feet under ground—with stringent environmental controls on air quality, temperature, vibration, and humidity. The new facility allows researchers to provide the sophisticated measurements and standards needed for key 21st century technologies such as nanotechnology, semiconductors, biotechnology, advanced materials, quantum computing, and advanced manufacturing.



The Department's component bureau, the U.S. Patent and Trademark Office (USPTO), deployed a new electronic system known as Public PAIR (Patent Application and Information Retrieval). Anyone with Internet access throughout the world can use USPTO's PAIR Web site to track the status of a public patent application as it moves from publication to final disposition, and review documents in the official application file including all decisions made by patent examiners and their reasons for making them. Also, USPTO deployed two additional systems: the Image File Wrapper (IFW) system to all patent examiners and technical support staff, and the E-Patent Reference system that provided applicants with electronic access via Private PAIR to U.S. references referred to in examiner's Office Actions. This eliminated the need to mail paper copies of U.S. patents and published application references to applicants. For additional information on the PAIR system and other patent electronic business products, visit the Patent Electronic Business Center (EBC) Web site at <http://www.uspto.gov/ebc/index.html>.

Department researchers at the National Institute of Standards and Technology (NIST) have developed measurements, standards, technology, and data crucial to private industry's development of products for a nanotechnology market that could reach \$1 trillion during the next decade. In the past year alone, scientists



The new Advanced Measurement Laboratory at the National Institute of Standards and Technology.

reported on important developments such as a central system for an atomic clock with potential communications and military applications that is the size of a grain of rice, nanoscale materials for magnetic refrigeration that could replace bulky compressor technology; the use of carbon nanotubes for improved polymer processing, and a better way for making uniform nanocells that may have applications for encapsulating drug therapies. This work also supports federal agencies' efforts to use nanotechnology to further their missions, such as national security and environmental protection

The Department has collaborated with stakeholders to develop a comprehensive U.S. spectrum policy for the 21st century that fosters economic growth; ensures national and homeland security; and maintains U.S. global leadership in communications technology. Accordingly, the Department has released two reports that propose innovative ways to better manage the nation's crowded airwaves, including the establishment of an innovation test bed to foster increased sharing between federal and non-federal spectrum users.

Among its broadband-related activities, the Department provided technical guidance to the Federal Communications Commission (FCC) for the responsible deployment of broadband over power line (BPL) systems, contributing significantly toward fulfillment of affordable broadband Internet access for all Americans by 2007. Broadband technology opens up new opportunities for telemedicine, long distance education, and countless other services that will foster investment, improve productivity, and promote job producing economic growth. The National Telecommunications and Information Administration (NTIA) has taken the lead in the areas of next-generation Internet Protocols, ultra wideband technology, wireless broadband applications, wireless sensor technologies, and child-friendly Internet content.

The Future: Performance, Priorities, and Challenges

Breaking down trade barriers: Commerce will promote worldwide acceptance of U.S. test and calibration data to facilitate the marketing of U.S. products and providing assistance to other governmental agencies, industry, trade associations, exporters, and standards-developing organizations.

Processing of patent and trademark applications: Commerce will work to reduce both patent and trademark pendency. In the short term, USPTO will focus attention to reducing first action pendency to 18 months. In the longer term, however, patents will pursue achieving the optimum 18-months total pendency. Trademarks is committed to supporting the elements of the 21st Century Strategic Plan that will allow it to achieve strategic plan pendency goals of 2.0 months to first office action and an average total pendency of 12 months. The Department will further these processes through better workforce planning and fully automated systems.

Furthering radio spectrum policy for 21st century: Commerce will better manage the nation's airwaves, enhance homeland and economic security, increase benefits to consumers, and ensure U.S. leadership in high-tech innovations.

Providing the technology infrastructure for U.S. business: The Department will develop the measurement methods and standards needed to accelerate the commercialization of technology advances in burgeoning fields such as biotechnology, nanotechnology, homeland security technology, and information technology (IT). In addition, the effectiveness of the manufacturing supply chain requires critical measurement technology, standards, and data to allow the efficient and accurate exchange of parts and raw materials. NIST measurement methods and standards facilitate secure, accurate, and efficient communication throughout the supply chain and with customers by aiding the development of information exchange standards, providing tools to accurately specify product performance and attributes, and improving cybersecurity.



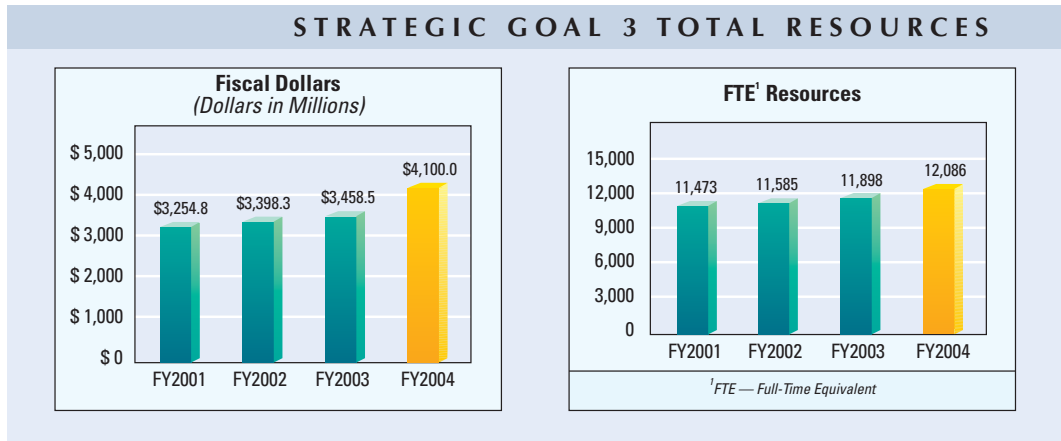
The NTIA Institute for Telecommunication Sciences' 4th generation Radio Spectrum Measurement System (RSMS) is equipped with state-of-the-art instrumentation, measurement methods, and analysis capabilities to support federal spectrum management, usage assessments, interference resolution, propagation research support and other federal agency needs.

Ensuring broader availability and support for new sources of advanced telecommunications and information: Furthering technology will continue to open new opportunities for everything in people's lives. Commerce must continue its efforts to also lead the way in the next-generation Internet Protocols, ultra wideband technology, wireless broadband applications, wireless sensor technologies, and child-friendly Internet content.

STRATEGIC GOAL 3

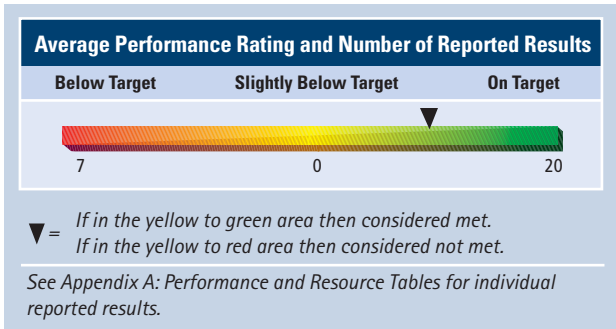
Observe, protect, and manage the Earth's resources to promote environmental stewardship

Most Important Results



The Department achieved success in 74 percent of the targets that were set.

The Department, in partnership with the Western Governors' Association, developed a plan for "Creating a Drought Early Warning System for the 21st Century," outlining the details for a National Integrated Drought Information System (NIDIS). With \$6 to \$8 billion in estimated losses to the U.S. economy and impacts widespread throughout society, Commerce recognized the value and importance of the NIDIS. This partnership will improve the Department's existing capabilities in monitoring and forecasting drought.

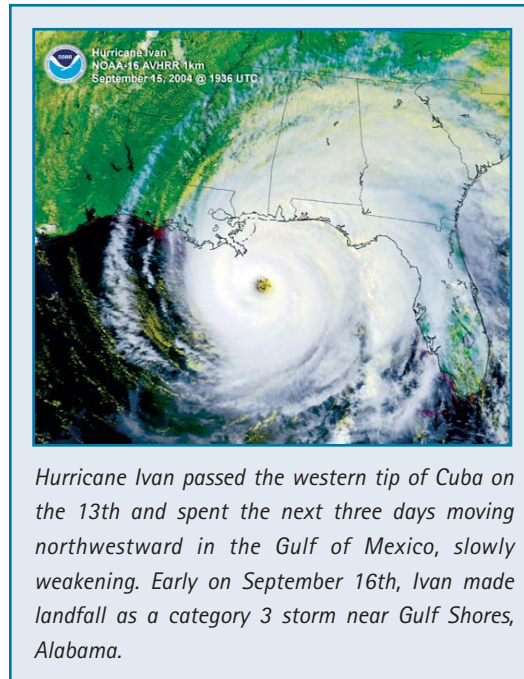


As a result of a partnership with the fishing industry, NOAA was able to reopen closed U.S. commercial longline swordfish fisheries in the Northwestern Atlantic and the Western Pacific. These fisheries had been closed due to a high take of endangered marine turtles, but by using fishing vessels with experimental gear and techniques through the industry partnership, NOAA experts were able to reduce the turtle takes to levels acceptable under the Endangered Species Act, allowing the fisheries to reopen.

In FY 2004, NOAA announced the creation of three research centers in Seattle, Washington; Charleston, South Carolina; and Ann Arbor, Michigan, to study how humans impact the oceans and Great Lakes and how, in turn, those bodies of water can impact human health. The NOAA Center of Excellence for Coastal, Great Lakes, and Human Health will use multidisciplinary research to develop technology for predicting the formation of toxic algal blooms, beach closings, and water quality in the coastal and Great Lakes regions. The goal of the centers is to use NOAA's broad scientific expertise to significantly reduce threats to human health through ecological forecasting, which uses scientific understanding and models of climate, weather, circulation patterns, hydrology, land use, and biology to predict the location and severity of toxins in the water, beach closures, and water quality conditions.

In early FY 2004, Hurricane Isabel wreaked havoc along the Mid-Atlantic, hitting the Chesapeake Bay, its beaches, and ports particularly hard. More than four days in advance of landfall, NOAA relied on its tide station network

and meteorological sensors to monitor water levels in real time and issue accurate wave height, storm track, and localized storm surge predictions throughout the event. With these early warnings of extreme seas, ships at sea were able to take precautions to avoid those areas that would put lives, vessels, and cargo at risk. In just one landside example, NOAA's predictions gave a warehouse owner in Baltimore enough time to move his inventory off the first floor to save it from the rising tide. Close on the heels of the hurricane, NOAA worked tirelessly to respond to emergency requests by ports and states for help. In the Ports of Hampton Roads and Baltimore, NOAA vessels combed the waters with sonar searching for debris and obstructions that could impede commercial, military, and recreational maritime traffic. NOAA HAZMAT, which provides emergency response scientific support for oil and chemical spills, used marine weather and real-time tide data to identify spill risks associated with oil and chemical storage tanks knocked off their foundations. The day after Isabel landed, a NOAA aircraft was on-site to fly a digital camera over the altered coastline for precisely positioned damage assessment. By monitoring the impact of coastal erosion along the Mid-Atlantic shoreline, these surveys assisted in recovery and rebuilding and in mitigating the effects of future storms. NOAA's efforts enabled key Chesapeake Bay ports to reopen quickly so that commerce could flow efficiently. Mariners who were able to navigate safely were the immediate beneficiaries of these efforts. However, safe and efficient maritime transport benefits everyone by keeping prices lower on over two-thirds of consumer goods bought. The public also gains a tremendous benefit from a cleaner marine environment due to accidents avoided.



Hurricane Ivan passed the western tip of Cuba on the 13th and spent the next three days moving northwestward in the Gulf of Mexico, slowly weakening. Early on September 16th, Ivan made landfall as a category 3 storm near Gulf Shores, Alabama.

As Hurricane Ivan approached the northern Gulf Coast, NOAA's Office of Coast Survey was already making preparations to respond to the storm's anticipated impact. Our navigation managers had established communications during Hurricanes Charley and Frances and were in daily contact with other NOAA offices. They reached out to members of the Coast Guard plus pilots, ports' personnel, the Corps of Engineers and state emergency management centers from Louisiana to Florida. Three NOAA navigation response teams were mobilized and positioned in Tallahassee, Pensacola, and Jacksonville, Florida. Two NOAA navigation managers for the Eastern and Western Gulf also prepared to move into areas hit by the hurricane. In total, NOAA has six regionally based navigation teams and their boats and equipment sit on trailers, ready to move at a moment's notice.

In FY 2004, NOAA and Environmental Protection Agency (EPA) formed a "Smart Growth" Partnership. As an outgrowth of its Coastal Community Development Program, a program that assists coastal communities in their efforts to protect their environmental amenities, strengthen their economies, and improve their quality of life, NOAA recently partnered with EPA in a joint Smart Growth initiative. Smart Growth is defined as environmentally sensitive land development with the goals of minimizing dependence on auto transportation, reducing air pollution, and making infrastructure investments more efficient.

NOAA developed a Surface Weather Program to provide relevant weather and geospatial information to reduce fatalities, injuries, and economic losses from surface weather-related crashes and delays.

The Future: Performance, Priorities, and Challenges

Advancing understanding of climate variability, potential responses, and options: Commerce will work to develop a predictive understanding of the global climate system, with quantified uncertainties sufficient for

making informed and reasoned decisions. Commerce will also target climate-sensitive sectors and the climate literate public and help them to more effectively incorporate the Department's climate products into their everyday planning and decision-making processes. These efforts involve providing sound, state-of-the-science descriptions and analyses of the Earth's climate system, including enhancing the understanding of climate forcings and feedbacks, as well as improved predictive capabilities and more widespread operational climate products and services.

Improving accuracy and timeliness of weather and water information: Tornado and other severe weather warnings help all Americans in an affected area by providing them with information about the weather in their area and what they can do ensure they are safe.

Advancing the place-based ecosystem approach to management: Place-based ecosystem is a geographic area with specified systems of organisms, the environment, and the processes that control its dynamics. This approach will improve resource management by advancing the Department's understanding of ecosystems through better simulation and predictive models, environmental observing, and gathering of information needed for social and economic indicators. To facilitate this, the Department will engage and collaborate with its partners to achieve regional objectives by delineating regional ecosystems, forming a regional ecosystem coordinating mechanism, and implementing cooperative strategies to improve regional ecosystem health.

Improving integration and accuracy of marine, aviation, and surface transportation information: Safe and efficient transportation systems are crucial to the U.S. economy. To facilitate commerce, the Department will work to reduce the negative impacts of weather on aviation without compromising safety, refine surface weather forecasts for local transportation sector decision support, improve the accuracy of its maritime and positioning products and services, and respond to hazardous material spills and search and rescue events to save lives and money and to protect the coastal environment.

Improving and expanding our knowledge of the world's oceans through deep-sea exploration: Over 70 percent of the Earth is water, yet less than 5 percent of the ocean floors have been explored. The ocean plays a role in regulating climate, assuring food security and energy resources, and allowing for worldwide commercial transportation. There is a lack of large-scale and long-term knowledge of the surrounding seas, which must be developed through a commitment to systematic exploration, research, and advancement of that knowledge for humankind.

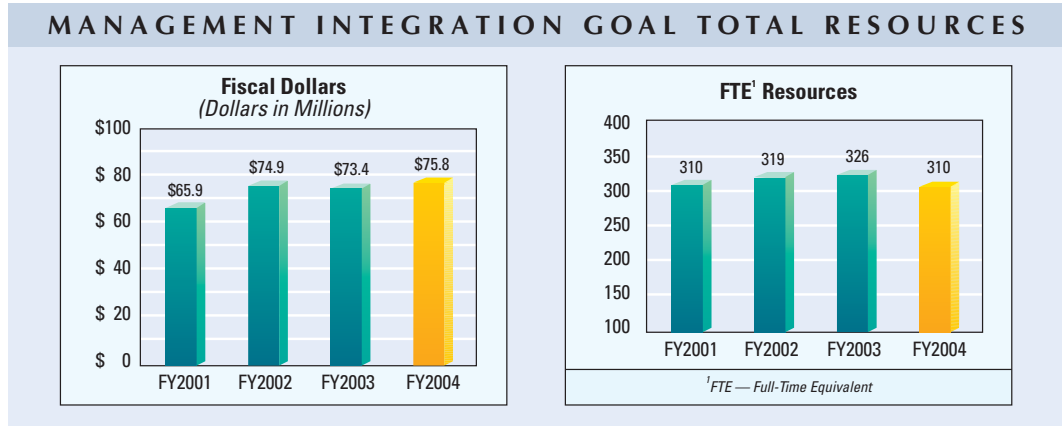
NOAA Science On a Sphere™ (SOS) dominated the G8 Summit's International Media Center and emphasized to the world press the global nature of the problems that the G8 Summit addresses. The FSL was invited to exhibit NOAA's SOS at the G8 Summit, June 8–10, 2004, at the International Media Center in Savannah, Georgia. Almost every major news organization at the center devoted significant air time or column inches to this new and innovative display of Earth and planetary images. These demonstrations allowed NOAA to showcase its technology, applications, and global partnerships to a worldwide media audience. The positive reaction from the press undoubtedly contributed to the success of the G8 meeting. SOS, developed by FSL, is a revolutionary system for communicating NOAA's science to the public, fostering science education, and aiding scientific visualization. The system presents a three-dimensional representation of the Earth's global features as if they are viewed from space. The sphere can display unlimited scientific datasets, such as imagery of the planets, weather events, ocean currents, and population growth over centuries. SOS (<http://www.fsl.noaa.gov/sos/>) offers an innovative approach toward improving science education, with its dramatic visualization of complex information in an understandable form. It is a unique instrument for teaching science, math, and geography for grades K through 12. The presentations support NOAA's goal to use its broad spectrum of scientific expertise to support environmental education for the public in schools, museums, science centers, and at special events.

As has been seen from the hurricanes that have struck U.S. coastal areas this fall, accurate hurricane projections are essential in saving lives and mitigating property damage. Commerce will work to improve the accuracy and lead time of forecasts of all severe weather events. At the same time, the Department will work to improve the accuracy of forecasts of daily weather patterns.

MANAGEMENT INTEGRATION GOAL

Achieve organizational and management excellence

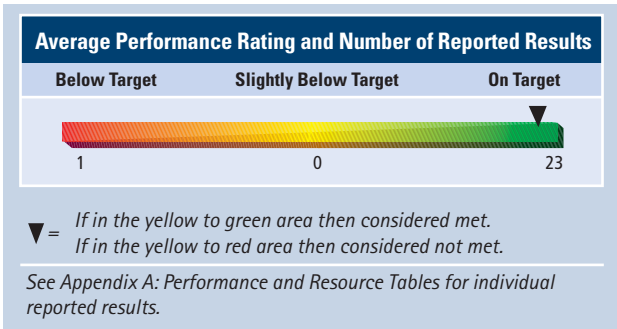
Most Important Results



The Department achieved success in 96 percent of the targets that were set.

The Department achieved a clean audit opinion again this year. It also provided over 60 percent of its contract resources to small businesses. The Department well exceeded its utilization objectives for bankcard small purchases.

In response to competency needs assessments conducted in FY 2003, the Department implemented three leadership development programs targeting employees at various stages in their careers. The Senior Executive Service (SES) Candidate Development Program is designed to assure that senior level employees possess the executive core qualifications necessary for successful performance in SES positions. The Executive Leadership Development Program prepares employees at the GS-13 and 14 levels for management positions identified as mission critical. The Aspiring Leaders Development Program develops leadership and management skills of high potential employees at the GS-9 through 12 levels.



The Future: Performance, Priorities, and Challenges

Managing human capital: The Department is continually challenged to keep its workforce trained and ready to accomplish the work of the Department. As Commerce's qualified staff retire and/or otherwise leave the federal workforce, the Department must find ways to attract replacement staff, develop them to do the work of the Department, and retain them. Commerce will continue to develop programs to help train and retain a highly qualified workforce and avoid disruption in services offered by the Department.

Promoting integrity, efficiency, and effectiveness and preventing and detecting fraud, waste, and abuse: Commerce must constantly monitor the management of its programs to ensure that it is doing what is right, now and in the future.

Promoting security throughout the Department: Although substantial progress has been made in improving information security throughout the Department, challenges persist in ensuring adequate security for many Commerce systems. Meeting these challenges will require continued assessment of risks and determination of appropriate security controls, testing and evaluating the controls, certifying and accrediting systems, and ensuring that personnel with specialized information security responsibilities receive the necessary training.

THE PRESIDENT'S MANAGEMENT AGENDA
















The President's Management Agenda (PMA) is intended to create a government that is citizen-centered, results-oriented, and market-based. The agenda, which guides improvements in the way the Department conducts business, comprises five government-wide initiatives:

- ◆ Strategic Management of Human Capital
- ◆ Electronic Government
- ◆ Competitive Sourcing
- ◆ Budget and Performance Integration
- ◆ Improved Financial Performance




The Department of Commerce works with the Office of Management and Budget (OMB) to evaluate its success in carrying out the five initiatives. Quarterly, a "traffic light" system of green, yellow, and red ratings is used to convey the Department's progress and overall status in each category (green for success, yellow for mixed results, and red for unsatisfactory):

- ◆ Progress ratings reflect how well the Department achieves success and whether it is following through on planned actions.
- ◆ Overall status ratings reflect the degree to which the Department has succeeded in actually achieving the goals of each initiative.

By focusing on results, Commerce has improved the quality of the services it provides to the public. The following table shows the ratings Commerce received at the time that the PMA was launched three years ago and those received as of September 2004.

DEPARTMENT OF COMMERCE RATINGS			
INITIATIVE	INITIAL STATUS RATINGS AS OF 12/31/01	STATUS RATINGS AS OF 9/30/04	PROGRESS RATINGS AS OF 9/30/04
Strategic Management of Human Capital			
Competitive Sourcing			
Improved Financial Performance			
Electronic Government			
Budget and Performance Integration			

WHAT PROGRESS INDICATES: OMB assesses agency "progress" on a case by case basis against the deliverables and time lines established for the five initiatives that are agreed upon with each agency as follows:

-  **GREEN** *Implementation is proceeding according to plans agreed upon with the agencies;*
-  **YELLOW** *Some slippage or other issues requiring adjustment by the agency in order to achieve the initiative objectives on a timely basis; and*
-  **RED** *Initiative in serious jeopardy. Unlikely to realize objectives absent significant management intervention.*

STATUS



Strategic Management of Human Capital



PROGRESS

Managing Human Capital: Professional Development

Internal Grants Program Fosters Professional Development of Scientists at the National Oceanic and Atmospheric Administration (NOAA)

NOAA's Northwest Fisheries Science Center created a grants program in 2001 for the benefit of NOAA employees. This program develops scientists' professional competencies and supports high-quality scientific research. The program, which provides \$10-30 thousand in seed funding, gives scientists opportunities (which would otherwise be limited) to obtain funding for important mission-related research projects. The program also gives researchers an opportunity to develop grants writing skills through a competitive and scientifically rigorous review process that fosters learning and teamwork, and encourages multidisciplinary projects. Since it began, the program has supported nearly 30 research projects, ranging from investigations of olfactory imprinting to habitat restoration opportunities. For example, Dr. Nat Scholz received a grant in 2001 to use zebrafish as an experimental model to investigate the impacts of water pollution on the early life history stages of fish. As a result of this successful grant project, Dr. Scholz and his co-investigators applied for and received over \$600 thousand through internal and external funding sources to further support critical zebrafish-related research.



Each year the internal grants competition has grown, with the submission of dozens of high-caliber proposals. The program's popularity and effectiveness led the Fisheries Center to increase its support for this program in 2004.

STATUS



Competitive Sourcing



PROGRESS

Competitive Sourcing: Census Cost Comparison

Competitive Sourcing Ensures Cost-effectiveness While Keeping Census Jobs



The U.S. Census Bureau underwent a cost-comparison study of their headquarters' Mixed-Tour Program, which comprises temporary employees who work on an as-needed basis. The cost-comparison included about 225 Commerce positions. The competition determined in-house performance to be the most efficient and cost-effective method of operation. As a result of the study, the Commerce employees kept their jobs and the Department expects to save \$10 million over the next five years.

STATUS



Improved Financial Performance



PROGRESS

Financial Management: Consolidated Reporting System (CRS)

Commerce Official Cites the Impact of CRS



"Previously we had these multiple systems and all they were doing was providing data. What we really needed was information. Now, with the Consolidated Reporting System, Commerce leaders can use an 'executive dashboard' to design their own charts or reports, or click on a Commerce bureau for details about what is happening there. At one glance, CRS can show us the status of each bureau's spending compared to its budget. The dashboard quantifies many of the requirements of our results-oriented initiatives."

James Taylor

Commerce Deputy Chief Financial Officer

(as discussed in the July 19, 2004, issue of "Government Computer News")

STATUS



Electronic Government



PROGRESS

E-Government: Electronic Business Center

U.S. Patent and Trademark Office Provides Quality-focused E-commerce Service

An electronic business center available at the U.S. Patent and Trademark Office's (USPTO) Web site (www.uspto.gov) provides everything needed to search and file for patents and trademarks, obtain historical information about patents and trademarks, view patent and trademark images, and even find a registered patent attorney or agent. Fees can also be paid online. Last year, USPTO received 333,452 patent applications and 218,596 trademark applications. Over 125,000 trademark applications and over 4,000 patent applications were filed electronically. As of June 2004, over 70 percent of all trademark applications were filed electronically.



USPTO's Web site has been ranked number one for its design and content by PricewaterhouseCoopers Endowment for the Business of Government, which rated 148 Web sites on services offered, help features, service navigation, site legitimacy, and accessibility.

STATUS



Budget and Performance Integration



PROGRESS

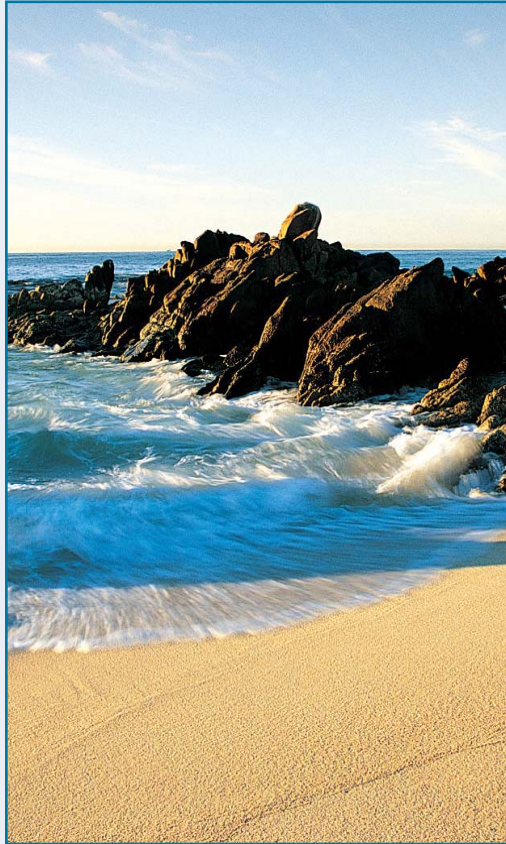
Integrating Budget and Performance: Improved Coastal Management

Improving Accountability: Assessing Coastal Management Programs

The National Coastal Management Performance Measurement System is part of an ongoing effort of NOAA to work with the states to assess the effectiveness of the Coastal Zone Management Act (CZMA), which addresses issues that affect U.S. coasts, such as:

- beach erosion
- public access
- water quality
- land usage
- habitats and hazards

The primary goal of the system is to work with the states to track effectiveness indicators for coastal management programs and reserves across the nation. Because needs vary so much from state to state, NOAA worked with the states to develop measures specific to their program needs in order to supplement the national indicators. In addition to assessing program results, NOAA also will conduct annual assessments of activities funded under the CZMA. These assessments will determine how—and how well—the funds for this program are being used. From this information Commerce will be able to decide whether to redirect program funds or revise policies and priorities.



MANAGEMENT CONTROLS

FISCAL YEAR 2004 SECRETARY OF COMMERCE STATEMENT OF MANAGEMENT AND FINANCIAL CONTROLS

For the programs, organizations, and functions covered by the Federal Managers' Financial Integrity Act (FMFIA), I am pleased to report that, with the exception of one material weakness identified below, the Department of Commerce's systems of management controls, taken as a whole, provide reasonable assurance that the objectives of the FMFIA have been achieved.



Donald L. Evans
Secretary of Commerce

FEDERAL MANAGER'S FINANCIAL INTEGRITY ACT (FMFIA) OF 1982

During FY 2004, the Department reviewed its management control system in accordance with FMFIA requirements and Office of Management and Budget (OMB) and Departmental guidelines. The objective of our management control system is to provide reasonable assurance that:

- ◆ obligations and costs are in compliance with applicable laws;
- ◆ assets are safeguarded against waste, loss, and unauthorized use of appropriations;
- ◆ revenues and expenditures applicable to agency operations are properly recorded and accounted for, permitting preparation of accounts and reliable financial reports, and full accountability for assets; and
- ◆ programs are efficiently and effectively carried out in accordance with applicable laws and management policy.

The efficiency of the Department's operations is continually evaluated using information obtained from reviews conducted by the Government Accountability Office (GAO), Office of Inspector General (OIG), and specifically requested studies. It is worth noting that the list of high-risk programs issued by GAO in January 2003 does not include any programs administered by the Department of Commerce. Also, on a yearly basis, operating units within the Department conduct self-assessments of their compliance with FMFIA. These diverse reviews provide a high level of assurance that Department systems and management controls comply with standards established under FMFIA, except for the IT Security weakness summarized on the following page.

Section 2 of FMFIA

NUMBER OF MATERIAL WEAKNESSES				
	NUMBER AT BEGINNING OF YEAR	NUMBER CORRECTED	NUMBER ADDED	NUMBER REMAINING END OF FISCAL YEAR
FY 2001	0	0	2	2
FY 2002	2	1	0	1
FY 2003	1	0	0	1
FY 2004	1	0	0	1

In FY 2004, the Department of Commerce made major strides toward eventual resolution of one outstanding material weakness as identified under Section 2 of FMFIA – inadequate information technology (IT) security controls – by focusing on the completion of corrective actions needed to address previously identified concerns and improving the measurable performance of the Department's IT security program.

Section 4 of FMFIA

NUMBER OF MATERIAL WEAKNESSES				
	NUMBER AT BEGINNING OF YEAR	NUMBER CORRECTED	NUMBER ADDED	NUMBER REMAINING END OF FISCAL YEAR
FY 2001	1	0	0	1
FY 2002	1	0	0	1
FY 2003	1	1	0	0
FY 2004	0	0	0	0

The Department has no material weaknesses relating to Section 4 of FMFIA.

FEDERAL FINANCIAL MANAGEMENT IMPROVEMENT ACT (FFMIA) OF 1996

Under the Federal Financial Management Improvement Act (FFMIA) of 1996, the Department is required to have financial management systems that comply with federal financial management system requirements, federal accounting standards, and the U.S. Government Standard General Ledger (SGL) at the transaction level. In FY 2004, the Department remained in compliance with FFMIA.

REPORT ON AUDIT FOLLOW-UP

The Inspector General Act, as amended, requires that the Secretary report to Congress on the final action taken for Inspector General audits. This report covers Commerce Department audit follow-up activities for the period August 1, 2003, through May 31, 2004. As with last year's report, an accelerated reporting cycle has resulted in a ten-month reporting period.

SUMMARY OF ACTIVITY ON AUDIT REPORTS AUGUST 1, 2003 - MAY 31, 2004

	DISALLOWED COSTS ¹		FUNDS TO BE PUT TO BETTER USE ²		NONMONETARY REPORTS ³	TOTAL
	NUMBER OF REPORTS	DOLLARS	NUMBER OF REPORTS	DOLLARS	NUMBER OF REPORTS	REPORTS
Beginning Balance	62	\$16,548,224	34	\$ 55,444,966	45	141
New Reports	33	11,130,550	7	4,472,077	19	59
Total Reports	95	27,678,774	41	59,917,043	64	200
Reports Closed	(41)	(4,529,887)	(15)	(16,077,854)	(36)	(92)
Ending Balance	54	\$23,148,887	26	\$ 43,839,189	28	108

1. Disallowed costs are questioned costs that management has sustained or agreed should not be charged to the government.
2. "Funds to be put to better use" refers to any management action to implement recommendations that funds be applied to a more efficient use.
3. Includes performance, contract, grant, loan, and financial statement audit reports with nonmonetary recommendations.

BIENNIAL REVIEW OF FEES

The Chief Financial Officers Act of 1990 requires the biennial review of agency fees, rents, and charges imposed for services, and other things of value provided to specific beneficiaries as opposed to the American public in general. The objective of these reviews is to identify such activities and, where permitted by law, to begin charging fees. The reviews also support the periodic adjustment of existing fees to reflect current costs or market value, in order to minimize the general taxpayer subsidization of specialized services or things of value, such as rights or privileges, provided directly to identifiable non-federal beneficiaries.

The Department conducts a review of its fee programs biennially, with some bureaus conducting annual reviews. In the current review, the Department noted that all but one bureau adjusted their fees to be consistent with the program and with the legislative requirement to recover the full cost of goods or services provided to the public. ITA was deemed acceptably in compliance with OMB Circular A-25 by OMB, as they are implementing program changes to recover the full cost of goods and services provided to the public.

IMPROPER PAYMENTS INFORMATION ACT (IPIA) OF 2002

Narrative Summary of Implementation Efforts for FY 2004

The Department has not identified any significant problems with erroneous payments; however, it recognizes the importance of maintaining adequate internal controls to ensure proper payments, and its commitment to the continuous improvement in the overall disbursement management process remains very strong.

MANAGEMENT CHALLENGES AND ACTIONS

Each year, the Department's Office of Inspector General (OIG) reviews the Department's and its component bureaus' program activities to ensure that the management, financial and operational activities are sound and meet the requirements of the Chief Financial Officer's Act and the Government Performance and Results Act (GPRA).

The emphasis by the President, the Office of Management and Budget (OMB), and Congress on improved government accountability underscores Commerce's resolve to enhance transparency within the Department while promoting improved efficiency and effectiveness. Progress in these endeavors requires strong commitment from the Department's senior leadership and staff at all levels.

The following is the Department's description of its actions to address the management challenges identified by the Inspector General (IG). To view the full Semiannual Report visit <http://www.oig.doc.gov>.

MANAGEMENT CHALLENGES	
CHALLENGE	ACTIONS
1. Strengthen Department-wide information security.	<ul style="list-style-type: none"> ◆ Made significant progress in information technology (IT) security, with 100 percent of systems covered by IT security plans, 100 percent with tested controls, 100 percent with contingency plans, 97 percent with certification and accreditation packages, and with much-improved certification and accreditation (C&A) documentation that still needs further improvement.
2. Effectively manage Departmental and bureau acquisition processes.	<ul style="list-style-type: none"> ◆ Placed greater emphasis on acquisition planning, contracting strategies, management, and administration of resulting contracts. ◆ Established formal board to review all major Departmental acquisitions and implement streamlined system for planning and monitoring of major acquisitions and linking all existing reviews including Information Technology Resources Board, acquisition plans, budget reviews, and contracted services. ◆ Evaluated the Commerce delegation and warrant program to ensure overall effectiveness and accountability. ◆ Revised certification program requiring expanded competencies, and improved training program for contracting officer's technical representatives to improve accountability as well as contract and contractor performance. ◆ Commenced implementation of Purchase Card Improvement Plan approved by OMB, including feasibility assessment of using a single card for travel, fleet, and purchase card.

(continued)

MANAGEMENT CHALLENGES (continued)	
CHALLENGE	ACTIONS
<p>2. Effectively manage Departmental and bureau acquisition processes. <i>(continued)</i></p>	<ul style="list-style-type: none"> ◆ Expanded emphasis on use of performance-based service contracting. Commissioned study by outside source to assess the effectiveness of Department performance-based service contracting, and to recommend improvements. ◆ Acquisition leaders conducted assessments of the business environment, including current state of resources, workload, and future trends. The leaders concluded that the Department must become a fully performance-based organization in order to effectively support the Department's missions, achieve greater cost savings, and operate more efficiently. A comprehensive strategy was established to effect this transformation. ◆ Office of Acquisition Management (OAM) continued implementation of the enhanced Balanced Scorecard (BSC) for Acquisition. This enhanced BSC, accessible to all Departmental management, was designed to provide a more continuous and accurate assessment of the Department's procurement/acquisition performance using real-time data from the Federal Procurement Data System. ◆ The Procurement Executive, in coordination with Commerce acquisition community leaders, will assess the effectiveness and progress of the above initiatives and will provide an overview of the assessment summary to the OIG.
<p>3. Successfully operate U.S. Patent and Trademark Office (USPTO) as a performance-based organization.</p>	<ul style="list-style-type: none"> ◆ USPTO issued a five-year 21st Century Strategic Plan in June 2002 to enhance operations and efforts to meet performance goals under the GPRA and the timeliness standards of the American Inventors Protection Act. The plan provides a framework for developing necessary personnel competencies, establishing procurement and administrative policies, and instituting performance-driven processes and standards for evaluating effectiveness and efficiency. ◆ USPTO is assessing a number of patent and trademark application issues, current operating capabilities, and progress towards the goals in its strategic plan. The agency is focusing on: (1) efforts to meet established performance targets and reduce application processing times for both patents and trademarks, (2) implemented of efficiency measures with targets that track unit costs for Commerce's two major business units, Patents and Trademarks and, (3) development of baseline productivity measures for both of these business units to begin tracking them in FY 2005.
<p>4. Control the cost and improve the accuracy of Census 2010.</p>	<ul style="list-style-type: none"> ◆ Commerce is successfully testing planned innovations for the 2010 Census. This includes improving census questionnaire wording and using hand-held computers for personal visit follow-up operations. Also, the Department is successfully completing updates to geographic reference features for all planned counties. Testing of these innovations and improving the Census Bureau's geographic data are important in order to improve accuracy, reduce operational risk, and contain the cost of the 2010 Census. At the request of Congress, the Department conducted a feasibility test in France, Kuwait, and Mexico of collecting Census data from U.S. citizens living overseas.

(continued)

MANAGEMENT CHALLENGES <i>(continued)</i>	
CHALLENGE	ACTIONS
<p>5. Increase the effectiveness of marine resource management.</p>	<ul style="list-style-type: none"> ◆ The National Marine Fisheries Service (NMFS) fishery observer programs were the subject of the OIG's Office of Inspections and Program Evaluations in FY 2003 (Report No. IPE-15721). Fishery observers are at-sea biologists contracted by NMFS to collect data on fishery catches and the impact of fishing on non-target living marine resources. Observer data provide biological, environmental, and, in some cases, socioeconomic information to NMFS scientists and resource managers, as well as to other state and federal agencies, the fishing industry, and the public. These data are used to meet the agency's strategic goals for sustainable fisheries, protected species recovery and conservation, and healthy ecosystems. ◆ OIG reviewed NMFS observer programs to determine whether these programs are meeting the agency's data collection needs, how NMFS ensures that observer data are of high quality, and how well the program's missions and objectives are communicated. OIG reviewed seven of the 14 regional observer programs, as well as the National Observer Program (a coordinating office in NMFS headquarters). The result of the review was a set of 10 recommendations to NMFS on improving data quality, performance monitoring, and outreach efforts. NMFS concurs with each recommendation and developed an action plan that outlined detailed responses with implementation dates for all recommendations by January 2007 (with some responses implemented as early as 2004). Currently, NMFS is implementing OIG's recommendations by: <ul style="list-style-type: none"> ● Enhancing oversight of contracted programs through the application of performance-based contracting procedures. ● Reviewing sampling allocation procedures to ensure that observer data are representative of actual fishing effort. ● Exploring options for improved recruitment and retention of high-quality observers and increasing outreach to the fishing industry, other key constituents, and the public.

(continued)

MANAGEMENT CHALLENGES (continued)	
CHALLENGE	ACTIONS
6. Promote fair competition in international trade.	<ul style="list-style-type: none"> ◆ During the past year, both the Inspector General and independent auditors have reviewed and found discrepancies in collected and reported International Trade Administration (ITA) performance data. This issue is becoming increasingly critical because of the heightened emphasis being placed on performance results. At present, individual ITA programs maintain systems that collect and report data to the ITA-wide performance management system, PBViews (Panorama Business Views). Examples of these systems include the U.S. and Foreign and Commercial Service (US&FCS) client management system (CMS) that collects data on export actions/transactions, like the Market Access and Compliance (MAC) database; and the Advocacy Center Database that collects and reports progress on Advocacy Cases. ITA anticipates that there will be several circumstances where source data will be evaluated for accuracy during the next year. ITA has developed a two-tiered approach for periodic verification and validation of performance data. The methodology will include two steps: (1) The Office of Financial Management (OFM) will issue pre-audit performance data questions to all data reporters, in headquarters and in overseas and field locations. This series of questions will address the integrity and validation of reported export success data. (2) ITA will determine and schedule, beginning in the fourth quarter of FY 2004, on-site verification and validation reviews of performance data and client records, as well as other performance results-related information. These reviews will be selected from the headquarters, overseas, and domestic locations based on factors such as volume of data generated and coverage/significance of data. ITA Administrative/CFO staff will conduct these reviews to ensure adequate separation of duties from program staff. Results will be reported to the Assistant Secretaries and to the ITA CFO.
7. Enhance export controls for dual-use commodities.	<ul style="list-style-type: none"> ◆ While this challenge addresses the need to strengthen export controls, it cites the need for a new, comprehensive legislative authority to replace the expired Export Administration Act of 1979. The Administration strongly supports a streamlined and strengthened export control system that effectively promotes both U.S. national security and U.S. economic interests. The Bureau of Industry and Security (BIS) continues to work on export control reforms that facilitate legitimate global trade while reducing illicit traffic in dual-use items and targeting export control resources on transactions of greater risk. ◆ IG's interagency review to assess whether the current deemed export control program and regulations adequately protect against the illegal transfer of controlled U.S. technologies and technical information by foreign nationals to countries and entities of concern determined that some areas, such as the outreach program, are working well. BIS has taken steps to strengthen the rest of the program, such as conducting extensive outreach to the exporting community and government and academic research laboratories to explain deemed export control requirements. BIS also plans to initiate a pilot program for post-shipment verifications on the most sensitive deemed export licenses to determine compliance with license conditions and to detect any violations.

(continued)

MANAGEMENT CHALLENGES (continued)	
CHALLENGE	ACTIONS
<p>8. Enhance emergency preparedness, safety, and security of Commerce facilities and personnel.</p>	<ul style="list-style-type: none"> ◆ The Office of Security has aggressively worked to enhance the emergency preparedness, safety, and security of Commerce facilities and personnel. As of September 30, 2004, Department personnel have: <ul style="list-style-type: none"> ● Increased efforts to provide for the safety of national security information by conducting 368 compliance reviews of security containers and 1,762 reviews of classified documents. ● Completed 141 anti-terrorism risk assessment surveys; the identified countermeasure upgrades have been documented to mitigate the identified risks. ● Reviewed over 50 occupant emergency plans and performed in-depth reviews of all Departmental/Bureau Continuity of Operations Plans (COOP). ◆ The Office of Security continues to remain attentive to key issues that will help Commerce effectively fulfill its mission and focus its key management personnel on the service offerings necessary to make the Department a safer work environment for all. In fact, final coordination is underway for a new Departmental Administrative Order relating to foreign visitors, and is designed to further mitigate the Department's espionage risk.
<p>9. Strengthen financial management controls and systems.</p>	<ul style="list-style-type: none"> ◆ In October 2003, the Department fully implemented the Commerce Administrative Management System (CAMS), a financial management system that integrates financial data throughout the entire Department. As a result, the Department met, for the first time, the requirements of the CFO Act and OMB Circular A-127. With this implementation, the Department has eliminated the lack of an integrated financial system as a material weakness under the Federal Managers' Financial Integrity Act (FMFIA) and is in substantial compliance with the Federal Financial Management Improvement Act (FFMIA). ◆ OFM is coordinating a comprehensive review across all bureaus on the use of CAMS to conduct financial and budgeting operations. Each bureau has documented and presented its business processes using this system, and Commerce has identified the best practices for most financial operations. Bureaus will conform to these processes and procedures to increase overall effectiveness of the CAMS software. Bureaus also identified deficiencies or potential improvements in functionality of the CAMS software that when corrected or implemented, will further improve financial operations efficiencies in the Department. ◆ OFM conducted a self-certification test of the CAMS software against the Joint Financial Management Improvement Program (JFMIP) core financial system test. This is used to certify commercial software products as suitable for federal agency use. The results of the test will provide the Department valuable guidance on areas where functional compliance needs to be strengthened or extended.

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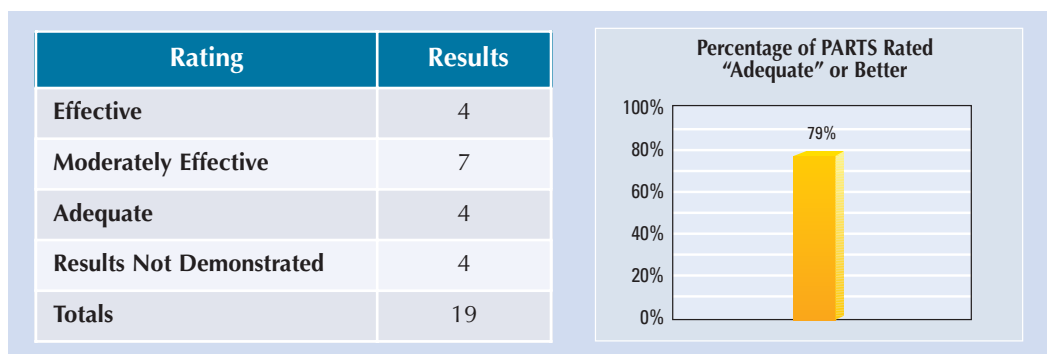
MANAGEMENT CHALLENGES <i>(continued)</i>	
CHALLENGE	ACTIONS
<p>10. Continue to improve the Department's strategic planning and performance measurement in accordance with GPRA.</p>	<ul style="list-style-type: none"> ◆ The Office of Budget instituted a data validation and verification policy across all bureaus. The bureaus and the Office of the Inspector General reviewed the policy and made recommendations before the policy was finalized. The policy ensures the soundness of the data by requiring an attestation from each bureau Under Secretary that the data are accurate, valid, and reliable. The Office of Budget reviews performance data on a quarterly basis. This review serves two purposes: (1) to ensure that managers are kept abreast of bureau performance, and (2) to determine how the program activity is performing and if it will meet stated goals. ◆ At the request of OMB and the Government Accountability Office (GAO) (formerly the General Accounting Office), the Department has reviewed all performance goals and measures to refine them to more outcome-oriented measurements that align to the Department's Strategic Plan. Although Commerce has reduced the number of measures by 25 percent, this change will not be reflected until the FY 2005 Performance and Accountability Report is finalized. Commerce plans to make additional reductions in the number of measures to more effectively relate how the Department is meeting its strategic goals.

PROGRAM ASSESSMENT RATING TOOL (PART) SUMMARIES BY STRATEGIC GOAL

The Program Assessment Rating Tool (PART) is a component of the President's Management Agenda (PMA) that was developed to assess and improve program performance so that the federal government can achieve better results. A PART review helps identify a program's strengths and weaknesses to inform management decisions aimed at making the program more effective.

In the fall of 2002 and through FY 2003, approximately 70 percent of the Department's remaining programs are scheduled to be reviewed by FY 2008. The results of these reviews are used to inform the planning and budgeting process and are published in the annual President's Budget and Performance Plan, which is submitted to Congress.

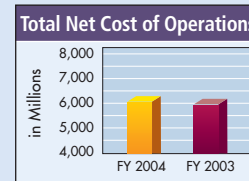
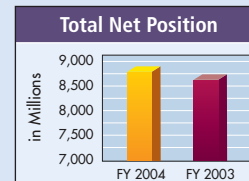
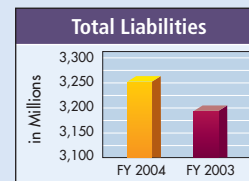
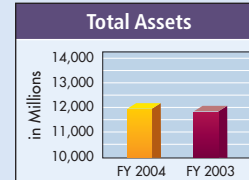
The results from the PART reviews conducted by Office of Management and Budget (OMB) are summarized on the following pages by strategic goal.



PROGRAM	RATING and SCORE
Economic Development Administration (EDA) Program	Moderately Effective – 77%
U.S. and Foreign and Commercial Service (US&FCS)	Adequate – 56%
Minority Business Development Agency (MBDA) Program	Results Not Demonstrated – 44%
Current Demographic Statistics	Effective – 92%
Current Demographic Statistics	Moderately Effective – 84%
Intercensal Demographic Estimates	Moderately Effective – 82%
Survey Sample Redesign	Effective – 86%
Decennial Census	Moderately Effective – 76%
Advanced Technology Program (ATP)	Adequate – 66%
Manufacturing Extension Partnership (MEP)	Moderately Effective – 75%
National Institute of Standards and Technology (NIST) Laboratories	Effective – 85%
Commerce Small Business Innovation Research (SBIR) Program	Results Not Demonstrated – 27%
U.S. Patent and Trademark Office (USPTO) – Patents	Adequate – 68%
U.S. Patent and Trademark Office (USPTO) – Trademarks	Moderately Effective – 73%
Coastal Zone Management Act (CZMA) Programs	Results Not Demonstrated – 46%
National Marine Fisheries Service (NMFS)	Adequate – 52%
National Weather Service (NWS)	Effective – 89%
Navigation Services	Moderately Effective – 83%
Pacific Coastal Salmon Recovery Fund (PCSRF)	Results Not Demonstrated – 44%

FY 2004 FINANCIAL HIGHLIGHTS

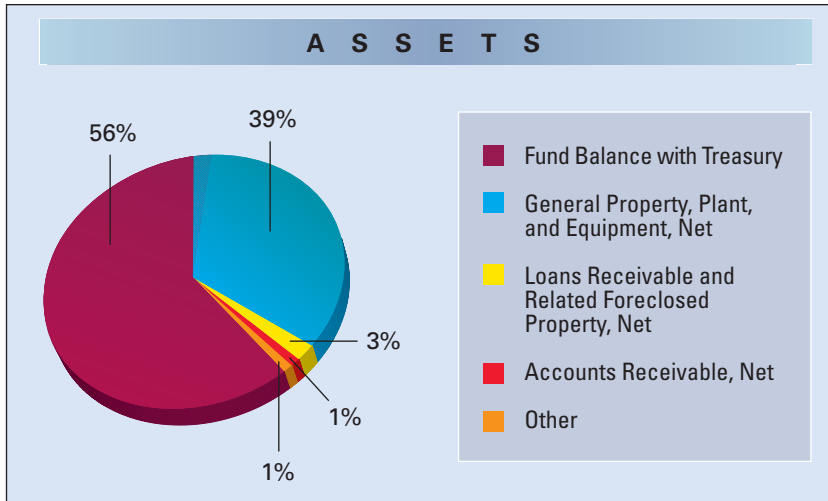
(Dollars in Thousands)	Percentage Change	FY 2004	FY 2003
As of September 30, 2004 and 2003			
Condensed Balance Sheets:			
ASSETS:			
Fund Balance with Treasury	+2%	\$ 6,652,727	\$ 6,502,932
General Property, Plant, and Equipment, Net	-4%	4,652,882	4,670,018
Loans Receivable and Related Foreclosed Property, Net	+16%	317,138	272,675
Accounts Receivable, Net	+4%	143,929	138,414
Other	-3%	169,631	173,993
TOTAL ASSETS	+2%	\$ 11,936,307	\$ 11,758,032
LIABILITIES:			
Unearned Revenue	+9%	\$ 1,088,142	\$ 999,116
Actuarial FECA Liability and NOAA Corps Employee Retirement Benefits Liabilities	-2%	557,679	568,732
Accrued Grants	-11%	350,452	392,621
Accounts Payable	-12%	325,124	367,986
Accrued Payroll and Annual Leave	+10%	321,114	290,976
Debt to Treasury	+30%	274,426	211,700
Other	-6%	333,262	355,589
TOTAL LIABILITIES	+2%	\$ 3,250,199	\$ 3,186,720
NET POSITION:			
Unexpended Appropriations	+1%	\$ 4,209,311	\$ 4,181,364
Cumulative Results of Operations	+2%	4,476,797	4,389,948
TOTAL NET POSITION	+1%	\$ 8,686,108	\$ 8,571,312
TOTAL LIABILITIES AND NET POSITION	+2%	\$ 11,936,307	\$ 11,758,032
For the Years Ended September 30, 2004 and 2003			
Condensed Statements of Net Cost:			
<i>Strategic Goal 1: Provide the Information and Tools to Maximize U.S. Competitiveness and Enable Economic Growth for American Industries, Workers, and Consumers</i>	-8%	\$ 1,626,669	\$ 1,768,842
<i>Strategic Goal 2: Foster Science and Technological Leadership by Protecting Intellectual Property, Enhancing Technical Standards, and Advancing Measurement Science</i>	-1%	875,061	884,991
<i>Strategic Goal 3: Observe, Protect, and Manage the Earth's Resources to Promote Environmental Stewardship</i>	+9%	3,617,242	3,329,289
TOTAL NET COST OF OPERATIONS	+2%	\$ 6,118,972	\$ 5,983,122
Total Gross Costs	+3%	\$ 8,092,700	\$ 7,830,947
Total Earned Revenue	+7%	(1,973,728)	(1,847,825)
Total Net Cost Of Operations		\$ 6,118,972	\$ 5,983,122



REVIEW OF FINANCIAL POSITION AND RESULTS

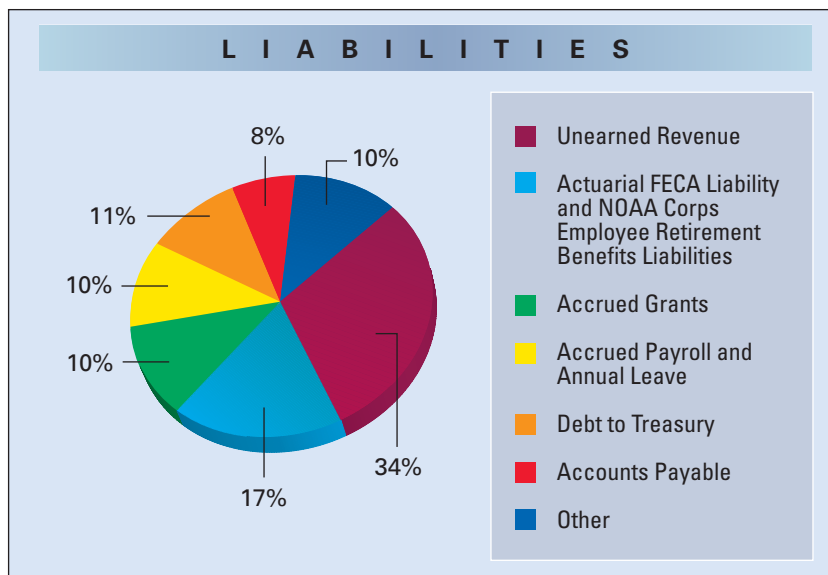
Assets

The Department had total assets of \$11.9 billion as of September 30, 2004. This represents an increase of \$178 million (2 percent) over the previous year's total assets of \$11.8 billion. The increase is primarily the result of Fund Balance with Treasury increasing by \$150 million, which primarily resulted from higher Appropriations Received, net of rescissions, of \$247 million or 4 percent.



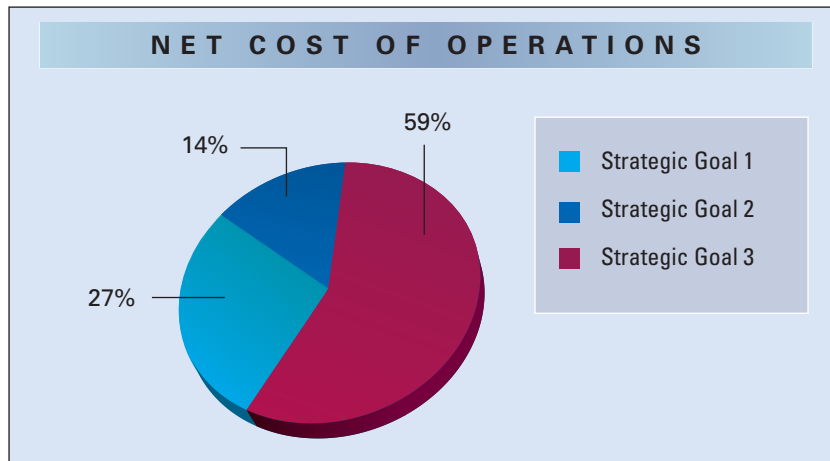
Liabilities

The Department had total liabilities of \$3.3 billion as of September 30, 2004. This represents an increase of \$63 million (2 percent) over the previous year's total liabilities of \$3.2 billion, primarily due to higher unearned revenue from increased patent and trademark application and user fees that are pending action at September 30.



Net Cost of Operations

In FY 2004, Net Cost of Operations amounted to \$6.1 billion, which consists of Gross Costs of \$8.1 billion less Earned Revenue of \$2.0 billion. Strategic Goal 1 includes Gross Costs of \$1.9 billion related to providing information and tools to maximize U.S. competitiveness and enable economic growth for American industries, workers, and consumers. Strategic Goal 2 includes Gross Costs of \$2.3 billion related to fostering science and technological leadership by protecting intellectual property, enhancing technical standards, and advancing measurement science. Strategic Goal 3 includes Gross Costs of \$3.8 billion related to observing, protecting, and managing the Earth's resources to promote environmental stewardship.



ACKNOWLEDGEMENTS



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To send comments or obtain additional information about this report, please email Keeley Knudsen at kknudsen@doc.gov.

DEPARTMENT OF COMMERCE WEB ADDRESSES FOR PLANNING AND PERFORMANCE



Department of Commerce
<http://www.commerce.gov/>

Department of Commerce Strategic Plan,
Performance Reports and Performance Plans
<http://www.osc.doc.gov/bmi/budget/docstplan.htm>

Department of Commerce Office of the Inspector General
<http://www.oig.doc.gov/>

Economic Development Agency Annual Reports
<http://www.eda.gov/AboutEDA/Annualreport.xml>

Bureau of Economic Analysis (BEA) Homepage
www.bea.gov

BEA Strategic Planning:

◆ BEA's Mission, Vision, Values, and Role
<http://www.bea.gov/bea/about/mission.htm>

◆ BEA Strategic Plan for FY 2005—FY 2009
<http://www.bea.gov/bea/about/Director.htm>

◆ BEA Strategic Plan Report Card for FY 2004
<http://www.bea.gov/bea/about/Director.htm>

BEA Organizational Assessment:

◆ Employees Rate BEA Among Top Federal Agencies,
January 5, 2004
<http://www.bea.gov/bea/about/Director.htm>

◆ BEA Organizational Assessment Survey, Results, 2003
<http://www.bea.gov/bea/about/Director.htm>

Other BEA Performance Related Links:

◆ BEA Customer Satisfaction Survey Report, 2004
<http://www.bea.gov/bea/about/Director.htm>

◆ Release Dates for 2005
<http://www.bea.gov/bea/newsrel/2005rd.htm>

**International Trade Administration Performance
and Strategic Planning**
<http://www.ita.doc.gov/ooms/ITAMeasures/>

U.S. Census Bureau
<http://www.census.gov>

Technology Administration
<http://www.technology.gov/>

Bureau of Industry and Security (BIS)
<http://www.bis.doc.gov/>

BIS Fiscal Year 2003 Annual Report
<http://www.bis.doc.gov/news/2004/03annualrept/index.htm>

**Minority Business Development Agency Fiscal Year 2003
Annual Report**
http://www.mbda.gov/documents/FY03_Annual_Performance_Report.pdf

United States Patent and Trademark Office (USPTO)
<http://www.uspto.gov>

USPTO FY 2003 Performance and Accountability Report
<http://www.uspto.gov/web/offices/com/annual/2003/index.html>

National Institute of Standards and Technology (NIST):

◆ NIST Performance Evaluation
http://www.nist.gov/director/planning/impact_assessment.htm
#recent

◆ NIST Strategic Planning
<http://www.nist.gov/director/planning/strategicplanning.htm>

◆ NIST Advanced Technology Program, Performance Evaluation
and Economic Assessment
http://www.atp.nist.gov/eao/eao_main.htm

**National Telecommunications and Information
Administration (NTIA) Strategic Plan**
<http://www.ntia.doc.gov/ntiahome/annualrpt/strat99.html>

NTIA Annual Reports
<http://www.ntia.doc.gov/ntiahome/annreports.html>

**National Oceanic and Atmospheric Administration Strategic
Planning and Performance** <http://www.spo.noaa.gov/>