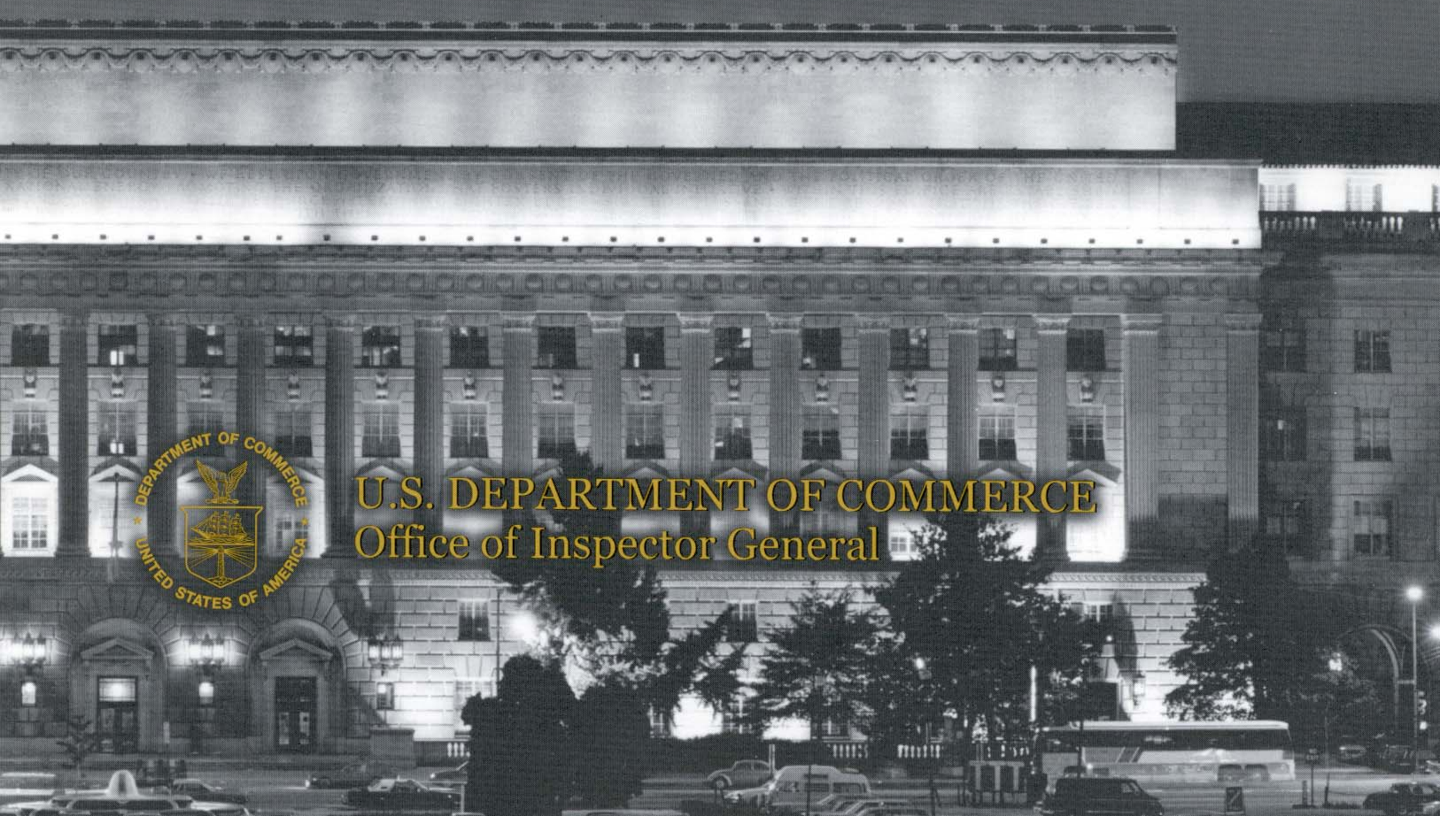
Semiannual Report to the Congress

September 30, 2000



U.S. DEPARTMENT OF COMMERCE
Office of Inspector General

IG's Message for the Secretary

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

October 31, 2000

The Honorable Norman Y. Mineta
Secretary of Commerce
Washington, DC 20230

Mr. Secretary:

I am pleased to provide you with the Office of Inspector General's semiannual report to the Congress for the second half of fiscal year 2000. Section 5 of the Inspector General Act requires that you transmit this report, with any comments you may wish to add, to the appropriate congressional committees within 30 days of its receipt.

During this semiannual period, we continued to devote considerable resources to reviewing the Department's efforts to address what we view as its top 10 management challenges. Our major focus was on the most visible and immediate challenge—improving the accuracy and controlling the cost of the 2000 Decennial Census. As the Census Bureau completes its remaining work over the coming months, we will monitor its efforts and make recommendations aimed at ensuring that this decennial produces the most accurate results possible and that the lessons learned are applied in planning for the next decennial.

We also report on the Department's progress in meeting its other major challenges, describe three challenges on which progress has been so substantial that we are removing them from the top 10 list, and discuss the challenges being added to the list to replace those being removed.

Finally, I want to note that in addition to our reviews designed to identify fraud, waste, and abuse, we also continue to emphasize work aimed at preventing problems and promoting efficiency and effectiveness in Commerce programs and activities. For example, this report summarizes the findings of two comprehensive reviews of the processes by which the Department's operating units make discretionary financial assistance awards and manage their interagency and other special agreements. It is my belief that by adopting our recommendations for improving these processes, the Department can prevent problems often associated with individual financial assistance awards and interagency agreements.

Sincerely,

Johnnie E. Frazier

Enclosure

Table of Contents

IG's Message for the Congress

FOREWORD

Operating in an environment of severe budget constraints, we have, more than ever, had to carefully focus our efforts to achieve the greatest possible impact. A large portion of our resources have been targeted at evaluating the Department's success in addressing its top 10 management challenges, which are discussed in detail in the pages immediately following. Among our major projects were reviews of the Census Bureau's management of the 2000 Decennial Census and "capping" reports summarizing our reviews of two major issues that cut across multiple Commerce operating units: maximizing competition in discretionary financial assistance programs and properly managing interagency and other special agreements.

- We completed half a dozen reviews of decennial activities, including development of the critically important Master Address File, warehousing and leasing operations, and the telephone questionnaire assistance program. In addition, mindful of the need to maintain public confidence in the integrity of the population count, we are looking into a number of allegations of fraud and other improprieties in the conduct of the enumeration.

- In a comprehensive review of the Department's discretionary financial assistance programs that grew out of a request by the Chairman, Senate Committee on Commerce, Science, and Transportation, we assessed whether the criteria, procedures, and practices used to make awards were designed to result in merit-based funding decisions. After completing audits of 33 individual programs operated by Commerce bureaus, we issued a capping report summarizing the results of the audits, identifying cross-cutting issues, highlighting best practices, identifying weaknesses, and recommending corrective actions.

- In another capping report, we summarized the findings of 10 reviews that examined how Commerce bureaus manage their interagency and other special agreements. In FY 1997, the Department had more than 4,700 such agreements, involving more than $1 billion. We concluded that although most of the agreements appeared to serve important functions related to departmental missions, increased oversight is needed to prevent or minimize problems. Among the problems we identified were bureaus using agreements when procurement contracts or financial assistance awards would have been more appropriate, failing to adequately track and control agreements, and failing to account for or recover the full costs incurred under agreements.

Through these reviews, and the many others discussed throughout this report, we have attempted to provide objective analyses of the management and performance of Commerce programs and activities, and offer practical, constructive recommendations aimed at ensuring that the Department operates efficiently and effectively.

MAJOR CHALLENGES FOR THE DEPARTMENT

In pursuing its programs and missions, the Department of Commerce is faced with a number of problems, concerns, and difficult issues, including some that we view as major management challenges. In this section, we highlight what we consider to be the "Top 10 Management Challenges" facing the Department. We also highlight the current status of other management challenges that have been met or, for one reason or another, are being removed from the top 10 list.

TOP 10 MANAGEMENT CHALLENGES

We have identified these issues as the top 10 challenges because they meet one or more of the following criteria: importance to the Department's mission or the nation's well-being, complexity, sizable expenditures, or need for significant management improvements. Given the diverse

Top 10 List

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

nature of Commerce activities, a number of these challenges cut across bureau and program lines. We believe that, by addressing these challenges, the Department can enhance program effectiveness, eliminate serious operational problems, decrease vulnerability to fraud and waste, and achieve substantial savings.

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

As it nears completion, the 2000 Decennial Census remains an enormous and complex undertaking. Some 77 million households have returned their census forms, and follow-up attempts have been made with another 42 million households to collect the census data. The Census Bureau is in the process of checking the data and preparing the population count to be released by December 31, 2000. The accuracy of the count is crucial because, among other things, it serves as the basis for determining how many seats each state will have in the House of Representatives.

The bureau has also embarked on a program to sample the population of the United States in an attempt to measure the undercount and overcount in the decennial and to increase the accuracy of the counts through statistical adjustment. The bureau proposes to make the adjusted counts available for states to use for redistricting and for other purposes by April 2001. In recognition of the immense challenge posed by the decennial census and its related operations, the Administration, the Department, and the Congress continue to provide significant oversight and management support.

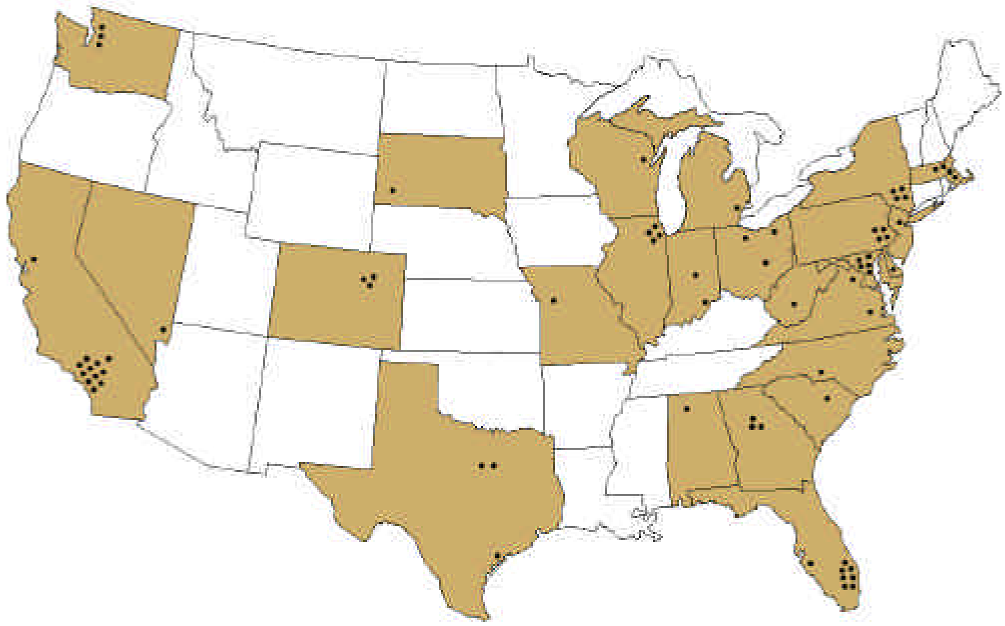
Similarly, oversight of the decennial remains one of our top priorities. Since 1994 we have issued nearly 30 audit and inspection reports on various aspects of the bureau's decennial efforts and have made numerous recommendations aimed at helping to improve the accuracy of the decennial and control its cost. We have also conducted audits and inspections of bureau activities and operations that may indirectly affect the bureau's ability to conduct the decennial efficiently, effectively, and economically. And finally, we are actively monitoring the bureau's actions to address our recommendations for correcting identified weaknesses, and are continuing to mount an aggressive effort to audit, inspect, and investigate issues relevant to the accuracy and cost of the decennial. Some of the many sites we visited during our fieldwork are depicted on the following page.

In reviews completed during this semiannual period, we identified and reported on a number of problems that need to be addressed in completing the current decennial and beginning to plan for the 2010 decennial. Specifically:

- An evaluation of the Master Address File, the address list used to support decennial operations, found that the bureau's reengineering of the file was not completed in time to ensure high-quality address data for labeling questionnaires. The bureau also needs to take additional steps to increase data quality, improve its software engineering standards, and report on its success in meeting housing unit accuracy and completeness goals through the mechanisms provided for under the Government Performance and Results Act of 1993 (GPRA). (See page 26.)

- In response to an anonymous complaint, we looked into allegations that decennial workers trained at the Hialeah, Florida, local census office had falsified data and used inappropriate procedures while working at three local offices in southern Florida. Our review revealed that (1) at one office, some enumerators had not made the required number of visits and telephone calls to households, (2) at another, some crew leaders had not adequately reviewed

Locations Visited by the OIG During Decennial Census Reviews



questionnaires, and (3) at the third, quality control procedures had not been properly implemented. When informed of our findings, the bureau took decisive action by re-enumerating the questionnaires involved to ensure the integrity of the data collected by these offices. (See page 28.)

- An audit of decennial warehousing operations concluded that the bureau needed to address two problem areas: First, because of delays in finalizing the contents of kits used to conduct various field operations, items needed for the kits were often not in stock and the delivery of kits to the field was delayed. Second, two bureau offices involved in specifying the contents of the various kits had differences in their kit specification lists. We reported that both of these problems had the potential to cause disruptions and delays in field office operations. (See page 30.)

- An inspection of decennial leasing operations found that notwithstanding some operational problems, the partnership between the Census Bureau and the General Services Administration successfully established a network of more than 1,000 decennial offices. However, the bureau needs to thoroughly assess its overall leasing costs, benefits, and results to determine whether a similar partnership should be used in 2010. In terms of lessons learned for future decennials, we noted, among other things, that telecommunications system planning should have been better coordinated and file management should have been standardized across regions. (See page 32.)

- A review of the Telephone Questionnaire Assistance program, under which a contractor developed a system to allow respondents to call toll-free to ask questions or complete the form over the telephone, found that the bureau had not developed a contract administration and surveillance plan. Such a plan ensures that the government receives the quality of services called for under the contract and pays only for services received. (See page 34.)

- Following the 1990 decennial, we reported that millions of dollars in unemployment benefits may have been unnecessarily paid to employees because their terminations were not adequately documented, and we recommended corrective action. In a recent inspection, we found that, for the 2000 decennial, in the vast majority of cases, the bureau was doing an adequate job of documenting the bases for such terminations. (See page 36.)

- Our review of the decennial special population enumerations and questionnaire assistance centers identified several issues to be considered in planning for the 2010 decennial. Specifically, too little time was allowed for enumerator training, late delivery of supplies caused problems, some homeless shelters and soup kitchens were not visited by enumerators, and the effectiveness of the assistance centers varied. (See page 40.)

As might be expected with any undertaking of this magnitude and complexity, our office has received a significant number of complaints and allegations of wrongdoing relating to decennial operations through the OIG Hotline and other sources. These complaints and allegations covered a wide range of issues, from routine payroll concerns to charges of mismanagement, discrimination, and fraudulent enumeration. (See page 41.)

The Department continues to face challenges in completing the 2000 decennial. As of September 30, 2000, the bureau had completed the enumeration phase for the 120 million households in the United States. The bureau has also completed interviews of 314,000 households selected for its Accuracy and Coverage Evaluation operation, a quality check survey designed to measure the accuracy of the census through the use of statistical sampling. Over the next few months, the bureau will, among other things, finish processing completed questionnaires, match the quality check results to those of the decennial, and reconcile any differences between the two. In addition to evaluating these ongoing efforts, we will continue to review various other aspects of the bureau's efforts to address the challenge of increasing the accuracy of the 2000 decennial.

Successfully Implement a Department-Wide Financial Management System

The Department has had an extremely difficult time developing and implementing a single, integrated financial system. For more than 10 years, Commerce's lack of such a system has been reported as a material internal control weakness in the Secretary's annual reports to the President under the Federal Managers' Financial Integrity Act. It has generally been reported that:

> "Many of the Department's financial systems are seriously outdated and fragmented; they are unable to provide timely, complete and reliable financial information; they are inadequately controlled; and they are costly and difficult to maintain. The financial systems, taken as a whole, are not compliant with GAO principles and standards, nor with requirements of the CFO Act, the Joint Financial Management Improvement Program (JFMIP), or OMB."

To correct this weakness, Commerce began planning for the acquisition and development of a Department-wide financial system in 1992 and awarded a contract for system development in 1994.

However, notwithstanding large investments of time and resources, implementation of the system, known as the Commerce Administrative Management System (CAMS), progressed slowly.

To improve the reliability of the system development effort, in FY 1997 the Department added contractor support to augment the work of the original prime contractor. Assisted by a private consulting firm, the Department also conducted a review of CAMS to address concerns about costs incurred and schedule delays. In FY 1998, based on the results of the review, the Department redefined the composition and functionality of CAMS and drastically revised the CAMS implementation strategy. The Department also reorganized its systems development project management structure.

The revised strategy called for pilot implementation and testing of the redefined CAMS (core CAMS) at the Census Bureau before implementing the system at other bureaus. The pilot implementation of core CAMS at Census was completed in June 1998. A consulting firm under contract with the Department to perform verification and validation of the system at Census concluded that it met departmental requirements and was as good as or better than other core financial management systems that have been implemented at other large federal agencies.

The Department's current strategy is to replace noncompliant systems with ones that are compliant, and develop a Department-wide financial database (commonly referred to as the Corporate Database) that will integrate financial data from all reporting entities and produce the consolidated financial statements, as required by OMB. During FY 1999, the Department began developing the database and completed the development of functional requirements, basic programming, and draft user instructions. The Department expects that the database, when implemented, will comply with OMB's requirements.

Despite the serious difficulties that were encountered with the implementation of CAMS, we believe that FY 1999 marked a turning point for the Department in its efforts to improve its financial management systems and resolve this major management challenge. Most notably:

- The Bureau of the Census continued full production of core CAMS; deployed access to regional and decennial census sites; implemented additional modules for travel, budget, and inventory functions; and deployed a data warehouse, making access to financial information easier and more timely for program managers.

- After determining that the Department of the Interior's National Business Center could not provide financial services at a lower cost and risk than could be achieved through the implementation of CAMS, NOAA continued with its CAMS implementation efforts. Despite funding shortfalls for CAMS, NOAA has restructured its implementation schedule so that a line office will be fully operational in October 2001, with full implementation expected in 2003.

- ITA entered into a cross-servicing agreement with Interior's National Business Center for full-scope accounting services that took effect in August 1999. The center's accounting system is compliant with OMB and JFMIP requirements. ITA's prior accounting system was not compliant with these requirements and contributed to the bureau's inability to produce auditable financial statements in 1998.

- EDA began using CAMS as the official accounting system for its financial assistance programs on October 1, 1999.

- The Office of the Secretary, which is serviced by NIST, will implement CAMS early in FY 2001. After successful operation of the system there during the first half of FY 2001, NIST plans to implement CAMS at its remaining client sites by October 1, 2001. NIST plans to complete system implementation by the end of FY 2003.

Future improvements will require both significant resources and the commitment and continued attention of senior management. By FY 2004, the Department plans to have all 14 of its reporting entities operating under compliant financial management systems integrated with the Corporate Database.

Given the large amounts of time and money that have already been invested in CAMS implementation, the critical need for a reliable financial management system, and the remaining obstacles to be overcome in implementing the system, we believe that it is important to closely monitor and review selected aspects of the Department's progress in implementing core CAMS in its reporting entities. For example, during this semiannual period, we conducted a review of the application change controls in place at the CAMS Support Center, and determined that improvements were necessary (see page 77). Department officials generally agreed with our assessment, and we will continue to coordinate with them to resolve these issues. Additionally, in the coming fiscal year, we plan to review CAMS management and the issues associated with the system's full deployment.

Until the Department is in compliance with the federal requirement for a single, integrated financial system, we will view the Department's efforts to develop such a system as a major challenge warranting the close attention of senior officials and continued oversight by our office.

Strengthen Department-wide Information Security

Protecting the Department's computer systems from cyber-attack is a significant challenge today and will continue to be so in the future. The number of cyber-attacks on our nation's computer systems has grown dramatically over the last few years and is projected to grow at an even faster rate in the future. The sophistication of such attacks also continues to increase, posing a severe threat to computer system security. Research has shown that cyber-attacks are carried out not just by hackers, but by foreign governments and organized criminal and terrorist groups with harmful intent.

A large number of interconnected, widely distributed computer systems support vital Commerce operations and provide essential services to the public. As the Department's systems have become more widely distributed and interconnected, security vulnerabilities have also increased, creating a need to improve procedural and technical security measures. Strong computer security measures are vital to protect the secrecy and privacy of information, the integrity of computer systems and their networks, and the availability of services to users.

In August we completed a review of the Department's initial implementation of Presidential Decision Directive 63, which was created in part to address the growing cyber-threat (see page 75). This directive establishes a national program to assure the security of cyber-based systems essential to the operations of the U.S. economy and government. The review was the first of a planned two-phase assessment of cyber-related critical infrastructure protection performed under the auspices of the President's Council on Integrity and Efficiency.

The first phase covered the Department's critical infrastructure protection plan, the prioritized list of computer systems identified as critical to the

Department, and system security vulnerability assessments. The second phase will evaluate the Department's plans and strategies for mitigating system security vulnerabilities, responding to a coordinated cyber-attack, obtaining any additional resources needed to implement vulnerability mitigation plans, and recruiting, retaining, and educating information security personnel.

In addition, we are currently evaluating the Department's information technology security program policy and management. Included in the evaluation are selected operating units' program-, issue-, and system-level policy and management. We will report on the results of this review in our next semiannual report. We are also evaluating the security of the Department's preparation and release of the Principal Economic Indicators.

The reliability of computerized data and of the systems that process, maintain, and report financial data is also a major concern. Therefore, as part of the Department's FY 2000 financial statements audits, we contracted for and are continuing to oversee security reviews of each of Commerce's financial management systems and their related networks. These reviews include "intrusion detection analysis"—also called "penetration testing"—of selected bureaus and use as a guide GAO's *Federal Information System Controls Audit Manual.*

The GAO manual provides guidance on control objectives that auditors should consider when assessing and evaluating the reliability of computer-generated data that supports financial statements. This assessment includes a review of the physical security and logical access controls designed to prevent or detect unauthorized access or intrusion into systems and networks. Strong systems security controls are considered essential for protecting the integrity and confidentiality of sensitive files and data. We will report on the findings of these systems security reviews during the next semiannual period.

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

The American Inventors Protection Act of 1999 (P.L. 106-113), which was signed into law on November 29, 1999, established the U.S. Patent and Trademark Office as a performance-based organization (PBO), which provides it with greater flexibility and independence so that it can be run more like a business. As a PBO, USPTO has increased authority and responsibility for decisions regarding the management and administration of its operations, and it exercises more independent control of its budget allocations and expenditures, personnel decisions and processes, and procurement operations. USPTO's transition to a PBO officially began on March 29, 2000.

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

First, USPTO has experienced a massive increase in patent and trademark filings and appeals, leading to the hiring of hundreds of new examiners and administrative judges. In FY 1999, USPTO received more than 272,000 patent applications and 297,000 trademark applications, representing 13-percent and 27-percent increases, respectively, over FY 1998, and continuing a trend of double-digit percentage increases in recent years. To address this increased demand on its human resources, USPTO hired more than 1,500 patent examiners and 200 trademark examiners during FY 1998 and 1999.

In prior audits of the Office of Patent Publications (see September 1999 issue, page 58) and the Board of Patent Appeals and Interferences (see September 1998 issue, page 64), we reported on some of the issues facing USPTO in connection with the hiring and training of these examiners and additional administrative judges to hear examination appeals. USPTO's new status will allow it greater flexibility to design performance and retention programs with incentives for these highly skilled employees, who are often recruited by private sector companies, law firms, and search firms. According to USPTO management, the PBO transition will enable it to more efficiently manage its resources and make the rapid decisions needed to process the increased number of patent and trademark filings and appeals in a timely manner, while maintaining high quality.

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

Now that GSA has awarded the development contract, USPTO's challenge is to aggressively hold the line on project costs, including remaining within the legislatively mandated cap on the cost of completing the build-out of the building's interior once the structure is in place. After construction starts in early calendar year 2001, we will conduct follow-up work in order to stay abreast of USPTO's project management and the cost control measures it plans to put in place for the building structure, interior build-out, and new furniture.

USPTO faced enormous challenges in trying to deliver essential information technology capabilities before the enactment of the PBO legislation. With its increased focus on operational efficiency and new provisions requiring information technology solutions, the act will intensify the demands placed on automated systems and further strain USPTO's ability to deliver systems.

For example, under the new law, patent applications that have been filed abroad must be published within 18 months of their U.S. filing date, and USPTO has decided to publish the applications in electronic form. Implementation of this and other provisions of the law will require new and enhanced systems. We are currently completing an evaluation of the implementation of USPTO's new search systems. As we will report during the next semiannual period, USPTO's experience with these systems offers important lessons for improving systems acquisition and development in the future.

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

In recent years, questions have been raised by various sources about NTIS's future—namely:

- What should the agency's role and mission be in the 21st century?
- Can it support itself as currently authorized and, if not, what should be done?

In our September 1999 issue (see page 7), we discussed our concern that disappointing operating results continued to call into question NTIS's ability to be self-sustaining. In FY 1999, total revenue dropped by \$3.4 million to \$33.3 million, and only by taking aggressive cost-cutting actions, such as transferring some of its staff to other Commerce agencies, was NTIS able to avert a loss and report a surplus of \$652,000 at the end of the year. NTIS is projecting a surplus of over \$2 million for FY 2000, which agency officials attribute primarily to reduced spending on key information technology.

While drastic cost-cutting measures may resolve NTIS's problems in the short-run, they cannot help the agency solve its major problem—a steady decline in the sales of its products and services caused by fundamental changes in the marketplace.

To address these NTIS-related issues, the Department formed a working group made up of senior managers from the Department and the Technology Administration. Based on the group's efforts, the Department developed a legislative proposal that would provide for closing NTIS by the end of FY 2000 and transferring its collection of scientific, technical, business, and engineering publications to the Library of Congress to ensure permanent public access to such documents.

Due to congressional concerns, the closure was delayed pending the outcome of both a GAO review of NTIS's functions and a comprehensive study by the U.S. National Commission on Libraries and Information Science of overall U.S. government public information dissemination. The results of the GAO review are scheduled to be provided to the Congress by mid-February 2001, and the results of the Commission's review are scheduled to be released on December 15, 2000. The Commission has already issued one position paper and held public hearings on the matter. The continuing challenge for the Department is to work closely with the Congress and other stakeholders to reach agreement on the future of NTIS.

Enhance Export Controls for Dual-Use Commodities

The United States controls the export of certain goods and technologies for national security and foreign policy (including nonproliferation) purposes. Within Commerce, the Bureau of Export Administration issues licenses authorizing the export of certain dual-use commodities—goods and technologies that have both civilian and military uses. Dual-use controls are a subject of continuing controversy, generating a wide range of opinions on how well the government's export control policies and practices balance the need to protect U.S. national security and foreign policy interests with the desire not to unduly hamper U.S. trade opportunities and competitiveness. Striking this balance can pose a significant challenge.

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

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

Given the importance of export licensing controls to national security, we have devoted considerable attention to the challenges facing BXA in issuing licenses authorizing the export of certain goods and technologies that have both civilian and military uses. In 1993 we participated in a special inter-agency review of export licensing processes for munitions and dual-use commodities (see September 1993 issue, page 15). The 1993 report highlighted the need for more transparency in the dual-use export licensing process. In response to this need, in 1995 the President issued Executive Order 12981, which expanded the authority of the Defense and State Departments and other involved federal agencies to review all export license applications.

In October 1998, in response to a request from the Senate Governmental Affairs Committee, the OIGs of the Departments of Commerce, Defense, Energy, State, and the Treasury, and the Central Intelligence Agency, undertook a follow-up review to evaluate the status of actions taken to implement the recommendations from the 1993 review. We also evaluated the effectiveness of the Department’s current policies, procedures, and practices for licensing dual-use goods and technologies. In our report, issued in June 1999, we stated our conclusion that the multi-agency licensing process for U.S. dual-use exports is balanced and appropriately considers divergent policy views and information in deciding on export license applications (see September 1999 issue, page 17).

While our report described significant areas of improvement in export controls since our 1993 work, it also identified some weaknesses in the licensing process that still need to be addressed. Specifically, we found that (1) more transparency is needed in the commodity classification and license appeals processes, (2) the intelligence community does not review all dual-use export license applications or always conduct a comprehensive analysis of applications it does review, (3) license applications need to be screened against a key database maintained by the U.S. Customs Service, (4) BXA needs to improve its monitoring of license conditions with reporting requirements, and (5) BXA needs a new automated system to process export license applications efficiently and effectively.

In October 1999, the National Defense Authorization Act for FY 2000 directed the same six OIGs to report to the Congress by March 30, 2000, on the adequacy of current export controls and counterintelligence measures to prevent the acquisition of sensitive U.S. technology and technical information by countries and entities of concern. The act also requires a similar report to be provided annually until the year 2007.

To meet the first year reporting requirement, each OIG reviewed its agency’s export controls and counterintelligence measures and reported on the results. Two interagency reports highlighting cross-cutting issues were also prepared. Our report focused on three activities that the Commerce Department, principally through BXA, carries out or participates in to help prevent the illicit transfer of sensitive U.S. technology: deemed export controls, the Visa Application Review Program, and the Committee on Foreign Investment in the United States (see March 2000 issue, page 21).

To comply with the second year requirement of the act, the current interagency OIG review is focused on the Commerce Control List and the U.S. Munitions List (maintained by the State Department). In Commerce, we plan to assess BXA’s policies and procedures for developing, maintaining, and revising the dual-use Commerce list in order to adequately protect against the export of militarily sensitive technologies and commodities. In particular, we will evaluate the process for determining whether an item goes on the Commerce Control List or the U.S. Munitions List, as well as the policies and procedures for considering amendments and revisions to the Commerce list. In addition, we will determine whether there is still a need for greater transparency in Commerce’s commodity classification process, as noted in our June 1999 report. Finally, we will determine whether there is a need for transparency in State’s commodity jurisdiction process.

However, the challenge continues for BXA, as well as the Administration and the Congress, to pass a comprehensive revision of the Export Administration Act and to focus the federal government’s licensing and enforcement efforts on targeting those exports that present the greatest proliferation and national security risks and on streamlining or eliminating controls that unnecessarily hamper trade. Through our export control reports, we hope to play a useful role in congressional and public debates on the reauthorization of the Export Administration Act and the revamping of the nation’s export controls. We will continue to monitor BXA's efforts to improve dual-use export controls through the annual reports required under the Defense Authorization Act.

Increase the Effectiveness of Fishery Management

Ensuring healthy stocks of fish and other marine animals in the coastal waters beyond each state's jurisdiction is a federal responsibility carried out principally by NOAA's National Marine Fisheries Service (NMFS) and eight regional fishery management councils under the Magnuson-Stevens Fishery Conservation and Management Act of 1976, as amended. Among other things, NMFS and the councils track the condition of fish and other marine species, determine the levels of catch that will provide the greatest benefit to the nation, and measure the economic impacts of fishery regulations and policies. Measures to manage various species are generally developed by the councils, subject to review by NMFS and approval by the Secretary of Commerce. These measures are often controversial because they impose fish quotas that affect both the survival of a species and the economic health of the fishing industry and many coastal communities.

A recent GAO report concluded that NMFS appears to be using the best available scientific information to determine the condition of fish and other marine species, that it appropriately considers the economic impacts of conservation and management measures on fishing communities, and that it has technically met the requirements of the Magnuson-Stevens Act by identifying essential fish habitats and developing a consultative process for addressing potential adverse impacts to those habitats. However, GAO concluded that improvements were needed in all three areas and made recommendations to strengthen NMFS's data collection efforts, improve communications between the government and the fishing industry, improve economic analysis, and identify the costs of achieving compliance with the act's fish habitat provisions.

We are currently focusing our attention on NMFS's leadership role in the Northwest Salmon Recovery Effort—a combined response by various federal agencies, state governments, tribal governments, and other organizations to restore salmon runs in the Columbia River Basin that have been listed for protection under the Endangered Species Act of 1973. The primary objective of our review is to assess how well NMFS has fulfilled its leadership responsibility under the act and how effectively it has communicated and collaborated with the other participants.

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

Despite the inherent difficulties encountered in determining how to best plan and measure its performance in accordance with GPRA, the Department has continued to make progress in meeting this challenge. The Department submitted its third Annual Performance Plan, for FY 2001, in February 2000 and its first Annual Program Performance Report, for FY 1999, in March 2000. The submission of the Department's first Annual Program Performance Report brought to a close the first full cycle of GPRA activity that began in 1996. Also, the Department submitted its initial Accountability Report, which reports both financial and performance results, for FY 1999, on March 1, 2000.

While the Congress, GAO, and the OIG all agreed that the Department's FY 2000 Annual Performance Plan was significantly better than its FY 1999 plan, it was also recognized that there was room for additional improvement. Of particular concern was the need for the Department to ensure that the data to be used in measuring performance is accurate, complete, and reliable. The FY 2001 plan and FY 1999 performance report reflect the

Department's continued efforts to improve strategic planning. Additional improvements could be made to ensure that reported data is credible, modify the system for scoring and communicating performance results, and more fully discuss performance targets not met and efforts to improve performance. While the Department has been responsive to past criticisms of the documents it has produced to meet GPRA requirements, continued management attention is essential.

We have regularly provided advice and assistance to the Department on the implementation of GPRA, as well as on the linkage between the act's required performance reporting and the financial reporting contained in the annual financial statements. We have made presentations to departmental officials on the importance of ensuring that the information related to performance results can be relied upon, and have provided informal comments on various GPRA-related documents. We worked with the Department in its efforts to develop an Accountability Report that contains a statement of net cost that accurately reflects the Department's activities, and a management discussion and analysis that reports its most significant performance results. In response to a May 2000 request, we provided our analysis of the Department's FY 1999 GPRA Annual Performance Report and related performance plans to the Chairman of the Senate Committee on Governmental Affairs.

A substantial challenge for the Department is to ensure that its second strategic plan provides appropriate focus and direction for its future actions. The Department's initial strategic plan drew criticism from both the Congress and GAO. Also, the Department needs to address concerns raised about its initial annual performance report.

We will continue to monitor the Department's efforts to implement GPRA, provide advisory comments on GPRA-related documents, and, where resources permit, perform targeted reviews of GPRA-related issues. We recently completed audits of performance measurement and reporting at BXA and NTIA, offering recommendations for improving the reporting of performance information and for strengthening internal controls (see pages 21 and 58). We also have ongoing an audit designed to, among other things, identify the best practices for verifying and validating performance measures at business centers operated by EDA, ITA, MBDA, and NIST. Several other reviews, while not necessarily directed at GPRA implementation, have identified issues related to the identification of performance measures and the reporting of performance information (see, for example, pages 26 and 61).

Strengthen Financial Management Controls in Order to Maintain a "Clean" Opinion on the Department's Consolidated Financial Statements

The Chief Financial Officers Act of 1990, the Government Performance and Results Act of 1993, the Government Management Reform Act of 1994, and the Federal Financial Management Improvement Act of 1996 were designed to improve the financial management practices of federal agencies. The statutes require audited financial statements that present an entity's financial position and results of operations, as well as other information needed by the Congress, agency executives, and the public to assess management's performance.

Despite many obstacles—including the absence of a single, integrated financial management system—the Department received its first-ever unqualified (clean) opinion on its FY 1999 consolidated financial statements. This was a noteworthy achievement, largely attributable to the leadership and commitment that the Secretary, the Deputy Secretary, and the Chief Financial Officer demonstrated in working with bureau managers and our office.

Although substantial improvements have been made in financial management, further improvements are essential in order for the Department and its reporting entities to correct the material weaknesses and other deficiencies identified in the FY 1999 audits and to maintain their clean opinions in future years. (Material weaknesses are serious flaws in the design or operation of an internal control component that increase the risk that errors, fraud, or non-compliance in material amounts may occur and not be readily detected.)

The FY 1999 audits identified 7 material weaknesses, 12 reportable conditions, and several instances of noncompliance with laws and regulations that need to be resolved at the reporting entity level. Though these numbers represent a significant decrease from previous years, these matters still represent obstacles that the Department must overcome to avoid jeopardizing the clean opinions. The Department recognizes that ongoing efforts are needed to create a financial management environment that provides timely, accurate financial and performance information and complies with federal laws and regulations. In its FY 1999 Accountability Report, the Department describes its three major financial management initiatives:

- **Improving financial accountability** by strengthening the integrity of financial operations and providing guidance to reporting entities.
- **Improving financial management systems** through the CAMS development project.
- **Developing human resources**by establishing financial leadership positions at all bureaus and developing a professional education program.

We are pleased with the Department's continued focus on strengthening financial management controls. However, maintaining clean audit opinions on the Department's consolidated financial statements, as well as all reporting entity statements, is a major challenge.

Successfully Implement Acquisition Reform Initiatives

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

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

The Federal Acquisition Reform Act of 1996 provided for governmentwide acquisition reform, including the repeal of the Brooks Act (covering automated data processing procurements), shortened the time allowed for GAO to issue bid protest decisions, revised the Procurement Integrity Act, and fostered the professionalism of acquisition personnel. The Information Technology Management Reform Act of 1996 provided new guidance on the procurement of information technology resources. These two laws were combined and renamed the Clinger-Cohen Act of 1996.

Although these new laws aim to promote greater efficiency and procurement uniformity among government agencies, GAO recently reported some concerns about the implementation of acquisition reform. Specifically, GAO reported problems in the use of government-wide agency contracts (GWACs), finding that agencies have often employed various tactics to avoid holding required vendor competitions, essentially making sole-source awards. In addition, agencies have exhibited a tendency to make awards to large businesses, thereby reducing the number of awards to small and disadvantaged businesses.

In an ongoing study, the Office of Federal Procurement Policy has also identified weaknesses in procurement rules that have enabled some agencies to avoid competition, particularly in the use of GWACs and other multiple award contracts. That office has serious concerns about service contracting, particularly many agencies' lack of focus on results. Likewise, we have identified specific problems at Commerce concerning improper use of task order contracts, inadequate documentation of market surveys, insufficient planning for contract administration and monitoring, and inadequate administration of the purchase card program.

The Department has actively participated in the implementation of acquisition reform. Commerce developed a streamlined acquisition process known as CONOPS, which has reduced procurement lead times. In addition, performance-based service contracting has been used in acquisitions for the 2000 Decennial Census, and we recently completed a review of one such contract for telephone questionnaire assistance (see page 34). The purchase card program was piloted by the Department of Commerce in 1986, and the Department continues to be a major participant in the program. More recently, the Department awarded the Commerce Information Technology Solutions contract (known as COMMITS), the only GWAC for information technology services set aside for small, disadvantaged, and women-owned businesses.

The purpose of acquisition reform and its streamlining initiatives is to reduce the time and money spent in acquiring needed goods and services by relying on the competitive marketplace. At the same time, the added focus on past performance and performance-based service contracting requires a new approach to monitoring contractor performance by relying on performance-based measurement tools, such as earned value and risk management. It also requires acquisition teams (including the contracting officer and the contracting officer's technical representative) to develop specialized skills as business managers. Given the general concerns expressed by GAO and the Office of Federal Procurement Policy, and the specific concerns voiced by our office, we believe that the implementation of acquisition streamlining initiatives within the Department of Commerce warrants extra scrutiny.

UPDATE ON FORMER TOP 10 CHALLENGES

Given the dynamics, diversity, and complexity of Commerce programs and activities, we maintain the top 10 list on an ongoing basis, and as challenges are met or greatly reduced in significance, we remove them from the list and replace them with other challenges. It should be noted, however, that even though a challenge is removed from the top 10 list, it may still warrant management attention. We are pleased to report that the three challenges discussed in the following sections have been removed from our top 10 list as of September 30, 2000.

Implementation of AWIPS Marks the Completion of NWS's Modernization Program

With the successful implementation of the Advanced Weather Interactive Processing System (AWIPS) in August, the National Weather Service (NWS) completed its modernization effort, resulting in dramatic improvements in weather services and to its radar systems, surface observing systems, information systems, and communication networks, as well as consolidation of its field office structure with reductions in staffing levels. Throughout this $4.5 billion modernization program, NWS has faced daunting technical and management challenges. Consequently, we have performed continuing oversight and reported on NWS modernization issues on an ongoing basis in our semiannual reports. Progress on the other aspects of the modernization allowed us to narrow our focus to successful AWIPS implementation in 1998.

AWIPS provides the capability to acquire data from advanced observing systems and to give forecasters tools to rapidly analyze the data, integrate it with the information provided by weather service guidance centers, and prepare timely and accurate warnings and forecasts for dissemination to the public and the media. NWS completed AWIPS with the commissioning of the Anchorage river forecast center on August 17. Beginning in January of this year, 139 AWIPS systems were commissioned at 121 weather forecast offices, 13 river forecast centers, and 5 national centers. As a result of NWS's achieving this milestone, we are removing AWIPS as a top 10 management challenge.

The primary commissioning goals were to confirm that AWIPS provides each NWS site with the functionality and support needed to conduct weather and river forecasting operations and to confirm that AWIPS can replace older and obsolete operational systems. As AWIPS was commissioned at each site, it became the official system for supporting office operations. Additionally, older systems, including the aging Automation of Field Operations and Services, ceased to be used operationally and could be removed from the field.

Due to protracted AWIPS development, which resulted in significant cost growth and deployment delays, a congressional spending cap was imposed. NWS management concluded that the development and deployment of some of the planned capabilities, including advanced meteorological capabilities, could not be completed within the spending cap. Thus, the capabilities needed to achieve office staff reduction goals and to replace the Next Generation Weather Radar user workstations are now under development. These capabilities are currently scheduled for incremental deployment beginning in 2001 and ending in 2002.

Private Sector Participation in NOAA's Marine and Aeronautical Data Gathering Has Increased

The Congress, the OIG, the General Accounting Office, and others have long been concerned about how NOAA can most efficiently and effectively obtain its marine and aeronautical data. In recent years, NOAA has made considerable progress in expanding the private sector's participation in this effort. As a result, this challenge has been removed from our top 10 list as of September 30, 2000. However, it is important that all interested parties, including NOAA management, departmental officials, and our office, continue monitoring NOAA's actions to ensure continued private sector participation in marine and aeronautical data gathering.

While recognizing that NOAA has made progress in expanding private sector participation in acquiring hydrographic data, we will, for example, continue to monitor its acquisition of four new fishery research vessels. We remain concerned that NOAA's detailed data acquisition plan for its fisheries mission does not specifically indicate how the data needed by the various fisheries programs would be collected if the additional vessels are not acquired. Rather, NOAA has focused its efforts on designing, owning, and operating the new vessels potentially at the expense of thoroughly assessing or aggressively pursuing other alternatives for meeting its fisheries data collection needs. Funding for one vessel was approved by the Congress in FY 2000; however, NOAA's plan does not address the possibility that the bureau will not receive follow-on funding for the remaining vessels in FYs 2002-04. We believe that the absence of such a contingency plan may put NOAA's fisheries programs at risk.

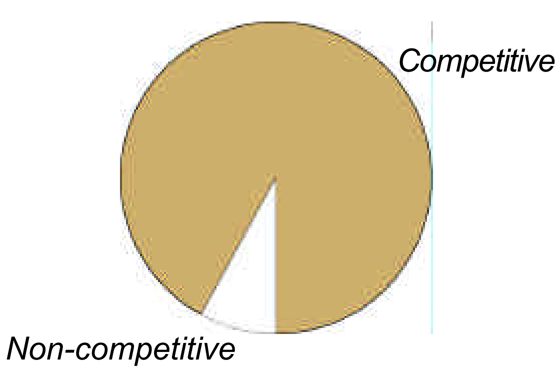
NOAA's Aircraft Operations Center, which is responsible for gathering atmospheric, oceanographic, and other data for various of the agency's programs, operates a fleet of 14 aircraft, composed of 2 heavy craft, 1 mid-size jet, 8 light fixed-wing aircraft, and 3 helicopters. An OIG audit of NOAA's light aircraft fleet concluded that the full in-house cost of operating NOAA's light fixed-wing aircraft and helicopters averaged 42 percent more than the cost of operating similar aircraft in the private sector (see September 1998 issue, page 44). We recommended that NOAA privatize its light aircraft operations.

NOAA did not agree with our position, believing that its light aircraft are cost competitive and that no savings would be achieved by using other sources to meet its data collection needs. For more than three years, we have worked with NOAA officials to reach an agreement on an approach for addressing our concerns. We are pleased to report that NOAA has provided us with its action plan, with which we concur, for resolving the outstanding recommendations. The plan includes actions promoting greater use of private sector contractors and the potential disposal of costly and underutilized aircraft.

Most Commerce Discretionary Financial Assistance Programs Are Administered on a Competitive Basis

In the last several issues of this report, we identified maximizing competition in Commerce bureaus' discretionary financial assistance programs as a major challenge for the Department. We are pleased to report that this challenge is close to being met as a result of the Department's and the bureaus' constructive actions in response to the findings and recommendations we made in a series of individual reports on bureaus' discretionary financial assistance programs, and the Department's commitment to issue a comprehensive grants and cooperative agreements manual that will institutionalize the recommended improvements.

92% of Commerce discretionary financial assistance funds were awarded under competitive programs in FY 1997



Discretionary financial assistance programs involve a significant portion of the Department's budget and operations. Seven Commerce operating units administer 72 financial assistance programs that provide a total of about $1 billion a year to state and local governments, educational institutions, other organizations, and individuals. Over the past two years, we have conducted a comprehensive review of the criteria, procedures, and practices used to make funding decisions under discretionary financial assistance programs. Our review focused on the FY 1997 awards processes of 33 programs we classified as "full discretion" programs, which we defined as those whose authorizing legislation places no significant limitations on the Department's ability to independently determine the recipients or funding levels of the awards made under the programs. These programs accounted for more than 1,700 awards and $801 million in FY 1997 funding.

Our review found that most Commerce discretionary financial assistance programs are competitively administered and employ processes that are designed to result in merit-based funding decisions. We issued reports on our audits of the 33 programs, as well as a "capping" report, which summarized the results of the individual audits; identified cross-cutting issues; highlighted "best practices"; identified weaknesses in departmental policies, procedures, and practices; and offered recommendations for improvement.

Because we believe that the Department's challenge of maximizing competition is being met by its planned improvements, we now intend to shift our focus by increasing the number of our audits and evaluations of financial assistance recipients and programs. These audits will determine whether costs claimed by recipients are reasonable, allowable, and allocable, and will measure program outcomes in order to determine whether the benefits being derived from these programs are commensurate with the substantial funds being invested in them.

RESOLUTION AND FOLLOW-UP

The Inspector General Act Amendments of 1988 require this report to present those audits issued before the beginning of the reporting period (April 1, 2000) for which no management decision had been made by the end of the period (September 30, 2000). The following table presents the overall status.

Type of Report	Unresolved
Performance	1
Financial Assistance	1

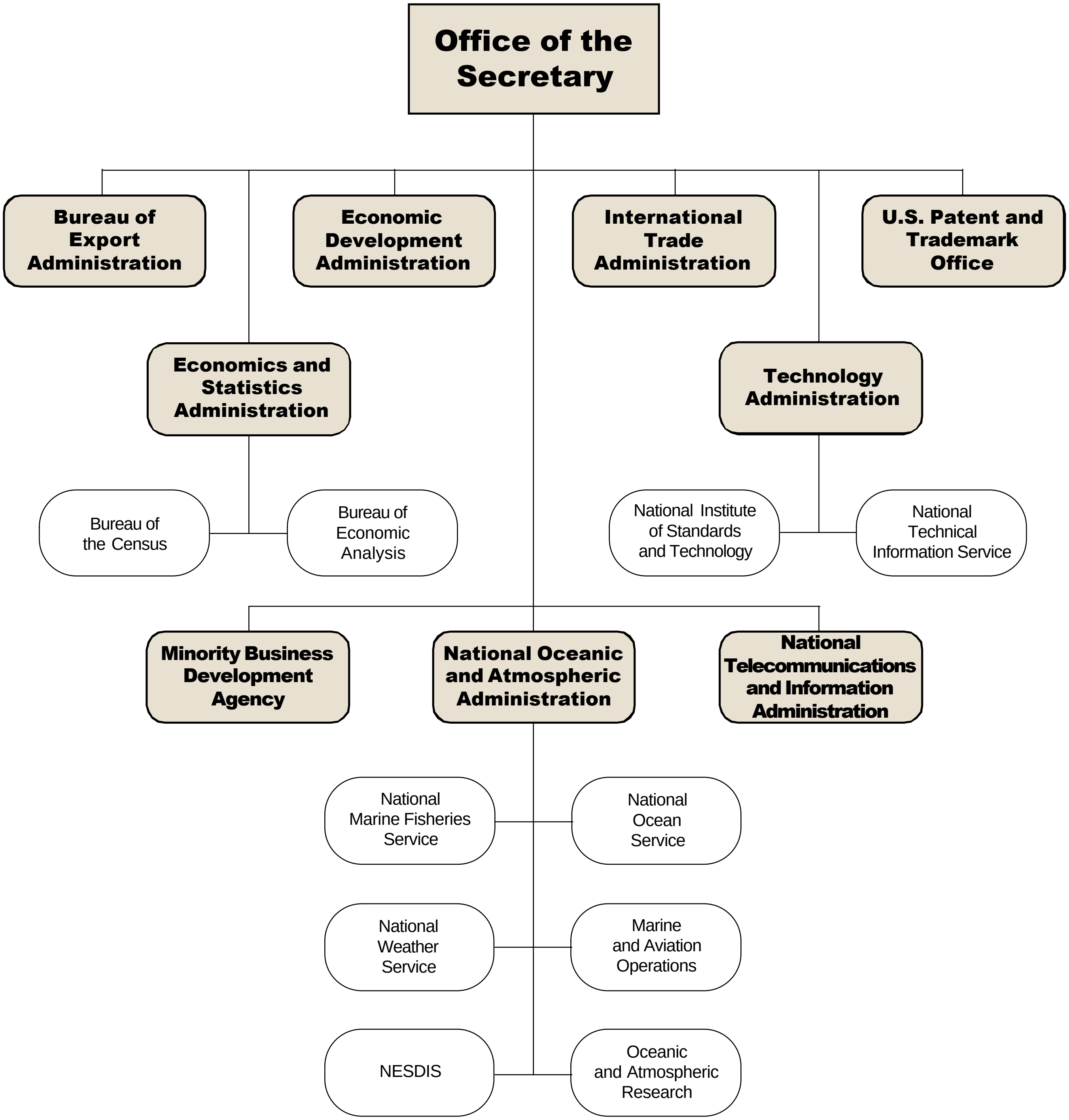
The performance audit deals with our review of NOAA's discretionary financial assistance awards made under OAR's Climate and Atmospheric Research Program. We have reviewed NOAA's audit action plan, but do not concur with some of the proposed actions (see page 56).

The financial assistance audit, which has been unresolved for more than a year, involves an EDA grant award. Because regional EDA and OIG offices have been unable to reach agreement on the issues raised by this audit, we have requested that the matter be forwarded to headquarters for resolution (see page 25).

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

Report Category	Modifications	Appeals
Actions Pending (April 1, 2000)	0	7
Submissions	0	5
Decisions	0	7
Actions Pending (September 30, 2000)	0	5

Department of Commerce Organization Chart



Bureau of Export Administration

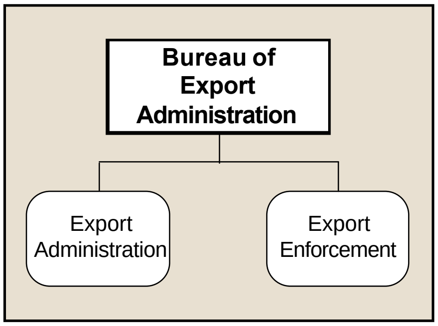
Reporting of Performance Measures Needs Improvement

Under the requirements of GPRA and the CFO Act, as amended by the Government Management Reform Act of 1994, the Department, and its operating units, such as BXA, report on their performance. The Department's FY 1999 Annual Program Performance Report was its initial effort to report and comment on the performance of its components. The Department's FY 2001 Annual Performance Plan, which sets targets for performance, was its third annual plan. BXA's performance data was presented in both of these documents, as well as in the Department's FY 1999 Accountability Report and in the bureau's financial statements.

As the Department's principal adviser on export control policy issues, BXA promotes U.S. national and economic security, public safety, and foreign policy interests by managing and enforcing the Department's security-related trade and competitiveness program. BXA included 10 performance measures in the Department's FY 1999 performance report and FY 2001 performance plan, and 2 of these measures were also included in the FY 1999 Accountability Report (see table below).

Performance Measure	FY 1999 Accountability Report	FY 1999 Performance Report	FY 2001 Performance Plan
High-risk transactions deterred	✓	✓	✓
Processing time for license applications	✓	✓	✓
International cooperative exchanges		✓	✓
Investigations completed		✓	✓
End-use visits		✓	✓
License decisions		✓	✓
Export assistance conferences/seminars		✓	✓
Enforcement outreach visits		✓	✓
Investigations accepted		✓	✓
Strategic industry analyses		✓	✓

The **Bureau of Export Administration** is primarily responsible for the administration and enforcement of the nation's system for controlling exports of sensitive dual-use goods and technologies. Under the Export Administration Act and regulations, BXA's major functions include formulating and implementing export control policy; processing export license applications; conducting various policy, technical, and economic analyses; promulgating regulations; conducting industry outreach; and enforcing the act and regulations.
Export Administration implements U.S. export control and nonproliferation laws and policies through export licensing, commodity classifications, and advisory opinions; technical, economic, foreign availability, and policy analyses; promulgation of regulations; and industry outreach. It also conducts various defense industry base activities.
Export Enforcement participates in reviews of export license applications and conducts criminal and administrative investigations of the export control portions of the Export Administration Act and regulations. It also administers and enforces the antiboycott provisions of the act and regulations.



To be useful to the Congress, OMB, and the public, reported performance data must be credible. The OIG conducted an audit of BXA's efforts to ensure that its reported performance results were accurate, consistent, and reliable. Our findings are summarized as follows:

- **Reporting of performance data can be improved.** We found that performance results were not always reported consistently in different documents. Among the reasons for this lack of consistency were insufficient coordination between the offices responsible for preparing the various documents, inadequate review of documents before publication, and the extraction of data from automated systems before all relevant data had been captured. In addition, when there were valid reasons for changing performance results between reports, such differences and the reasons for them were not disclosed.

- **Improvements in internal controls are needed**. We also found that supporting documentation for performance results needed strengthening. During our testing of 5 of the 10 BXA performance measures, we found that supporting documentation needed to be strengthened for 2 measures and that procedures such as reconciliations were needed to ensure the accuracy of performance data for a 3rd measure.

We recommended that BXA establish procedures to ensure that performance results are reported accurately and consistently and that any differences between reports are disclosed and explained. We also recommended that BXA establish an effective internal control structure to ensure that adequate documentation is maintained to support performance results and that reconciliations are performed between source documents and various GPRA documents. BXA agreed with our findings and recommendations, noting that corrective actions had already been taken. *(Financial Statements Audits Division: FSD-12847)*

Economic Development Administration

Change in Borrower Under Revolving Loan Fund Leads to Grant Termination

In 1995 EDA awarded a grant to two organizations to establish a revolving loan fund (RLF) to encourage iron ore processing related business and job development in northeastern Minnesota. The award totaled $2.95 million, with EDA providing $1.95 million and one of the recipients providing the remaining $1 million. The grant required the initial loan to be made to a steel company to fund part of a $40 million capital improvement project for the production of an improved iron product. At the time we conducted an audit of the grant, the recipient had not awarded the initial loan, and no grant funds had been disbursed by EDA.

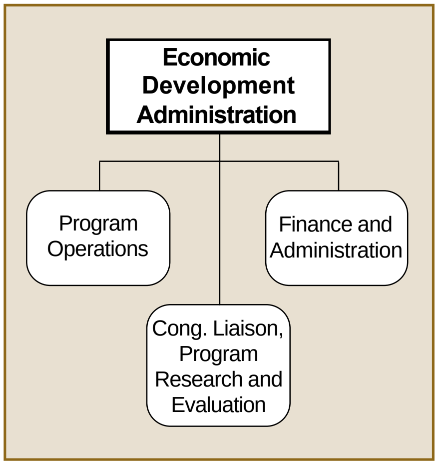
Our audit revealed that the grantee had replaced the initial borrower, which impermissibly changed the scope of the grant. The proposed replacement loan would have financed a much smaller project that involved only upgrades to equipment and lacked the sizable private investment of the original project. In addition, the project provided no demonstrable economic impact, and would have required EDA to waive certain basic RLF requirements and resolve or acquiesce in several unacceptable contingencies. Our specific findings were as follows:

- **Private Investment**. The initial loan was to provide for an economic expansion with a total cost of $40 million, while the replacement loan would involve only $4.5 million. Although the replacement project is only 11 percent of the size of the original project, the RLF investment of $2.95 million would remain the same. Moreover, the initial loan called for a private commitment of $33 million, compared to only $765,000 for the replacement loan.

- **Economic Impact**. The borrower involved in the original project estimated that it would create 89 new jobs and retain 450 existing jobs in the area. The company slated to receive the replacement loan made no formal declaration of any jobs to be created or saved as a result of the project.

- **Requirements and Contingencies**. Certain EDA loan requirements would need to be waived before EDA could approve the loan, and the prospective borrower had contingencies to be resolved before EDA could make the loan decision. Specifically, the proposed loan did not meet the requirement that RLF loans leverage at least $2 of private investment for every $1 of RLF

The **Economic Development Administration** was established under the Public Works and Economic Development Act of 1965, as amended, including the comprehensive amendments by the Economic Development Administration Reform Act of 1998, to generate new jobs, help protect existing jobs, and stimulate commercial and industrial growth in economically distressed areas of the United States. EDA does this by providing grants to public and private nonprofit organizations in communities with problems that are stifling economic growth; planning grants to states, cities, districts, and Indian reservations; special economic adjustment assistance to states and local governments with recent, severe problems or long-term economic deterioration; technical assistance to communities to build organizational capacity and solve specific economic development problems; and research and evaluation grants to increase knowledge about effective economic development tools.



investment or the requirement that one job be created or saved for every $10,000 of investment; a lawsuit filed by the proposed borrower against the RLF administrator created a potential conflict of interest that could compromise administration of the loan; and the likely sale of the borrower company could increase the risk incurred under the loan.

We discussed the deficiencies in the proposed loan with EDA officials during our audit, and recommended that EDA not approve the replacement loan. With our concurrence, EDA terminated the grant, citing deficiencies in the proposed loan, including inadequate private leveraging and failure to provide sufficient protection for EDA grant funds. *(Denver Regional Office of Audits: DEN-13441)*

Grants to California City Were Properly Administered

EDA awarded two grants to a California city in connection with a redevelopment project to revitalize the city's downtown harbor area. One element of the waterfront development was the construction of an aquarium, along with an associated parking garage and roadway access improvements. The first EDA grant, awarded in March 1996, contributed $1.5 million to the roadway improvements, which represented 57 percent of the total estimated project costs of approximately $2.6 million. The second grant, awarded in November 1996, contributed $6 million to the design and construction of the parking garage, which represented 50 percent of the estimated $12 million in costs.

The OIG conducted audits of both awards to determine whether project costs claimed were reasonable, award objectives were achieved, and management controls provided assurance that the awards were administered efficiently and effectively and resulted in acceptable final products. Our audits revealed no significant deficiencies: in each case, the city complied with the award terms and conditions, accomplished the specified scope of work, accounted properly for project funds, and claimed the appropriate federal share of project costs. Accordingly, we made no recommendations. *(Seattle Regional Office of Audits: STL-12658-1 and STL-12658-2)*

Quality Control Review of Nonfederal Audit Conducted

The OIG performed a quality control review of the 1997 organizationwide audit of a Michigan county conducted by an independent public accountant. EDA awarded the county an economic adjustment grant to establish a revolving loan fund following military base closures in the county. The grant provided about $2.4 million, which equated to nearly 20 percent of the county's total 1997 revenues. The county also received a total of roughly $300,000 under various grants from several other federal agencies.

As the oversight agency for the county, we performed our review to determine whether the audit was conducted in accordance with government and generally accepted auditing standards, and whether the audit report met the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations.* Our review found that the auditor's working papers supported the audit report and that the audit complied with audit standards. *(Denver Regional Office of Audits: DEN-12071)*

Audit Reports Unresolved for Over Six Months

As of September 30, 2000, an OIG financial assistance audit report, DEN-10586 (see March 1999 issue, page 28), had recommendations that had remained unresolved for more than one year. The audit found that a nonprofit grantee in Texas had disregarded procurement standards in awarding a $244,250 contract to a consulting firm. The audit also questioned $258,838 in salary costs and in-kind contributions because of inadequate supporting documentation. Because regional EDA and OIG offices have been unable to reach agreement on the issues raised by this audit, we have requested that the matter be forwarded to headquarters for resolution.

Economics and Statistics Administration

The **Economics and Statistics Administration** analyzes economic developments, develops policy options, and produces a major share of U.S. government economic and demographic statistics. The Chief Economist monitors and analyzes economic developments and directs studies that have a bearing on the formulation of economic policy. ESA has two principal agencies:
Bureau of the Census. Census is the country's preeminent statistical collection and dissemination agency. It publishes a wide variety of statistical data about people and the economy of the nation, conducting approximately 200 annual surveys, in addition to the decennial census of the U.S. population and the decennial census of industry.
Bureau of Economic Analysis. BEA's goal is to provide a clear picture of the U.S. economy by preparing, developing, and interpreting the national income and product accounts (summarized by the gross domestic product), as well as aggregate measures of international, regional, and state economic activity.

A Better Strategy Is Needed for Managing the Nation's Master Address File

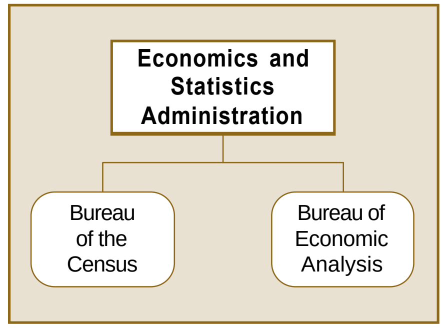
A vital component of the 2000 Decennial Census is the Master Address File (MAF), which supplies addresses used to support such operations as mailing out questionnaires, enumerating nonresponding households, and controlling the collection and tabulation of data. The quality of the MAF address data directly affects the accuracy, completeness, and cost of the decennial. In the 1990 decennial, one-third of the people not counted were missed because data for their housing units was missing from the address file. Moreover, the bureau spent an estimated $317 million during that decennial on operations to identify 4.8 million nonexistent and 8.6 million vacant housing units and to remove the former from the address file.

To address questions raised about how well programs to create the MAF for the 2000 decennial were working and what its quality would be, the bureau decided in 1997 to reengineer the MAF-building strategy. The OIG conducted an evaluation to determine if steps taken to improve the MAF before the decennial worked as planned, assess steps taken to identify and correct MAF data quality problems as the decennial progressed, determine whether the software development approach ensured high-quality data, and evaluate whether the MAF data quality standard provides a meaningful benchmark for decision-makers. Our evaluation focused on city-style addresses, which make up more than 80 percent of the nation's addresses.

The MAF addresses represent the nation's estimated 112.5 million housing units (as of July 1998) and, together with each address's geographic location found in the Topologically Integrated Geographic Encoding and Referencing (TIGER®) mapping system, provide an essential tool for collecting residents' responses and counting people where they are located. Unless found to be nonexistent or duplicate, an address equates to a housing unit in the decennial. For the 2000 decennial, the bureau created the decennial MAF, which contains all MAF addresses that meet decennial eligibility requirements, such as being an address that links to a unique geographic location in TIGER®.

To build and maintain the MAF, the bureau has implemented operations designed to decrease undercoverage (missed housing units) and overcoverage (duplicate, nonexistent, or other erroneous addresses). The bureau's reengineered strategy for city-style addresses allowed local governments more time to review MAF address lists and submit corrections. A key component of the strategy was 100-percent block canvassing, in which bureau employees canvass all blocks in an assigned area to confirm existing MAF addresses and add new ones.

Our evaluation reached the following conclusions:



- **Too little time was available to ensure high-quality address data.** Reengineering of the MAF had to be completed in the two years before the addresses were needed for labeling questionnaires; this did not leave enough time to deal with difficulties in receiving addresses from local governments in time to verify them by block canvassing. We found that incomplete address lists were used in block canvassing, reducing its effectiveness in improving address quality. Moreover, the bureau did not have enough time to resolve questions about the accuracy of over 5 million addresses, choosing to include them and an unknown number of duplicate addresses in the decennial until more information became available.

- **Additional steps are needed to improve data quality**. Although the bureau has taken steps to improve address quality and has potentially identified 10.2 million nonexistent or duplicate addresses as of June 2000, the policy for determining the addresses to be used in several operations has not been well defined, and at the time of our fieldwork, the decision about which addresses to include in the final decennial results had not been made. Rather than being presented explicitly in the bureau's decennial policy documents, address eligibility rules are implicit in software specifications, which are often not finalized until data processing is imminent or underway.

- **Better software engineering standards could improve data quality**. MAF addresses must be linked to unique geographic locations to ensure that the bureau can count persons in their correct locations and that users of the data can correctly redraw legislative district lines. Because the MAF and TIGER® were developed separately and are not integrated, maintaining consistency between them is not easy. Because TIGER® can be modified without ensuring such consistency and some decennial addresses do not have locations in TIGER®, as of April 2000, 4.5 million decennial addresses did not have a current link to TIGER® and risked being located inaccurately. The bureau needs to take steps to ensure that decennial addresses are geocoded accurately. To help ensure overall data quality, the bureau needs to follow rigorous software engineering standards in the planned modernization of the systems that support the MAF geocoding process.

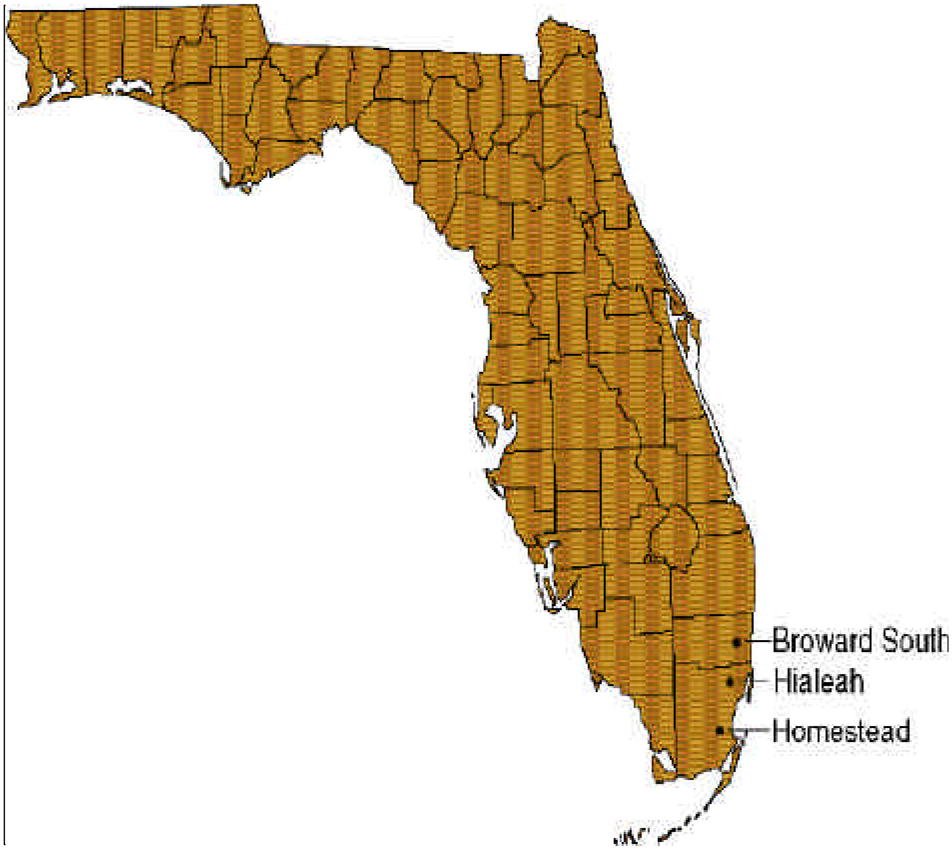
- **Success in meeting housing unit accuracy and completeness goals should be reported.** The bureau has set a housing unit coverage performance standard, which is to miss not more than 2.5 percent of housing units and include not more than 1.5 percent in error, for a net undercoverage rate of 1 percent. The bureau has not, however, clearly stated how it will report the standard and its success in meeting the standard. The annual performance report and program performance report mandated by GPRA are appropriate mechanisms for reporting on this important data quality standard, including its separate under- and overcoverage components.

For the 2000 decennial, we recommended that the bureau issue an eligibility policy for the addresses to be included in the final decennial count, ensure that any further TIGER® changes made during the decennial are verified with the MAF, and report evaluation results measuring housing unit coverage, including both under- and overcoverage. We made additional recommendations for future censuses and surveys designed to improve the accuracy and completeness of the MAF and promote a rigorous engineering approach to the modernization of the MAF and TIGER®. Finally, we recommended that the bureau provide housing unit coverage standards and report on its progress in meeting them in future GPRA reporting documents.

The bureau concurred with virtually all of our recommendations and indicated that actions had already been taken to implement some of them. *(Office of Systems Evaluation: OSE-12065)*

Use of Inappropriate Procedures Results in Re-enumerations in Southern Florida

On May 30, 2000, Representative Carrie Meek forwarded to the OIG an anonymous complaint that decennial employees trained at the Hialeah, Florida, local census office had falsified data and used inappropriate procedures while working at three census offices in southern Florida—Hialeah, Homestead, and Broward South. To determine whether there was any merit to the allegations, we examined non-response follow-up procedures, questionnaires completed by Hialeah enumerators, and quality control documentation for completed questionnaires.



Our review revealed that some enumerators trained at the Hialeah office had used improper procedures for collecting data. Our findings related to each of the three local census offices were as follows:

- **Homestead: Hialeah-trained enumerators did not follow proper procedures.** We found that enumerators transferred from the Hialeah office to assist Homestead were taking shortcuts with some of the 7,200 questionnaires they had been assigned. For example, they apparently were not making the required number of unsuccessful visits and telephone calls to a household before contacting a neighbor for proxy information. Moreover, our review of questionnaires completed by Hialeah enumerators revealed that, contrary to bureau guidelines, the enumerators were simply entering names such as “John Doe,” along with approximate ages and birth dates, when the actual names and ages of residents could not be provided by neighbors.

- **Broward South: Serious irregularities identified in work done by Hialeah-trained crews**. We found that numerous questionnaires containing errors and irregularities were submitted to the Broward South office for processing without having been properly reviewed by Hialeah crew leaders. For example, some questionnaires were certified as complete and accurate by a crew leader before an enumerator had even completed them. These problems were first identified by Broward South office staff who reviewed the questionnaires for accuracy and completeness before transmitting them to the bureau's data processing center.

- **Hialeah: Quality control was insufficient to ensure a reliable enumeration**. We were unable to review the 63,000 questionnaires completed at the Hialeah office because they had already been transmitted to the data processing center. Instead, we reviewed Hialeah's quality control documents, and concluded that controls designed to detect data falsification had not been properly implemented. For example, the re-interview process—a key quality control designed to detect data falsification—did not function as intended at Hialeah.

We made recommendations designed to ensure that the data collected at the three local census offices was in compliance with decennial quality standards. Recognizing the seriousness of the situation, bureau officials took decisive action to ensure the integrity of the data at these three offices. Specifically, at Homestead, all of the nearly 1,400 questionnaires for which improper procedures had been used were re-enumerated, and a sample of questionnaires for each enumerator was put through the re-interview process to check for data falsification; at Broward South, all 3,200 questionnaires completed by Hialeah enumerators were re-enumerated; and at Hialeah, the entire workload of approximately 63,000 housing units was re-enumerated. *(Economics and Statistics Audits Division: ESD-13215)*

Problems Found in Decennial Census Warehousing Operations

In preparation for the 2000 Decennial Census, the Census Bureau established more than 500 temporary field offices throughout the United States and Puerto Rico. To complete the decennial accurately and on schedule, field offices had to have sufficient quantities of various printed forms, supplies, and other materials. The bureau's National Processing Center stored approximately 1,500 different decennial forms and other items, prepackaged the items into 323 different types of kits, and shipped the kits to the field offices for use in various decennial field operations.

An OIG audit of the center's decennial warehousing operations concluded that the bureau needed to address the following two problem areas:

Understocked Inventory Items

All 106 kits scheduled for shipment to the field offices by November 1, 1999, were delayed because as many as 87 items needed for the kits were not in stock. The items were understocked because the kit specifications, which are provided by the bureau's Field Division, were finalized too late for purchase orders to be placed with vendors for shipment to the center by the scheduled date. Bureau officials said that the kit specifications were finalized late because many bureau offices are involved in the process, and a failure by any one of them to provide specifications on time may delay the division's communication of specifications to the center.

Late receipt of items from vendors created a burden for the center because it then had to rush to assemble and ship the kits when the understocked items eventually arrived. To quickly complete the task, the center sometimes had to pay employees overtime or hire additional kit assemblers, thereby increasing decennial costs. The field offices were also affected by this problem because the center sometimes sent incomplete kits, then shipped the remaining items in bulk later for the field offices to complete kit assembly. Moreover, as we noted during the dress rehearsal, field offices sometimes did not have enough time to complete assembly of the kits, which prevented some enumeration teams from starting operations on time.

We recommended that the bureau finalize all kit specifications as soon as possible and aggressively pursue acquisition of all understocked items. The bureau agreed with our recommendation, but we are concerned that its response did not adequately address the fundamental question of why the inventory was understocked. Although it was too late to correct the problem for the 2000 decennial, the bureau needs to develop plans to address similar understocked inventory problems for the next decennial and other related operations.

Kit Specification Differences

For the 14 percent of the kits that had at least partial specifications, we noted differences between the center's and the Field Division's specifications, such as which items, and how many of each, should be included in certain kits. These differences existed because the center maintains specifications in its automated kit specification/schedule system, whereas the division's specifications are simply listed in a series of memorandums. As specifications become available from various bureau offices, the division communicates them via memorandums to the center, which enters the information into its system. Differences between the center's and the division's specifications can occur if the data is entered incorrectly or if the system is not updated to reflect the division's revisions to an earlier memorandum.

The center developed its automated system specifically to plan for and manage the complex operations of kit assembly and shipping—tasks that cannot be adequately managed by a series of memorandums. Clearly, only one system should be maintained, and that should be the center's more reliable kit specification system. The Field Division ought to be inputting its data directly into that system, since it has ultimate responsibility for the correctness of the kits. If left uncorrected, the differences in kit specifications could have caused kits to be assembled and shipped incorrectly, thereby disrupting and delaying field operations.

We recommended that the bureau reconcile the differences between the Field Division's kit specification lists and the center's system and, for future census operations, have division staff enter updates to specifications directly into the center's system. The bureau agreed with our recommendation. But we again had a concern about its response; namely, that it did not indicate whether the differences in kit specifications had been resolved. In addition, we were disappointed that the bureau did not act to consolidate the two kit specification systems into one when we pointed out the problem in both a November 1999 memorandum and a meeting later the same month. *(Denver Regional Office of Audits: DEN-11950)*

Lessons Learned in Census Leasing Operations Should Be Applied to Future Decennials

To handle the data collection and processing for the 2000 decennial, the Census Bureau opened and operated a network of more than 1,000 offices throughout the nation. Among these were 520 local census offices, occupying a total of more than 3.9 million square feet of space, which represented the largest proportion of the space acquired by the bureau. Each local office had to be outfitted with telecommunications, security and office equipment, furniture, and supplies. The space and the related equipment and supplies were acquired through a partnership with the General Services Administration (GSA).

The OIG conducted an evaluation to determine whether the acquisition of space, equipment, and supplies was carried out properly, effectively, and on time. Our findings are summarized below. We raised a number of our concerns in an interim memorandum early in our review (see September 1999 issue, page 32).

Partnership was successful, but an evaluation of leasing program is needed. Despite difficulties in a few regions, the bureau and GSA worked reasonably well together to complete this massive project. However, the partnership was a complex and occasionally cumbersome effort, creating some strains between the two agencies. The bureau needs to assess the overall costs, benefits, and results of the effort soon after the decennial is completed to help determine whether a similar partnership should be used in 2010.

Lessons can be learned from the real estate operations. For example, some leases in the initial phase of local office openings were awarded without adequate competition because the area of market search was too narrowly drawn, thereby limiting the number of bidders. As a result, lease offers for those offices were more expensive than anticipated, and the bureau lost valuable time in trying to find more affordable space. In the second phase of leasing, the bureau made a concerted effort to broaden its market search areas to ensure greater competition.

Better planning is needed for decennial leasing and office preparations. Because the bureau was late in finalizing its programmatic plans, it developed incomplete requirements and sometimes made changes that disrupted operations. For example, planning for the telecommunications system was not adequately coordinated or focused on overall requirements, and as a result, significant changes had to be made to the requirements, which increased costs and delayed the opening of some local offices.

The bureau needs to expand its use of formal business case analyses. The bureau used a systematic approach—known as formal business case analysis—to guide its decisions for the leasing and related operations; however, we found that the analyses were sometimes incomplete or the options studied were limited. Nevertheless, we believe that such analyses have great potential as a management tool to improve the bureau's decision-making.

The interagency agreement for the space leasing partnership still needed to be signed. Although the partnership generally worked well, we found shortcomings in the arrangement between the bureau and GSA. First, the agreement for the second phase of the leasing operation was still unsigned at the time of our review. Second, the agreement did not cover the responsibilities of commercial brokers, the extent of their authority, the estimated cost of using them, or the responsibilities of the bureau and GSA in managing them.

Greater use could have been made of lump-sum build-out financing. Most local offices had to undergo interior alterations ("build-out") to configure them to bureau specifications. Lessors had the option of either including the build-out cost (plus a finance charge of about 12 percent) in the rent or receiving a lump-sum payment upon completion of the build-out. While the lump-sum payment is generally more advantageous to the government, the bureau made relatively few such payments early in the project in order to conserve resources. During our review, we noted that fully committing build-out funds could aid in lease negotiations, eliminate the finance charge, encourage more timely alterations, and maximize cost savings. The bureau agreed and, in the final series of lease agreements, took greater advantage of lump-sum build-out financing, spending approximately $10 million on it, and saving more than $980,000 in the process, including $476,000 in funds to be put to better use since we brought this matter to the bureau's attention in April 1999.

We made a number of recommendations, most of which involved applying the lessons learned from the current decennial to the 2010 effort. The bureau agreed with all of our recommendations, and indicated that it plans to initiate an independent evaluation of its partnership with GSA and to use the evaluation findings as the primary planning tool for the 2010 space and leasing program. *(Office of Inspections and Program Evaluations: IPE-11573)*

Telephone Questionnaire Assistance Contract Lacked Administration and Surveillance Plan

In an effort to increase the questionnaire response rate in the 2000 Decennial Census, the Census Bureau provided the public with assistance in filling out the census form and a choice of ways to respond. One of these ways was through the Telephone Questionnaire Assistance (TQA) program, which enabled respondents to call toll-free to complete the questionnaire over the telephone or to simply ask questions about the form.

The TQA program also involved an outbound component, which enabled the bureau to call households to resolve count inconsistencies, such as a difference between the number of household members reported and the number for whom information was provided, and to obtain information for households with more than six members, as the questionnaire has space to report information for only six people.

In December 1998, the bureau awarded a performance-based services contact for the design, development, testing, operation, and maintenance of the TQA system. The contractor used a complex network of 23 integrated call centers with interactive voice response capability and live operators to meet the contract requirements. The call center network was designed to handle an estimated 11 million incoming calls during a 14-week period and an estimated 3 million outgoing calls during a 12-week period. The contract covered a two-year period, and had a cost ceiling of $100 million. Calling operations were completed in August 2000.

In a review made to evaluate the administration of the TQA contract, the OIG made the following observations:

Contract Administration and Surveillance Plan Needed

According to the Office of Federal Procurement Policy, an important requirement for performance-based services contracts is an administration and surveillance plan that describes how the contractor's performance will be measured against standards. However, because the bureau did not prepare such a plan for the TQA contract, its ability to measure contractor performance and manage contract changes may have been hampered. Although the TQA program office implemented various processes to assist in monitoring performance, there was no formal mechanism for providing feedback to the contractor on its performance or for providing immediate notice of deficient performance and monitoring corrective action. We believe that the fact that the program office had a very small staff with limited experience with large-scale contracts led to the omission of this important management mechanism.

Another important aspect of contract administration is a change control process, which provides for a thorough evaluation of proposed changes, including analyzing costs, determining how the schedule will be affected, and assessing whether performance will be affected. When the TQA contract was awarded in December 1998 and the task order for development was issued the following month, the bureau had not yet identified its detailed requirements for outbound calling, and the requirements for inbound calling were still subject to change. As development progressed, changes were made informally, through discussions with the contractor, without formal consideration of their cost and schedule impacts, and without the authority of the contracting officer. By the time a change control process was established in August 1999, eight months after contract award, the task order cost had increased by $2.3 million.

Schedule Slippages Caused Testing Delays, but Operations Began on Schedule

Significant slippages in the contract's schedule resulted in revised testing strategies for the TQA network. For example, the live test demonstration, a major contract milestone designed to demonstrate the functioning of the entire system, was scheduled to begin on October 1, 1999, but testing for the inbound operations did not begin until February 14, 2000, and did not end until February 25, only one week before the start of operations. Among the factors causing the schedule slippages were delays in site selection, changes to requirements, and underestimation of system complexity.

Delays in completing testing of such a complex system could have had a significant impact on TQA's performance because little time was available between the completion of testing and the beginning of operations to correct problems and conduct retesting. Despite the delays, inbound operations began as planned on March 3, 2000. However, correcting problems identified during testing and conducting retesting delayed the start of outbound operations until early May. As a result, call centers were opened simultaneously, rather than on a staggered basis as planned, so that the decennial census schedule would not be affected.

* * * * *

We recommended that the bureau (1) develop a contract administration and surveillance plan covering the remaining months of program operation and (2) prepare a "lessons-learned" report at the completion of TQA operations so that the experience gained in developing and managing the system can benefit contracting in both the next decennial and non-decennial census operations. The bureau agreed to implement our recommendations, but disagreed with certain aspects of our observations. Specifically, the bureau asserted that it had not made any unauthorized contract changes and that the changes made were not the result of changed requirements. *(Office of Systems Evaluation: OSE-12376)*

Improved Documentation Should Result in Fewer Unemployment Compensation Claims

Unemployment costs related to the 1990 Decennial Census totaled approximately $64 million. In 1994 the OIG reported that potentially millions of dollars of these costs could have been avoided had the separation and removal of temporary decennial census workers been adequately documented (see September 1994 issue, page 30). Specifically, a termination for cause must be properly documented so that, should the individual later apply for unemployment compensation, the Census Bureau can provide sufficient evidence to sustain a finding of ineligibility due to poor performance or misconduct.

In 1998, during our review of dress rehearsal activities, we reviewed the policies and procedures put in place to better manage unemployment compensation for the 2000 decennial and reported that they appeared to be adequate (see September 1998 issue, page 24). However, we also suggested that additional management attention was warranted in order to ensure that Census supervisors comply with those policies and procedures.

In a recent inspection, we examined how documentation was handled for temporary employees terminated for cause during the 2000 decennial. We did not examine the merits of individual terminations or attempt to determine whether additional employees should have been terminated for cause. Based on our review of termination documents at 16 local census offices around the country, however, we concluded that, in the vast majority of cases, the bureau was adequately documenting the termination of problematic employees.

We did find some minor problems. For example, in 9 out of 56 cases at one local office, employees were listed as being terminated for lack of work, when they were actually terminated for cause, because the appropriate form had not been filled out at the time of their dismissal. And, in another 32 out of 322 cases at eight other offices, the form for documenting a termination for poor performance or conduct problems was not filled out or was missing. As a result, should the terminated employees involved apply for unemployment compensation, the bureau would be unable to refute the claim.

We recommended that for any additional terminations for cause made during the current decennial fieldwork, local office managers be reminded to ensure that all information is correctly entered onto termination forms and that all supporting documentation is maintained in the files. The bureau was encouraged by our finding that nearly 9 out of 10 cases had sufficient documentation, but acknowledged that documentation could be improved. It agreed with our recommendation and took specific actions to ensure that managers and supervisors were aware of the procedures for documenting conduct and performance-based actions for employees. *(Office of Inspections and Program Evaluations: IPE-13212)*

Decennial Software Specification and Development Processes Need Improvement

Accurate, reliable software is critical for every major operation of the 2000 Decennial Census. Several software errors occurred and were resolved during the decennial. As a result of these errors, we had planned to conduct further evaluation work on headquarters software development and processing. Because not all of the headquarters software work for the decennial had been completed, we intended to identify areas needing improvement and recommend corrective actions.

Based on our preliminary fieldwork, conducted in May and June, we ascertained that the bureau had already begun to implement a number of improvements, which we supported. Moreover, recognizing that the bureau's software work was occurring under a tight schedule, we were concerned that our evaluation might cause additional disruptions. As a result of these factors and of our own resource limitations, we decided to continue monitoring the bureau's activities, rather than conduct a formal evaluation.

In lieu of a formal evaluation, in July we sent a memorandum to the bureau's deputy director identifying the principal headquarters decennial software issues, providing our views on the actions being taken to address them, and making suggestions for further improvements. We discussed our concerns and suggestions with bureau officials, who generally agreed with them.

Over the past four years, we have evaluated and monitored various aspects of information technology for the decennial. In November 1997, we reported that the development approach used for headquarters software was not based on standards for documenting and reviewing software specifications and design; ensuring that rigorous, independent testing is carried out; and ensuring the uniform, effective use of development and evaluation methods and tools. We recommended that the bureau adopt a software development process based on at least this minimal set of elements. (See March 1998 issue, page 26.)

In September 1999, we reiterated the need for improved specifications and testing practices and the use of software engineering standards. (See September 1999 issue, page 26.) Although the bureau made improvements based on our recommendations, as well as those of the Chief Information Officer, significant issues remained, including late, changing, and ambiguously specified requirements; lack of formal requirements reviews; insufficient control over software changes; and inadequate testing of developed software. Our preliminary fieldwork showed that decennial officials had already started to deal with most of these issues through such process improvements as requirements specification reviews, more rigorous testing, and end user reviews of processing outputs.

While these changes will help ensure that requirements are complete, accurate, and clearly understood and will also improve testing, we believe that additional requirements and testing areas need further emphasis. With regard to the specifications, completing them as early as possible is critical in order to maximize the time available for their review, as well as for software development and testing. As for testing, we believe that test cases should be developed by the users whenever possible and that testing should demonstrate that all requirements have been met. Moreover, testing should be performed by an organization independent of the developers.

We were aware of one error related to an area that the bureau had not yet addressed—insufficient control of software changes. The error occurred when a last minute change to software was not thoroughly tested. Fortunately, the bureau identified this error early enough to avoid affecting decennial operations. Nevertheless, effective software change control is needed to prevent future problems. This issue was not part of the planned process improvements and needed additional attention. Bureau officials recently told us that they now provide management oversight of software changes.

As we have noted in our previous work, better software development practices would improve timeliness, quality, and user satisfaction and reduce development and maintenance costs on all decennial systems. We encouraged the bureau to continue to focus on improving the decennial software development process, emphasizing production of timely, clearly specified requirements and rigorous independent testing. After the decennial, the bureau should make a concerted effort to improve software development for all of its programs, decennial and nondecennial alike. *(Office of Systems Evaluation)*

Review of Certain Decennial Operations Identifies Issues for Future Consideration

The OIG conducted a review of the effectiveness of the Census Bureau's special population enumerations and questionnaire assistance centers. Special population enumerations attempt to count people who live in nontraditional housing or have no usual residence. Questionnaire assistance centers provide the public, especially those with little or no English-speaking ability, with help in completing their census forms. Our review included observing enumerator training for special enumerations, as well as the actual conduct of certain enumerations, visiting questionnaire assistance centers, and interviewing enumerators and assistance center staff.

Our review revealed no significant conditions meriting recommendations in addition to those made in earlier reports on the 1998 Dress Rehearsal (see September 1998 issue, page 24). However, we did identify several issues warranting management attention:

- **Too little time was allowed for training**. Just four hours was scheduled for enumerator training for special population enumerations, and much of this time was used to complete preemployment paperwork. As a result, local offices had to arrange for last-minute unscheduled training or send enumerators into the field inadequately trained.

- **Late delivery of supplies caused problems**. Training materials often arrived at the training sites the day before the training was to begin, which did not allow instructors enough time to familiarize themselves with the materials. Moreover, at the four sites we visited, local offices had not received the quantity of supplies and forms they needed. As a result, the offices had to spend the time and money to photocopy forms or borrow supplies from other kits in order to complete enumerations, and in the case of long forms, had to later copy responses from the photocopies onto original questionnaires.

- **Some homeless shelters and soup kitchens were missed by the special population enumerations.** The bureau had worked with local governments and community-based organizations, such as homeless advocacy groups, in identifying sites to be enumerated, yet several such organizations said they were never given an opportunity to identify sites and, as a result, their facilities had been missed. The director of one organization that ran a homeless shelter said that although she had called the local census office repeatedly to request that the shelter be enumerated, no enumerators visited the facility.

- **The effectiveness of questionnaire assistance centers was not evident**. We found that usage varied widely among assistance centers: some were heavily visited, while others were shut down ahead of schedule for a lack of customers. Centers located in neighborhoods with high minority populations received the most traffic. Staff at some centers said they were busy in the first few weeks after opening, but had few clients thereafter.

Although we made no recommendations to address these issues in the 2000 decennial, we believe that the Census Bureau should consider our observations in planning for the 2010 decennial. *(Economics and Statistics Audits Division: ESD-12593)*

2000 Decennial Generates Numerous Complaints from Workers and the Public

Along with the upsurge in 2000 Decennial Census activities over the past six months came a concomitant increase in the volume of complaints received by our Office of Investigations regarding various aspects of decennial operations. During this semiannual period alone, nearly 500 people lodged complaints through the OIG Hotline and other means, which covered a variety of topics ranging from concerns about hiring, payroll, training, and management practices to allegations that decennial results were being falsified by crew leaders and enumerators.

All complaints were evaluated in accordance with established OIG investigative intake procedures. As is our practice, complaints that involved routine administrative and management issues were referred to the Census Bureau or the Department for appropriate action, while allegations of fraud, criminal conduct, and other matters within our statutory jurisdiction were added to the OIG investigative caseload.

For example, we are currently investigating serious allegations of data falsification by census workers in several local census offices, and are pursuing a bribery charge against a former community partnership specialist. We are also looking into a number of complaints that decennial employees defrauded the government by making false claims for overtime pay or telephone or mileage reimbursement, or otherwise diverted government resources to their personal use.

In addition, we are following up on a number of complaints from the public regarding the conduct of the decennial, including several reports of individuals attempting to obtain financial or other confidential information from citizens by posing as census workers.

One matter successfully resolved during this period was a complaint received by the OIG that decennial promotional items and official materials bearing the Census 2000 logo were being offered for sale on the eBay Internet auction website. After identifying several of the sellers offering this merchandise, and learning that the materials had been obtained at decennial events, local census offices, and flea markets, we advised bureau officials of the problem and put them in contact with an attorney at eBay, who agreed that the company would prohibit the sale of Census 2000 materials through its website. *(Denver Field Office of Investigations)*

OIG Assesses Accuracy of the Federal Audit Clearinghouse Database

At the request of OMB, the OIG assessed the accuracy of the Federal Audit Clearinghouse Database, which is operated by the Census Bureau, for FY 1998 single audit reports. A single audit is one performed by state or local government auditors or independent public accountants covering all of the federal financial assistance provided to one recipient. To implement the Single Audit Amendments of 1996, OMB issued Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. The circular authorized the bureau to operate the Clearinghouse, which serves as a repository for single audit reports and an audit processing service and data dissemination system for the entire federal grant community.

In conducting our assessment, we performed procedures to (1) verify the completeness of audit reporting packages, (2) compare the information in the database with the information provided to the Clearinghouse on a standard data collection form and in the reporting package, and (3) verify that all audit findings contained in the reports were also included in the database. We used a two-stage sampling plan developed by the Department of Labor OIG to derive a sample that was representative of the universe of 1998 single audit reports and the Catalog of Federal Domestic Assistance (CFDA) program entries in the database.

The results of the procedures we performed were as follows:

- Of the 150 audit reports sampled to test the completeness of the reporting package, we found 2 reports in which the auditor failed to include a required element.

- In the 22,563 data elements sampled in our comparison of the information in the database with that on the data collection form and in the reporting package for the reports and the CFDA program entries, we found 370 errors—126 attributable to the Clearinghouse and 244 to the auditors and auditees.

- In verifying that all audit findings in the 150 sampled reports were included in the database, we found that findings for 4 reports were omitted from the database.

The bureau agreed with our findings. Considering the complexities of the electronic system and related operating procedures involved in this effort, the bureau was pleased to learn of the overall accuracy of its work, and it stated that actions were underway to correct the isolated errors identified. *(Atlanta Regional Office of Audits: ATL-12556)*

OIG Looks Into Apparent Premature Release of Trade Deficit Data

At the request of the Under Secretary for Economic Affairs, the OIG looked into concerns that a news organization had prematurely released trade deficit data on its Internet web site. A representative of the organization had participated in an information release session (or "lockup"), in which journalists in a locked room are provided with economic data by ESA officials, given time to compose their news stories, then allowed to transmit the stories simultaneously to their organizations at the official release time, which is determined by a clock synchronized to the U.S. Naval Observatory Master Clock. These procedures are followed to prevent the premature release of sensitive economic data.

In this case, the trade deficit information was cleared for release at 8:30 a.m. on April 19, 2000, but when the story appeared on the news organization's web site, its time stamp was 8:27 a.m. Responding to the Under Secretary's concerns, we first spoke to the ESA officials responsible for coordinating the lockup, then contacted the journalist who had filed the story in question. She cooperated fully, returning to the Department of Commerce with her notebook computer, which enabled us to compare the time on her computer's clock with the time on the Naval Observatory's Master Clock.

Through this comparison, which also involved having the journalist transmit "test" stories to her organization's web site, we concluded that because the clock on her computer was set to an earlier time than was the Naval Observatory clock, the stories posted on the web site carried an erroneous time, several minutes earlier than the actual time of the transmission. We were able to satisfy ourselves, and report to the Under Secretary in an April 24, 2000, memorandum, that the situation resulted from the discrepancy between the time on the computer and Naval Observatory time, and that there had been no premature release of the trade deficit data.

As a result of our assessment, we advised the journalist, in the future, to always set her computer's clock to Naval Observatory time when she enters the lockup, and suggested that she advise her organization to modify its software to use the time stamp generated by its web server, rather than that generated by her notebook computer, for the associated stories. We also understand that as a result of this incident, ESA has added a rule stating that it is a violation of lockup procedures to have an early time stamp on any story released from the lockup. *(Office of Systems Evaluation)*

Review of Special Census of Illinois Village Finds Problems, but No Large Undercount

When local officials believe that their community has experienced a significant increase in population since the previous decennial census, they may request the Census Bureau to certify the population increase through a special census. During the past decade, the bureau received about $11.3 million from local governments to conduct 437 special censuses.

In December 1997, the Village of Machesney Park, Illinois, a community of about 20,000 people located 90 miles northwest of Chicago, contracted to pay the bureau $86,000 for a special census, which was conducted in June 1998 by staff hired from the local community. After reviewing the initial results of the special census, the mayor of the village alleged that various illegal and improper activities had taken place, resulting in a serious undercount of the village's population. In May 1999, Representative Donald A. Manzullo requested that the OIG look into the mayor's allegations.

The mayor specifically alleged that (1) the census supervisor had instructed enumerators to "just put down 'one' if you don't know" who lives in a household, (2) census workers had falsified data, (3) Machesney Park's special census results were inconsistent with those of adjacent communities, (4) a gross undercount in the initial special census was validated by a follow-up study, and (5) the bureau's regional director had admitted that the census was illegally closed out.

We did not find evidence of a significant undercount in the Machesney Park special census. After analyzing all 103 enumeration books and interviewing special census and other bureau personnel, we concluded that special census employees followed most, but not all, special census procedures, and that the enumeration books were generally well documented and complete. Enumerators properly listed 97 percent of the total households and all but two residential streets.

However, we did find some support for the first two of the five allegations. The key problem affecting this special census was that enumerators improperly listed 434 houses as having “one” occupant when the actual number of occupants was unknown. As a result, some households may have been undercounted.

Based on our analysis, it is very unlikely that 2,000 people were missed, as alleged by village officials. We projected a possible undercount of closer to 320 persons. However, we emphasized that this figure was only an estimate, and that it could not be used to adjust the village’s official count.

We believe that the Census Bureau’s Chicago Regional Office could have been more vigilant in overseeing the special census. It should have been aware of the large number of “one-person” households sooner, and it should have provided better guidance and supervision to the village on its advertising campaign.

At the time we issued our report, we expressed our belief that a special census recount of some or all households in Machesney Park was not warranted or feasible at that point. It had been two years since the special census was completed, and more importantly, the bureau had completed its 2000 decennial enumeration of Machesney Park. Given the issues raised in this special census, however, we recommended that the bureau work closely with village officials to address any coverage issues before releasing the final decennial counts for Machesney Park.

We also recommended that for future special censuses, the bureau reinforce and revise, if necessary, some of its policies and procedures and develop new policies and procedures to preclude the types of problems that arose during the Machesney Park special census. In addition, the bureau needs to clarify and emphasize compliance with its policies and procedures during future training of special census workers.

In response to our report, the bureau agreed to adopt all of our recommendations, except one related to improving its advertising guidance to local officials. The bureau agreed that advertising for special censuses is extremely useful, but stated that each local community has the responsibility to promote its own special census. We believe that although the local role is important, it is equally important for the bureau to ensure that the community maximizes its advertising efforts. *(Office of Inspections and Program Evaluations: IPE-12045)*

Personal Charges to Government Purchase Card Result in Theft Conviction

A secretary at the Census Bureau was convicted of one count of theft of government property after an OIG investigation revealed that she had used a government purchase card to buy more than $800 worth of clothing, jewelry, electronic equipment, and other items for her personal use. In July 2000, she was sentenced in U.S. District Court for the District of Maryland to 6 months' incarceration in a community corrections facility and 2 years' probation, and was ordered to make full restitution to the government. (*Washington Field Office of Investigations*)

International Trade Administration

Overseas Security Program Needs Better Management and Results

Recognizing the need to focus more attention on improving the security of U.S. overseas facilities, the Congress in 1997 appropriated $24.8 million to the State Department for security improvements. US&FCS received $9.4 million of that supplemental appropriation to improve the security of its 45 overseas facilities located outside embassies and consulates (referred to as non-collocated facilities). After the bombing of the U.S. embassies in Kenya and Tanzania in August 1998, State received another $627 million in FY 1999 emergency funding for reconstructing the embassies and conducting other security-related activities. US&FCS received $8 million of the funding for its overseas facilities.

The OIG conducted an inspection of US&FCS's overseas security program, including the accounting for the use of the FY 1997 and 1999 funds, after questions were raised about how those funds were spent. Our review identified weaknesses in ITA's and the Department's management of the program, as well as in the management of and accounting for program funds. Our concerns are discussed in the following sections.

Better cooperation and planning are needed to improve US&FCS's overseas security. Although US&FCS received a total of $17.4 million in supplemental security funds in FY 1997 and 1999, we found that security-related upgrades to overseas facilities had fallen behind schedule because of (1) a lack of action by the State Department, US&FCS, and the Commerce Office of Security in completing upgrades and (2) inadequate cooperation between the three entities in implementing US&FCS's overseas security program.

Security funds need to be better managed. We found that at the end of FY 1999, ITA's Office of Financial Management inappropriately used some of the security funds to cover alleged shortages in US&FCS's operating and administrative budget. The two parties disagreed as to the cause of the problem, and the funds were restored by ITA to the security fund by January 2000, but the incident demonstrated that ITA management had failed to establish adequate internal controls to ensure that expenditures complied with requirements. ITA has already implemented controls to help prevent this from recurring. In addition, although most expenditures paid for out of security funds appeared appropriate, some either did not appear to be security related or may not have represented an effective use of security funds.

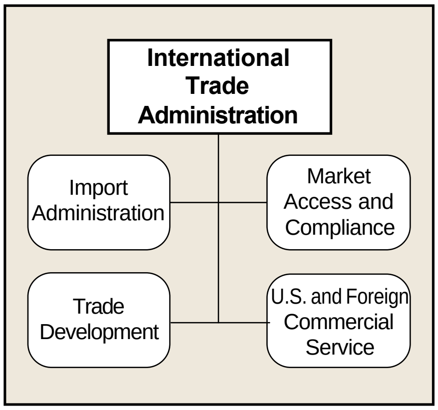
The **International Trade Administration** is responsible for the trade promotion and trade policy issues associated with most nonagricultural goods and services, and works with the Office of the U.S. Trade Representative in coordinating U.S. trade policy. ITA has four principal units:

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

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

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

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



Financial management and oversight of security funds need improvement. We determined that of the $17.4 million provided to US&FCS for overseas security during FY 1997 and 1999, as of March 31, 2000, approximately $9.6 million remained—nearly $5.0 million from the 1997 allotment and about $4.6 million from 1999. However, we were unable to determine the accurate balances because the status of obligations and disbursements was not being adequately monitored and not all accounting data pertaining to overseas security transactions was being entered promptly into ITA's accounting system.

We made a number of recommendations aimed at achieving better cooperation and planning between the parties involved in US&FCS's overseas security program, more management oversight to ensure that security fund expenditures are security related, and better oversight of and accounting for security funds.

ITA and the Security Office agreed to implement all of our recommendations. Most significantly, they agreed to form a US&FCS Security Upgrade Project Oversight Committee, which will oversee the agency's security efforts and will develop an annual strategic plan for facility upgrades. *(Office of Inspections and Program Evaluations: IPE-12708)*

Minority Business Development Agency

Minority Business Development Center Poorly Managed by Award Recipient

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

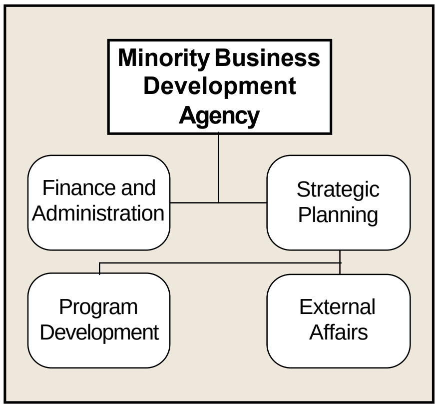
At MBDA's request, the OIG performed an audit of a cooperative agreement awarded to an economic development organization to operate a minority business development center in a West Coast city. The award was for the 25-month period from October 1, 1996, to October 31, 1998, and had a total project budget of $1,363,480, consisting of a $818,088 federal share and a $545,392 recipient share. Federal funds disbursed through December 1998 totaled $792,896.

In July 1998, MBDA's project monitor identified numerous discrepancies in the project records, including indications of falsified time sheets, fabricated documents supporting claimed performance, and the potential diversion of project funds. The monitor's findings contributed to the recipient's decision to terminate the center's entire staff without notice. The recipient later discovered that project computer records had been destroyed before the center's offices were vacated.

Our audit confirmed the problems noted in the project monitor's evaluation and identified other areas of noncompliance and misrepresentation. We also concluded that the recipient was negligent in failing to maintain required project oversight and controls that might have prevented the problems discussed below or at least identified them earlier. Our major findings were as follows:

- **Recipient's administration of the project was deficient**. Because the award recipient failed to exercise adequate controls over the project, the project director gained complete control of the project and was able to avoid meaningful oversight by the recipient and MBDA. The director, who prepared the proposal to MBDA, did not implement the project as proposed and did not obtain the required approvals from the recipient, MBDA, or the Department for deviations from the proposal. The project director and deputy director had previously held similar positions in another MBDA-funded center that had a history of management problems.

- **Center did not meet award performance requirements**. The programmatic accomplishments reported to MBDA were misleading in several respects, and performance data was manipulated to obscure the fact that the award's intent to provide consulting services to minority clients in the required service area was not being met. Specifically, most clients claimed were ineligible for



assistance under the award, most performance claims were unrelated to the center's services and some were fabricated, time claimed was spent on many questionable activities, and supporting time records were fabricated or altered.

- **Project's claimed costs were not supported**. We questioned all costs claimed under the award because of the aforementioned nonperformance and for noncompliance with federal cost principles and requirements. Neither the recipient nor the center had an accounting system to properly record and control project expenditures. After reconstructing the financial results from the records that were available, we found, among other things, that project funds were diverted to the recipient's general accounts, the recipient's cost share was not met, time distribution records were unreliable, and financial reports were late, inaccurate, and inconsistent.

We questioned $1,320,974 in claimed costs, representing the total reconstructed expenditures, and recommended that the Department disallow those costs, recover the $792,896 in federal funds disbursed, and deobligate the remaining $25,192 in undisbursed federal funds and put them to better use. We also recommended that the project director, deputy director, and their private consulting firm be debarred from receiving future federal funding and that the recipient be designated as a high-risk recipient and have special award conditions applied to any future funding it may receive.

The recipient disagreed with our findings and conclusions, and with our recommendations related to questioned costs and designation as a high-risk recipient. The recipient claimed that it had provided adequate oversight of the project, that MBDA was responsible for many of the problems, and that many statements in our report were untrue. *(Seattle Regional Office of Audits: STL-11406)*

National Oceanic and Atmospheric Administration

Small Business Innovation Research Program Award Procedures Need Improvement

During this semiannual period, the OIG reported on its audit of the criteria, procedures, and practices for soliciting, reviewing, and selecting applications in FY 1997 for awards under NOAA's Small Business Innovation Research (SBIR) program. The audit was conducted as part of a Department-wide review of Commerce's discretionary financial assistance programs.

The SBIR program is designed to stimulate technological innovation in the private sector, strengthen the role of small business in meeting federal research and development needs, increase the commercial application of innovations derived from federal research, and improve the return on investment from federally funded research for the nation's economic benefit. SBIR is a three-phase program: Phase 1 determines the scientific and technical merit and the feasibility of ideas submitted for consideration; Phase 2 is the research and development phase of proposals identified as having commercial potential; and Phase 3 is the commercialization of the research. Only firms that have received Phase 1 awards may compete for Phase 2 funding, and no SBIR funding may be used for Phase 3.

In FY 1997, NOAA awarded five Phase 1 grants, for a total of $249,000, and two Phase 2 grants totaling $399,000. NOAA also provided $1.6 million in SBIR funding in the form of procurement contracts. Because our review was focused on the award of discretionary financial assistance, we limited our work to an examination of NOAA's process for making SBIR grants.

Although our audit found that NOAA's procedures and practices for awarding grants under the SBIR program were generally designed to result in merit-based funding decisions, we also found areas in which the procedures and practices failed to meet departmental requirements for competition. Specifically:

- The Department's program solicitation did not contain the required statement that cost sharing is not required and will not be considered in the evaluation of proposals.

- NOAA used only two evaluators for Phase 1 proposals, even though departmental policy requires at least three.

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

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

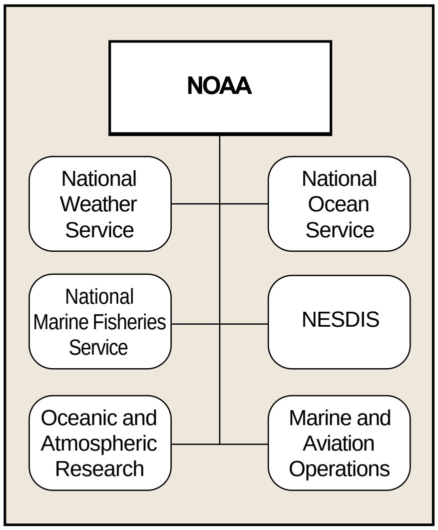
National Ocean Service. NOS issues nautical and aeronautical charts; performs geodetic surveys; conducts research; and develops policies on ocean mining and energy.

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

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

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

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



We believe that NOAA could enhance the independence and objectivity of future SBIR competitions by inviting reviewers from outside the agency and the Department to participate. In addition, two of NOAA's Phase 2 grants appeared to have been awarded noncompetitively, because they were not included on either on the list of Phase 2 applicants provided to us or the rank-order list of projects scored by the Phase 2 selection process. NOAA later informed us that the two grants were selected competitively by a separate selection panel that we had not been told about earlier.

We recommended that NOAA ensure that (1) future SBIR program solicitations include appropriate language concerning cost sharing, (2) all SBIR proposals are evaluated by at least three reviewers, (3) reviewers from outside the agency and the Department are invited to participate in evaluating applications, and (4) either a single competitive selection process is used for all Phase 2 awards or the fact that certain projects will be selected through a different process is fully disclosed in all published material. NOAA agreed to implement our recommendations and submitted an audit action plan that adequately addressed them. *(Denver Regional Office of Audits: DEN-11001)*

NWS Raleigh Office Provides Valuable Services but Needs Better Management and Controls

The National Weather Service has 121 weather forecast offices (WFOs) nationwide that issue local forecasts and warnings of severe weather. The WFO in Raleigh, North Carolina, located on the Centennial Campus of North Carolina State University, is responsible for a warning area that covers 31 counties in the central part of the state.

The OIG conducted an inspection to determine how effective the Raleigh WFO is in delivering forecasts, warnings, and other information to users; how well it coordinates its activities with state and local emergency managers; and how well it manages its networks of volunteer spotters and observers. We also assessed the adequacy of the office's management practices, internal controls, and administrative procedures.

We spoke with numerous state and county officials concerning their interactions with the Raleigh WFO and the quality of service it provides. Without exception, they had favorable comments about the WFO's performance. Moreover, based on NWS Eastern Region verification statistics, the WFO had one of the region's best records in delivering accurate forecasts and warnings during the 1999 severe weather season.

Nevertheless, our review identified a number of administrative and operational deficiencies that require prompt management attention:

The Cooperative Observer and Skywarn programs need attention. The Raleigh WFO has only two staff members working part-time on the Cooperative Observer program, which is an important component of NWS's data collection and national observing capability. The office should be able to reallocate resources to strengthen support for this program. In addition, the office's Skywarn network, which relies on trained volunteer spotters to provide severe weather reports, does not provide adequate coverage of certain remote parts of the WFO's warning area.

Actions are needed to strengthen management of information technology. The WFO has neither designated a systems security officer nor implemented NWS's information technology security policies, which were issued to maintain appropriate levels of security and foster greater security awareness among NWS staff. In addition, we found disjointed and inadequate oversight of the office's information systems, with different personnel managing different aspects of the systems and software. The electronic systems analyst, the office's designated systems administrator, should be handling these responsibilities.

Greater use of engineering management reporting system is needed. WFO personnel did not understand how to use NWS's engineering management reporting system, which helps managers track the operational reliability and maintenance of 35,000 pieces of equipment at 3,000 sites. Raleigh personnel stated that they are unaware of the system's capabilities, have not been regularly inputting repair information into the system, and have not proactively managed the office's equipment.

More consistent quality control over WFO products is needed. Because the WFO lacks a structured method to review forecasts, warnings, and other products to ensure accuracy and completeness, some office products containing improper information have been issued. Although the overall quality of the office's products appears adequate, many office personnel believed that it could be improved.

A structured staff training program is needed. Some Raleigh personnel complained that meteorological and hydrological training has been inconsistent and unresponsive to their needs. They believe that training has been a low office priority, as evidenced by the lack of a structured training program for both experienced forecasters and interns. Operational demands should not preclude the WFO from having a structured training program.

Improvements are needed in key administrative areas. The WFO lacks adequate internal controls over inventory, official vehicles, and credit card purchases. In addition, because the office does not maintain a spreadsheet to track its expenditures against its budget, the meteorologist-in-charge is not aware of the current status of funds and cannot effectively manage the office's fiscal resources.

Savings can be realized by eliminating some leased storage space. In addition to its main office, the WFO leases storage space on the university campus and rents space in a public storage facility nearby. Because the office has more storage space than it needs and the public storage space is much less expensive than the on-campus space, the office could save about $13,700 by disposing of unneeded items, vacating the on-campus space, and consolidating all storage items in the off-campus facility.

Local and regional management should be more attentive to office problems. Inattentive management, personality conflicts, and resentment over staffing decisions have combined to hurt office morale, especially among electronics technicians. These problems have in turn negatively affected equipment repairs, IT management, and administrative operations. The meteorologist-in-charge needs to implement a more effective management system, including holding staff accountable for performing their assigned responsibilities, and regional management needs to provide greater oversight to ensure that this is accomplished.

We made a number of recommendations to address these deficiencies. NWS agreed with all but four of our recommendations and outlined steps it was taking to address them. For each of the recommendations with which NWS did not concur, it stated that the action being recommended was already in practice at the Raleigh WFO. We disagreed in all but one instance, but commended NWS for its aggressive plan of remedial actions to address most of our concerns. *(Office of Inspections and Program Evaluations: IPE-12661)*

Internal Controls over Science Center's Bankcard Program Need Improvement

As part of its periodic review of Commerce units' use of bankcards, the OIG conducted an audit of the bankcard program of the National Marine Fisheries Service's Northwest Fisheries Science Center. The audit examined bankcard transactions at the center's headquarters in Seattle and at its field sites in Manchester and Pasco, Washington. During the audit, we interviewed 55 of the 227 cardholders and examined 773 bankcard transactions, based on a judgmental sampling of about 10,000 FY 1998 transactions totaling approximately $2.5 million.

Our audit revealed the following internal control deficiencies that needed attention:

- Of the 55 cardholders interviewed, 48 had not viewed the required training video in the previous two years, 47 did not keep their cards secure in a locked drawer or cabinet, 24 did not maintain the required purchase order log, 5 had purchased prohibited items, and 3 had made purchases of over $2,500 without obtaining competitive quotations or preparing a sole-source justification.

- Of the 773 transactions examined, only 19 had been preapproved as required. Moreover, 49 transactions were not supported by adequate documentation, 13 lacked signatures of approving officials, and for 7 that involved purchases of accountable property, the required property transaction forms were not completed.

We also concluded that the number of cardholders needed to be reevaluated because 17 of the 55 cardholders (about 31 percent) had used the card infrequently—fewer than four times during the year. This suggested that the number of cardholders was much higher than needed, given the administrative burden of maintaining proper oversight of card use.

NOAA concurred in all of our findings and described specific steps taken or planned to implement our recommendations. For example, after our audit, the center held several training sessions and canceled the bankcards of cardholders who committed purchase violations. The center also planned to review bankcard use to determine whether the number of cardholders should be decreased. *(Seattle Regional Office of Audits: STL-12555)*

Restitution Ordered for False Claims Made to Fishermen's Contingency Fund

More than eight years after his conviction for filing a false claim for nearly $7,000 against the Fishermen's Contingency Fund, a fisherman from Lake Arthur, Louisiana, was apprehended and sentenced. The fisherman had been convicted on the charge in November 1991, but fled the country prior to his sentencing. He was arrested in Florida shortly after his return to the United States this past spring, and was sentenced in July 2000 in U.S. District Court for the Western District of Louisiana to 24 months' imprisonment and 200 hours of community service, and ordered to make full restitution to the government.

In a second matter, another Louisiana fisherman acknowledged filing two false claims for loss of fishing gear under the Fishermen's Contingency Fund program, and agreed to make restitution of $15,800 to the government during the three-year probationary period established by his pretrial diversion agreement. *(Denver Field Office of Investigations)*

Former Employee Ordered to Repay Purchase Card Charges

A former NOAA secretary entered into a pretrial diversion agreement to settle charges that she had used a government credit card to make more than $4,300 of personal purchases. A Massachusetts state court ordered the former employee to repay the money to the government within one year and complete 25 hours of community service or face a sentence of up to 2 years' imprisonment and a $25,000 fine for the theft. *(Silver Spring Field Office of Investigations)*

Two Employees Disciplined for Misuse of Official Vehicles

An NMFS employee was suspended for 30 days for misuse of a government vehicle. Although the vehicle was observed at his residence on multiple occasions, the employee claimed that he had only stopped there briefly while working in the field. An OIG investigation revealed, however, that there was no work-related reason for him to have been driving in the area of his residence at any of the times in question.

An NWS employee resigned from federal service in the face of his proposed demotion and reassignment for use of a government vehicle for other than official purposes, including home-to-work transportation on a regular and recurring basis. *(Denver Field Office of Investigations)*

Audit Reports Unresolved for Over Six Months

As of September 30, 2000, one performance audit report related to NOAA had recommendations unresolved for more than six months: *Opportunities Exist to Improve the Competitive Review Practices of OAR's Climate and Atmospheric Research Program, CFDA No. 11.431,* STL-10949 (see March 2000 issue, page 56). The audit was one of a series that focused on the criteria, procedures, and practices for soliciting, reviewing, and selecting applications under Commerce discretionary financial assistance programs.

The audit report recommended that the Office of Atmospheric Research ensure that (1) all proposals, including letters of intent, are independently and competitively evaluated, with selection decisions justified and adequately documented in the proposal files, (2) reasons for selecting lower-ranked proposals are thoroughly explained and documented, and (3) documented market searches are performed to verify that there is only one source for anticipated sole-source awards.

We have reviewed NOAA's audit action plan, but do not concur with some of the proposed actions. We plan further discussions with NOAA in an effort to resolve these issues.

National Telecommunications and Information Administration

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

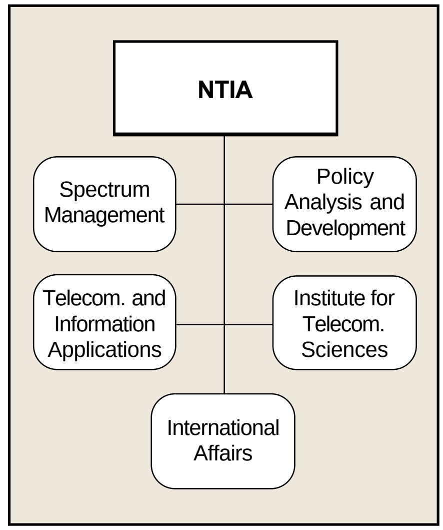
Reporting of Performance Measures Needs Improvement

Under the requirements of GPRA and the CFO Act, as amended by the Government Management Reform Act of 1994, the Department, and its operating units, such as NTIA, report on their performance. The Department's FY 1999 Annual Program Performance Report was its initial effort to report and comment on the performance of its components, including NTIA. NTIA's performance data was also presented in the Department's FY 1999 Accountability Report.

As the Department's principal adviser on telecommunications and information policy issues, NTIA promotes the efficient and effective use of telecommunications and information resources in order to create job opportunities, enhance U.S. competitiveness, and raise the standard of living. NTIA included five performance measures in the Department's FY 1999 Performance Report and the FY 2001 Annual Performance Plan, and three of those measures in the Accountability Report. NTIA's performance measures are depicted in the following table. The first performance measure shown replaces an FY 1999 measure on "lessons learned" packages completed for foreign governments.

Performance Measure	FY 1999 Accountability Report	FY 1999 Annual Program Performance Report	FY 2001 Annual Performance Plan
Filings, testimony, and speeches			✓
Authorized spectrum assignments	✓	✓	✓
Internet accessibility and use	✓	✓	✓
Telephone subscription rates		✓	✓
Models/grants available for nonprofit or public sector organizations	✓	✓	✓

To be useful to the Congress, OMB, and the public, the reported performance data must be credible. The OIG conducted an audit of NTIA's efforts to ensure that its reported performance results were accurate, consistent, and reliable. Our audit reached the following conclusions:



- **Reporting of performance information needs to be improved**. We found adequate linkage between the first, second, and fifth performance measures listed above and NTIA programs and activities. However, NTIA needs to improve its reporting of the performance measures on Internet accessibility and use and telephone subscription rates because these measures are not directly linked to its program and activities. In neither the performance report nor the accountability report did NTIA disclose this lack of direct linkage. We recommended that NTIA either revise these measures to address outputs and outcomes more directly linked to NTIA programs or activities or provide adequate disclosure that the bureau is not directly responsible for the results.

- **Improvements in internal controls needed**. The number of authorized spectrum assignments was not accurately reported in either the performance report or the accountability report because the data reported was as of November 26, 1999, rather than as of September 30, 1999, the end of the fiscal year. In addition, data on increased Internet accessibility and use was reported only for the first quarter of the fiscal year, a limitation that was disclosed in the accountability report but not in the performance report. We recommended that NTIA establish procedures for coordination between the office responsible for performance data in the accountability report and the office responsible for the data in the GPRA reports to ensure accurate, consistent reporting.

NTIA agreed with our findings and has taken action to implement our recommendations. Specifically, in the latest drafts of the Department's 2000-05 Strategic Plan, NTIA has replaced the performance measures on Internet accessibility and telephone subscription rates with measures more directly linked to its programs and activities. In addition, NTIA has emphasized to the two offices involved in preparing performance data the need to report clear, consistent information on agency performance. *(Financial Statements Audits Division: FSD-12856)*

University Did Not Comply with Grant Terms and Conditions

In October 1995, NTIA awarded a $249,988 grant to a Southwestern university to develop a multilevel interactive telecommunications model for providing health- and education-related support to two rural underserved communities. The grant agreement, which covered the period from October 15, 1995, through April 14, 1998, required $279,659 in matching funds, bringing the total project budget to $529,647.

An OIG audit of the grant found that the university had inadequately supported $216,967 of in-kind costs claimed, which included $177,447 for salaries and $39,520 for fringe benefits. The university also violated the terms and conditions of its award by failing to (1) properly report on the status of government property in its possession, (2) maintain accurate equipment records, (3) submit quarterly progress reports on time, and (4) promptly notify the program office of significant developments affecting the award. After we completed our review, the university provided the required inventory of government property.

We questioned a total of $248,285 in project costs, including the in-kind costs mentioned above, as well as $31,318 for equipment purchases made before the start of the award period. The recipient has been reimbursed $137,304, which is $30,217 more than the amount of federal funds earned. The Department closed out the grant and deobligated $25,709 in grant funds in April 1998.

We recommended that the Department disallow the questioned costs and recover the $30,217 in excess disbursements, deobligate the remaining $117,192 in grant funds, and ensure that the grantee's inventory of its government property contains all the required information. The university agreed with all of our recommendations. *(Atlanta Regional Office of Audits: ATL-12645)*

United States Patent and Trademark Office

Protection of U.S. Intellectual Property Rights Overseas Should Be Strengthened

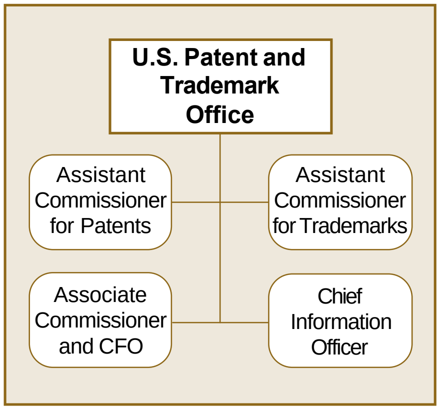
The **United States Patent and Trademark Office** administers the nation's patent and trademark laws. Patents are granted, and trademarks registered, under a system intended to provide incentives to invent, to invest in research, to commercialize new technology, and to draw attention to inventions that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

The Intellectual Property and Communications Omnibus Reform Act of 1999 requires USPTO to advise the President on certain international intellectual property policy issues and to advise other federal agencies on intellectual property protection overseas. Through its Office of Legislative and International Affairs (OLIA), USPTO works closely with the U.S. Trade Representative and other federal agencies to expand the protection of U.S. intellectual property throughout the world. The United States maintains a large surplus of international trade in intellectual property, with receipts of $36.8 billion, versus payments of $11.3 billion, in 1998. However, these figures do not reflect trade losses due to piracy. The International Intellectual Property Alliance, a coalition of seven trade associations, estimated that five U.S. copyright-based industries suffered trade losses due to piracy of more than $12 billion in 62 selected countries in 1998. Developing countries were responsible for almost $8.8 billion of these estimated losses.

OLIA provides technical assistance to developing countries that are setting up or trying to improve their intellectual property protection systems. This assistance, which was provided to more than 70 countries in FY 1999, includes training programs in the United States, on-site assistance, and reviews of foreign laws and regulations related to implementing intellectual property enforcement regimes. OLIA has also cosponsored training programs with the World Intellectual Property Organization (WIPO) and, in FY 1999, developed a new intellectual property enforcement training format to be used by other U.S. agencies and WIPO.

The OIG conducted an audit of OLIA's international training and technical assistance activities and its communication and coordination with other federal agencies involved in protecting intellectual property rights. We also examined OLIA's efforts to monitor compliance with the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS), which requires all World Trade Organization members to provide certain standards of protection for intellectual property rights.

We found that OLIA is highly respected for its expertise in international intellectual property protection issues and its critical involvement in the negotiation of treaties and the drafting of implementing legislation and regulations. Recipients of OLIA's advice and assistance, including officials of other federal agencies, trade associations, and foreign governments, expressed great satisfaction with OLIA's global activities. However, we identified a few issues that warrant management's attention in order to maximize OLIA's efficiency and effectiveness:



OLIA's international training efforts need improvement. Although OLIA officials indicated that they receive more requests for training than they can handle, they have not kept records to document the disposition of training requests. Because such requests are expected to increase now that the January 2000 deadline for World Trade Organization developing country members to comply with the TRIPS Agreement has passed, it is even more important for OLIA to establish controls to ensure that all requests receive appropriate attention. OLIA also needs to maximize the impact of its limited training resources by considering alternative training methods, such as conducting joint sessions with WIPO or industry associations, and using contractors or the Internet for training. Moreover, OLIA should develop procedures to measure the results of its efforts to protect intellectual property rights, as required by GPRA.

OLIA needs to improve its controls over federal agencies' requests for advice and analysis. Although OLIA provides a great deal of advice and analysis to other federal agencies, it has not adequately controlled and documented this workload. Moreover, many of the requests are urgent oral requests, yet priorities are not established for them, and there are no controls to ensure that they are responded to promptly. With requests expected to increase, OLIA should ensure that they are adequately controlled, and should document the results of its analyses of proposed foreign laws and regulations governing intellectual property rights.

OLIA should initiate discussions toward a strategy for monitoring and reporting on TRIPS compliance by developing countries. In the absence of a legal requirement that it systematically monitor and report on compliance before the TRIPS Agreement deadlines of January 1, 2000, for developing countries and January 1, 2006, for least-developed countries, OLIA has reviewed developing countries on a country-by-country basis on request, but has not assessed overall compliance since the agreement's implementation in 1995. As a result, OLIA was unable to provide a status report on these countries' compliance at any given time. Such a report, though not legally required, would provide a stronger basis for making policy determinations and for efficiently allocating training and enforcement resources, and would enable USPTO to better fulfill its advisory mission as mandated in the 1999 act.

We made a number of recommendations aimed at strengthening OLIA's efforts to protect U.S. intellectual property rights overseas. USPTO generally agreed with our findings, and has already planned or taken some actions to implement our recommendations. For example, OLIA has established a system to track due dates and completion dates for responses to requests for advice and analysis from other federal agencies. *(Business and Trade Audits Division: BTD-11747)*

Improved Internal Controls Needed for Office of Human Resources

USPTO's workload has grown by almost 75 percent since 1992, and to keep pace, the agency has increased the size of its examining and associated support staff. USPTO's recruitment and retention needs have placed heavy demands on its Office of Human Resources (OHR). New staff hired totaled 976 in FY 1998, 1,187 in FY 1999, and 208 during the first six months of FY 2000. Separations, which also require OHR services, have also been significant: 252 employees left the agency between October 1998 and March 11, 2000.

The OIG conducted an audit of OHR, focusing on its internal controls over hiring actions, including background investigations, and over recorded personnel actions and employees' official personnel files. USPTO had already identified these as problem areas and, just before we began our audit, undertook a series of initiatives designed to improve OHR operations. We found that, despite these changes, issues remain that warrant continued management attention.

Improved System for Processing Background Investigations Is Needed

Background investigations, required for each new employee, have not always been properly performed and documented. As a result, there is no assurance that all personnel hired for certain examination and administrative functions with access to sensitive proprietary business data have passed the required investigations. As of May 2000, OHR had not submitted the forms necessary to request background investigations for 113 employees hired since October 1997. Moreover, documentation of investigations for 1,626 employees hired since 1970—400 of whom were hired since 1990—is not in the USPTO security database.

The absence of documentation could be the result of either an investigation not being requested or documentation of the investigation results not being recorded in the security database. Among the reasons offered by USPTO for the situation were the large number of employees processed by OHR in recent years, the 1:61 servicing ratio of OHR specialists to employees, and the multiple demands, including special projects, that have been placed on OHR resources.

USPTO's Associate Commissioner and Chief Financial Officer, who has management responsibility for OHR, has initiated actions to address the lapses in OHR's processing of requests for background investigations.

First, a schedule has been established to clear up the backlog of investigations. Second, responsibility for processing requests has been transferred to USPTO's Office of Security, and three new security specialists are being hired to handle this workload. Finally, preappointment checks will be conducted before an employee comes on board.

Internal Controls over Personnel Documents and Official Files Are Inadequate

Several conditions in OHR's file room indicate a lack of adequate internal controls over personnel action documents and official personnel files. Specifically:

- **Thousands of Personnel Action Forms Unfiled**. An estimated 40,000 to 50,000 forms documenting personnel actions were unfiled. Without properly filed forms, a formal record does not exist to support personnel actions.

- **Insufficient File Room Security**. We observed that the OHR file room is not locked when employees leave the room, there are no controls over who is allowed to see personnel files, and certain employees are allowed to remove personnel files from the room without signing them out.

- **10 percent of Personnel Files Not Located**. Selecting a random sample of official personnel files, we found that 10 percent of them could not be located. Projecting from our sample, we estimate that personnel files of between 108 and 121 employees hired between October 1998 and March 2000 cannot be located.

OHR has begun to draft procedures to address these conditions, and is considering hiring contract employees to file the backlogged personnel action forms.

We endorsed the measures that USPTO has planned to address the identified deficiencies. However, because of the severity and long history of the problems and the sensitivity of background investigations, personnel action documents, and official personnel files, we recommended that USPTO's Associate Commissioner and Chief Financial Officer periodically report to the Under Secretary on the progress being made to address the problems. USPTO concurred. *(Business and Trade Audits Division: BTD-12830)*

NIST Can Do More to Ensure Competition in Its Research and Standards Program

During this semiannual period, the OIG reported on its audit of the criteria, procedures, and practices for soliciting, reviewing, and selecting applications in FY 1997 for awards under NIST's Measurement and Engineering Research and Standards Program (MERS). The audit was conducted as part of a Department-wide review of Commerce's discretionary financial assistance programs.

The objective of MERS is to provide scientific research for measurement and engineering research and standards. During FY 1997, NIST processed 172 financial assistance awards for a total of $26.9 million under MERS. Of these 172 awards, 1 (for $6.5 million) was legislatively mandated, 46 (totaling $2.8 million) were awarded competitively, but the remaining 125 (totaling $17.6 million) were awarded noncompetitively, on a sole-source basis, without appropriate justification. The sole-source awards consisted of 66 new awards, for a total of $8.1 million, and 59 renewals of or amendments to existing awards, totaling $9.5 million.

The competitive awards were made under three MERS subprograms: the Fire Research Grants program, the Precision Measurement Grants program, and the Materials Science and Engineering Laboratory Grants program. For each of these subprograms, NIST has established and followed procedures that are designed to result in merit-based funding decisions and that generally comply with the Department's minimum requirements for financial assistance awards.

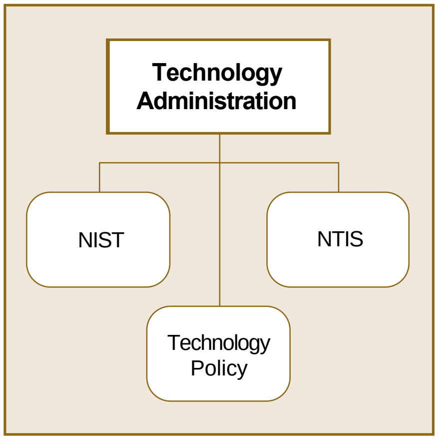
However, we found some areas needing improvement in these subprograms' procedures and practices. Specifically, NIST (1) in solicitation notices for two of the subprograms, failed to specify the single type of funding instrument to be used, (2) in the notice for one of the subprograms, published misleading information about the duration of award proposals that would be accepted, (3) allowed the selecting official for one subprogram to also participate in proposal review panels, and (4) provided an unfair advantage to certain grant renewal applicants under one subprogram. We also found that the agency could enhance the independence and objectivity of future grant competitions by inviting reviewers from outside NIST and the Department to serve on the panels.

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

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

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

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



The three competitive subprograms, however, represent a relatively small portion of overall MERS funding. Most of the awards under the program were awarded noncompetitively, on a sole-source basis. We found that although NIST's procedures governing sole-source awards require a determination that the proposed recipient is the only responsible source that could accomplish the work, the written justifications for the sole-source awards did not cite any factual support for such determinations, such as the results of published solicitation notices. In addition, NIST's Grant Office did not take adequate steps to verify these determinations.

NIST's extensive use of sole-source awards appears to conflict with departmental policy, which encourages competition in awarding financial assistance. We also found that certain sole-source awards under one of the MERS subprograms did not comply with departmental guidance which states that awards made in response to an unsolicited proposal can be made noncompetitively only if the project falls outside the goals of a competitive program.

Finally, because NIST does not have written procedures for renewing sole-source awards, no determination of a project's continuing worthiness is made before renewal. We believe that NIST needs to establish minimum standards to guide technical personnel in assessing whether sole-source awards should be renewed and, if renewal is warranted, whether it should be done on a noncompetitive basis. These standards will help bring consistency to NIST's sole-source renewals and provide a means for it to document that the renewals are merit based and appropriate.

NIST agreed with 7 of the 10 recommendations we made to address our findings. However, it did not agree to (1) specify in its solicitation notices for the two subprograms the single type of funding instrument to be used, (2) include at least one proposal review panel member outside the supervisory chain of command of the selecting official for future competitions for one subprogram, or (3) publicly announce proposed sole-source awards, request proposals from interested parties, evaluate any applications submitted, and make the selection using competitive, merit-based procedures. After considering NIST's comments, we reaffirmed our recommendations. *(Denver Regional Office of Audits: DEN-10958)*

OIG Briefs the Congress on NIST Activities

In response to a request from the House Committee on Science's Technology Subcommittee, on August 2, 2000, OIG staff briefed Subcommittee staff on two issues related to NIST: Planned construction and renovations at its Boulder, Colorado, campus and its support for the development of national building and fire codes for Saudi Arabia.

Construction/Renovations at Boulder Campus

First, the Committee asked us to determine the status and the specific planned use of a proposed reprogramming of $8 million of Advanced Technology Program funds to be put toward NIST's Boulder campus renovations. Second, we were asked to determine the purpose of a $500,000 request in NIST's FY 2001 budget for study or design of an electrical system upgrade on its Boulder campus.

We found that NIST planned to spend the $8 million for renovations on two of its highest priority projects in Boulder—an electrical power upgrade project and the renovation of Building 4. The electrical project, projected to cost $5.9 million, is designed to address persistent power problems by replacing the current system, which is partly above ground and prone to disruptions, with a buried, secure line. The other $2.1 million was to be spent to begin renovating Building 4 to accommodate the instruments shop, which is currently occupying prime laboratory space in Building 1. The remainder of the estimated $3.7 million needed to complete the renovations would be funded from future appropriations.

The $500,000 request for FY 2001 is related to the electrical project described in the preceding paragraph, and would provide for the design for laying the underground line to the campus. Had the $8 million reprogramming been approved, this funding would have no longer been needed.

Although the Department determined that no funds were available for the reprogramming, our limited initial review led us to conclude that NIST's plans for the use of the funds involved in the reprogramming request appeared reasonable in that the electrical project would have provided a more reliable source of power, and renovating Building 4 would have freed up 12,200 square feet of prime laboratory space for programs that need it. Boulder, the older of the two NIST campuses, has significant renovation, construction, safety, and maintenance needs. The agency estimates that

Boulder has $64.4 million in deferred maintenance projects, and as the site ages, items continue to be added to the list. However, we also acknowledged that we had not recently assessed NIST's total construction needs, its prioritization of those needs, and any spending plan to address them.

Building and Fire Code Activities with the Kingdom of Saudi Arabia

Under a 1996 memorandum of understanding (MOU), NIST provided $625,000 to a U.S. building code organization to help promote the sale and use of U.S. construction industry products and services in foreign countries. The Subcommittee asked that we inquire into how the funds were spent. Related to this was a dispute with Saudi Arabia on building codes work under the MOU (roughly half the $625,000 was spent on the Saudi Arabia project; most of the balance was spent on building code projects in the Caribbean). We were also asked to report on the nature of the dispute and provide the current status.

Our limited review of the available documentation indicated that most of the funds spent under the MOU went for salaries and travel on projects in Saudi Arabia and the Caribbean. The documentation lists what appear to be legitimate activities conducted with these funds under the MOU. NIST believes the MOU's purposes were accomplished—namely, assisting the U.S. construction industry in gaining access to global markets by cooperating with the governments of other nations and private organizations to adopt U.S. construction codes, standards, and practices. The ultimate value of this project will not be known for several years until it is clear whether U.S. firms in fact have greater access to those markets.

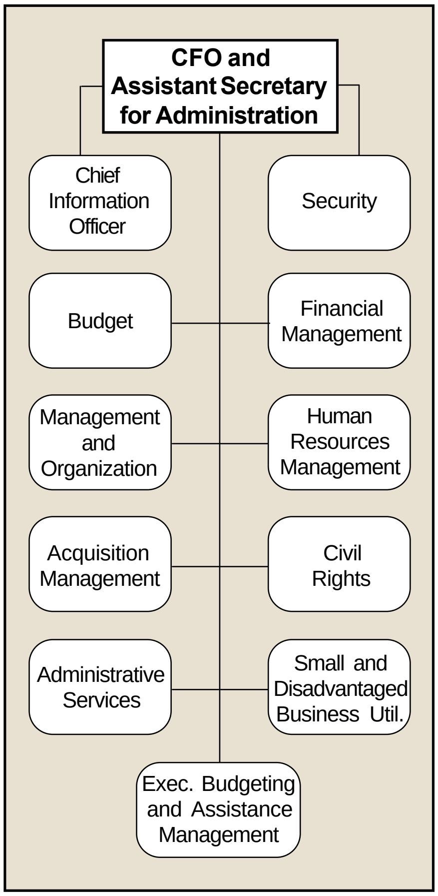
In February 1999, a dispute arose between Saudi Arabia and another U.S. building code organization involved in the project over the payment of licensing and royalty fees for the draft building and fire codes. As a result, at one point Saudi Arabia suggested that it might abandon the MOU and instead adopt European or Japanese building codes. On June 5, 2000, after strenuous efforts by Department and NIST officials, an agreement was reached under which the U.S. organization agreed to a compromise, receiving only its direct costs for the project and giving up any licensing or royalty payments in order to resolve the dispute. The codes were delivered to Saudi Arabia in July 2000, and the MOU has been renewed for another 3 years. *(Office of Inspections and Program Evaluations)*

NIST Scientist Pays $30,000 to Settle Government's Claim

A senior NIST scientist agreed to pay the United States $30,000 to resolve charges that he had violated the False Claims Act and federal conflict of interest law in connection with the development of a robotic device by his division. An OIG investigation found that the scientist owned a patent for a stabilized lifting platform, which was an integral part of a robotic crane being developed at NIST. During 1993 and 1994, he committed government funds allocated to his division to develop and fine-tune the crane and thereby enhance the value of his own patent, without disclosing his financial interest in the platform to the Department.

When the scientist's ownership of the platform patent came to the Department's attention, he agreed to sell the patent to the government. OIG investigators concluded that, by failing to disclose that he had used government resources to develop the platform, the scientist made false statements to the Department's Office of General Counsel when he was negotiating the sale of his patent. The scientist disputed the OIG's findings, but entered into a settlement agreement after being notified of the government's intention to prosecute its claims through a civil lawsuit. *(Financial Fraud Division)*

Departmental Management



Most Discretionary Funding Decisions Are Merit-Based, but Processes Can Be Improved

Seven Commerce operating units administer 72 discretionary financial assistance programs providing more than $1 billion a year, or about a quarter of the Department's budget, to state and local governments, nonprofit and for-profit organizations, and individuals. At the request of the Chairman, Senate Committee on Commerce, Science, and Transportation, the OIG conducted a comprehensive audit of the Department's discretionary funding programs to identify the laws, regulations, and procedures established to guide officials in making discretionary spending decisions, to evaluate the policies and procedures applicable to Commerce financial assistance programs, and to determine to what extent the policies and procedures were being followed.

We classified each of the 72 financial assistance programs as being either a "full discretion" or "limited discretion" program, based on the extent to which its authorizing legislation limited the operating unit's authority to independently determine the recipients and amounts of the awards. We classified 34 of the programs as limited discretion programs, and the other 38 as full discretion programs. Because 5 of the full discretion programs had been inactive in recent years, we conducted individual audits of the remaining 33 and issued a report on each.

A primary purpose of the Federal Grant and Cooperative Agreement Act is to encourage competition in the award of federal financial assistance to the maximum extent practicable, in order to ensure that financial assistance awards are made on the basis of merit. We therefore evaluated the 33 programs on their adherence to the following three critical elements that OMB has identified as being essential to ensuring effective competition:

- Widespread solicitation of eligible applicants and disclosure of essential application and program information in written solicitations.
- Independent application reviews that consistently apply written program evaluation criteria.
- Written justification for award decisions that deviate from recommendations made by application reviewers.

After reporting on each of the 33 programs, we then issued a "capping" report, summarizing the results of the individual audits; identifying cross-cutting issues; highlighting best practices; identifying weaknesses in departmental policies, procedures, and practices; and offering recommendations for correcting them.

We found that of the 33 full discretion programs, 21 (or nearly two-thirds), accounting for about 92 percent of the total obligations made for financial assistance programs in FY 1997, were administered competitively using evaluation criteria designed to result in merit-based funding decisions. Nevertheless, we found opportunities for the operating units to improve aspects of their awards processes. Our findings related to the three critical elements identified by OMB are summarized below.

Solicitation and disclosure. All but 3 of the 21 competitive programs were meeting the Department's minimum requirement of placing a notice in the *Federal Register* soliciting applications for funding and clearly stating the criteria to be used in evaluating applications. We noted, however, that many of the programs could improve the effectiveness of their solicitations by adopting other programs' best practices, such as soliciting through Internet announcements, mailing lists, and trade publications.

Independent application reviews. Eighteen of the 21 competitive programs used written competitive procedures and merit-based criteria in evaluating applications for funding, but most of these programs could enhance the integrity of their review processes by increasing the independence of review panels and better documenting the results of the reviews. For example, only 7 of the 21 programs used panels that included at least one member from outside of the chain of command of the selecting official, and only 12 of the 21 adequately documented their application reviews.

Justification for decisions that deviate from recommendations. In only 8 of the 21 competitive programs did selecting officials' decisions deviate from panel recommendations. But the reasons for the deviations were not adequately documented in 5 of the 8 programs.

Twelve of the 33 full discretion programs did not use competitive procedures in making award decisions, but instead obligated program funds through inadequately or inappropriately justified sole-source awards. Although departmental and other federal guidelines recognize that individual proposals may be justified for noncompetitive funding on an exception basis, an entire program should generally not be administered on a noncompetitive basis, as these 12 were, unless authorized by law. Absent such legislative direction, there should be an appropriate basis and adequate written justification for individual noncompetitive awards.

Although the Department has policies and procedures in place to encourage competition in the award of financial assistance, we believe that improvements can be made by institutionalizing best practices and strengthening Department-level technical assistance. Accordingly, to augment the recommendations we made in our reports on the 33 individual program audits, our capping report contained a series of recommendations to the Department aimed at helping its operating units improve their financial assistance award processes by clarifying minimal departmental expectations for competition and providing appropriate leadership and training.

Agreeing that opportunities exist to improve the financial assistance award processes, the Department concurred in all of our recommendations. We are pleased by the Department's concurrence and, in particular, by its agreement to institutionalize the recommended improvements by incorporating them into the departmental grants and cooperative agreements manual that is currently under development. *(Atlanta Regional Office of Audits: ATL-10835)*

Improvements Are Needed in the Handling of Interagency and Other Special Agreements

The Department of Commerce relies heavily on interagency and other special agreements to perform its mission. In FY 1997, for example, Commerce had more than 4,700 agreements, involving more than $1 billion in funds received for reimbursable activities or obligated to acquire goods or services from other parties. (The table on the following page shows, by bureau, the number of agreements identified and their estimated value.) These agreements can be between Commerce bureaus or between a bureau and another federal agency, a state or local government agency, an educational institution, a nonprofit organization, or a private party. Although agreements involve significant federal resources, they are not subject to the same administrative controls as procurement contracts, grants, or cooperative agreements.

The OIG recently issued the last in a series of reports on its Department-wide review of interagency and special agreements. The report summarized cross-cutting issues we identified during our reviews of the handling of such agreements at 10 Commerce bureaus and during earlier reviews. In addition to identifying common problems that Commerce bureaus have experienced in preparing and administering agreements, we also highlighted several "best practices" that may be helpful to the bureaus. A summary of our findings follows:

Bureau	FY 1997 Agreements	
	Number	Value
BXA	15	$2,342,000
EDA	33	14,929,000
ESA	756	213,509,000
ITA	109	36,209,000
MBDA	23	3,591,000
NOAA	2,038	470,015,000
NTIA	120	30,780,000
Office of the Secretary	206	23,970,000
TA	1,400	267,070,000
USPTO	55	49,215,000
Total	**4,755**	**$1,111,630,000**

Most of the agreements appeared to serve important and appropriate functions. Most bureaus are using agreements to cover activities that should be funded by an agreement and that further Commerce's varied missions. Nevertheless, it is important to maintain diligent oversight of such agreements to prevent potential problems. For example, accepting too much reimbursable work can divert a program from its primary mission, and operating a program in Commerce that is funded and guided mostly by another agency can prevent the government from realizing the efficiencies that can be gained by properly placing the function in that agency.

Some bureaus have entered into informal arrangements without a written agreement. During our reviews, we came across instances in which bureaus improperly performed work for other parties without the benefit of a written agreement. Conducting such activities without a written agreement violates departmental and agency policies and puts the U.S. government's interests and credibility at risk.

Agreements have sometimes been used when a procurement contract would have been more appropriate. Several bureaus circumvented procurement laws and regulations by using agreements instead of procurement contracts to acquire goods and services. Program officials need to be informed, through training or other guidance, about how to best determine when a procurement contract, rather than an agreement, is the most appropriate instrument for an anticipated funds transfer to a private entity.

Agreements have sometimes been used when financial assistance awards would have been more appropriate. During our reviews, we questioned whether some officials and staff were inappropriately using agreements in lieu of grants or cooperative agreements to provide financial assistance. In one bureau, agreements were used instead of financial assistance awards to fund an entire program, although the nature of the activity better fit the definition of a cooperative agreement or a grant. We pointed out that switching to a financial assistance award would improve the funding process and strengthen the bureau's ability to monitor projects. The bureau in question agreed, and has since switched to using cooperative agreements for this program. The Department needs to provide clear instructions and oversight to ensure that agreements are not used when the appropriate funding instrument is a grant or cooperative agreement.

The Department is improving the process for preparing and monitoring agreements. In an earlier report, we urged the Department to take a stronger role in overseeing how the bureaus draft, implement, and administer agreements (see September 1998 issue, page 72). That report also discussed the most common deficiencies found during our reviews, including a failure to comply with federal requirements and to receive necessary programmatic, administrative, and legal reviews. We are pleased to note that the Department has made it a priority to develop Department-wide guidance for agreements in the form of a handbook, which is to be issued as soon as possible.

Bureaus generally do not adequately track and control agreements. A common problem we observed was that few bureaus adequately tracked and controlled their agreements. Different bureaus had different ways of classifying agreements, they frequently overlooked agreements made with other Commerce entities, and some tracked expired and inactive agreements. As a result, we found inconsistent reporting of agreements among bureaus. In earlier reports, we recommended that both the Department and the bureaus develop databases to track and control their agreements. Although some progress has been made in implementing our recommendations, this matter warrants additional management attention.

Some bureaus need to better ensure full cost recovery under reimbursable agreements. Considering the significant amount of reimbursable work performed by the bureaus, full cost recovery is a serious concern. A bureau's failure to recover actual costs or to equitably apportion costs under joint agreements could result in its undercharging or overcharging the sponsoring organization in circumvention of the appropriations process. Unfortunately, we found many examples of Commerce bureaus not adequately accounting for or recovering the full costs of reimbursable activities. To correct this problem, bureau chief financial officers and other senior managers need to be held accountable for implementing reliable systems for identifying and recovering the full costs of reimbursable activities.

We made a number of recommendations to the Department to address the cross-cutting concerns raised in our report. These recommendations were in addition to those made in our 10 earlier reports covering individual bureaus. The Department agreed with our findings and recommendations and said that corrective actions were underway. *(Office of Inspections and Program Evaluations: IPE-9460)*

Critical Infrastructure Protection: Early Strides Were Made, but Progress Has Slowed

Presidential Decision Directive 63, issued in May 1998, called for a national effort to ensure the security of the nation's critical infrastructures, also known as minimum essential infrastructure (MEI), which are the physical and cyber-based assets essential to the minimum operations of the economy and the government. Advances in information technology have caused infrastructures to become increasingly automated and interlinked, thereby creating new vulnerabilities to human error, natural disasters, and physical and cyber-attacks.

The Department has responsibility for planning and executing a program for protecting the assets it manages, and the Chief Information Officer (CIO) is responsible for that program. To comply with the directive, the CIO has developed a critical infrastructure protection (CIP) plan, identified the Department's critical infrastructure assets, and conducted vulnerability assessments of some of those assets.

The OIG conducted a review to evaluate the Department's CIP plan, identification of assets, and vulnerability assessments of its cyber-based assets. We focused on the CIO's management of the CIP program, with emphasis on the seven operating units containing the most critical assets: NOAA, the Census Bureau, USPTO, BXA, NIST, BEA, and NTIA. Our review was conducted as part of a joint review involving 20 other federal Offices of Inspector General.

We found that the Department had made initial progress in implementing the directive by developing a Department-wide CIP plan, identifying critical infrastructure assets, and initiating vulnerability assessments. However, we also identified several areas that warrant management attention:

- **The Department's CIP plan needs to be revised.** Several elements of the plan are outdated or missing, and important milestones have slipped. The asset inventory, vulnerability assessment framework, and budget estimates included in the plan are not current. Among the omissions are requirements for reviewing new assets to determine whether they should be included as MEI, periodically updating vulnerability assessments, developing a system for responding to infrastructure attacks, and notifying the OIG of such attacks. Progress in implementing the directive has been slower than expected because of a lack of funding. The CIO informed us that his office plans to revise the CIP plan by November 2000. We recommended that the revised plan include the updated and omitted components.

- **The MEI asset inventory should be reevaluated**. Although a systematic process was applied in compiling the inventory, the data gathering had significant limitations. In most cases, asset managers were neither interviewed nor given adequate guidance before filling out complex questionnaires used to gather asset information. Officials most knowledgeable about the assets were seldom interviewed because of logistical problems and the limited resources available for the inventory. Establishing a reliable MEI inventory is important because it forms the basis for later activities, such as selecting the highest risk assets for vulnerability assessments and taking remedial actions. We recommended that the Department reevaluate its MEI assets using a revised methodology that includes improved guidance and increased interaction with the operating units.

- **Vulnerability assessments, remediation plans, and budget justifications need to be completed**. OMB will not provide funding for CIP activities without detailed budget requests based on vulnerability assessments and remediation plans. Due to resource constraints, however, the Department has current vulnerability assessments for less than 10 percent of MEI assets and has not developed any remediation plans. As a result, it has received no funding for CIP activities. Because of the importance of protecting the Department's critical assets and the need for CIP funding, we recommended that the CIO form assessment teams of personnel from the Department and the bureaus, and hold operating units—supported by these teams—accountable for completing vulnerability assessments, remediation plans, and improved CIP budget justifications.

The CIO recognized the merit of our recommendations, but reiterated that the lack of funding for CIP activities impedes the Department's progress in implementing the directive. He stated that the Department's focus will be on the broad spectrum of information technology security, which emphasizes assets critical to the Department's mission and includes most cyber-based MEI assets.

He also reported that short-term actions were being taken to implement several of our recommendations, including improving guidance to operating unit personnel involved in vulnerability assessments and increasing their involvement in the MEI asset inventory, revising the MEI asset list, revising target dates for completing CIP-related tasks, evaluating new assets to determine whether they should be included as MEI, and developing a mechanism for notifying the OIG of infrastructure attacks. The CIO will make major revisions to the CIP plan and incorporate the remaining outdated or missing elements as resources permit. In addition, the Department plans to prepare remediation plans as assets are assessed for vulnerabilities and use these plans to develop budget projections. *(Office of Systems Evaluation: OSE-12680)*

Controls over Approvals for and Testing of CAMS Software Need Improvement

During this semiannual period, the OIG reported on the adequacy of controls over application software development and change control of the Commerce Administrative Management System Support Center. Application software development and change control, which helps prevent the implementation of unauthorized programs or modifications to existing programs, is one of six areas identified for review by GAO's *Federal Information System Controls Audit Manual*. The other five areas were addressed in an OIG report issued last February (see March 2000 issue, page 86).

The Department undertook the development of CAMS to address its lack of a single, integrated financial system. CAMS is currently functional at the Census Bureau, and certain system modules are being used by EDA and NOAA. The system is projected to be fully implemented by FY 2004. The Support Center, located in Gaithersburg, Maryland, is responsible for making changes to CAMS as part of its software development and implementation activities.

Our audit revealed that although the Support Center issued new software development and maintenance procedures in May 2000 and has taken other steps to improve its operations, additional improvements were needed in the controls over approvals of software features and modifications, and the testing of new and revised software. Specifically:

- **One person was serving as the director of two Support Center divisions with conflicting responsibilities.** Allowing one person to have responsibility over conflicting duties decreases effective planning and management and increases risk.

- **Decisions to change CAMS have not been adequately documented**. Failing to document approvals of software changes limits management's ability to support and justify its decisions.

- **System testing is not performed for most CAMS modules**. A lack of complete system testing reduces the Support Center's assurance that the software will operate as intended.

- **System documentation does not reflect the current state of CAMS software**. The lack of up-to-date documentation increases the risk that the software may not meet operational needs, and could result in significant delays and unnecessary costs when future modifications are made to the software.

We recommended that the Department segregate duties having conflicting internal control responsibilities, document all decisions that support approved changes to CAMS, perform system testing of all CAMS modules and document the results, and update system documentation to reflect the current version of the software.

The Department generally agreed with our findings and described actions that had been initiated to implement our recommendations. Specifically, the Support Center has hired a new director for one of the two divisions to correct the problem of conflicting responsibilities, required that documentation be maintained for all decision bodies associated with CAMS, taken steps to have all CAMS modules be subject to full system testing by May 2001, and begun an assessment of the state of systems documentation. *(Financial Statements Audits Division: FSD-12940)*

Employee Receives 14-Day Suspension for False Statement in OIG Investigation

An Office of Security employee was suspended for 14 days for making a false statement during an official inquiry. During an OIG investigation, the employee provided a sworn statement in which he falsely asserted that he had not been paid for administratively uncontrollable overtime, although he had, in fact, received overtime payments during the relevant time period. *(Washington Field Office of Investigations)*

Preaward Financial Assistance Screening

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

During this period, we screened 1,488 proposed awards. On 13 of the awards, we found major deficiencies that could affect the ability of the proposed recipients to maintain proper control over federal funds. On the basis of the information we provided, the Department either delayed the awards until concerns were satisfactorily resolved or established special award conditions to adequately safeguard federal funds.

Preaward Screening Results

Results	Number	Amount
Awards delayed to resolve concerns	12	$34,065,802
Special award conditions established	1	680,632

Indirect Cost Rates

Under OMB policy, a single federal agency—the "cognizant agency"—is responsible for the review, negotiation, and approval of indirect cost rates for public and private entities receiving funds under various federal programs. Normally, the federal agency providing the most direct funding to an entity is designated as its cognizant agency. OMB has designated Commerce as the cognizant agency for 280 economic development districts, as well as a number of state and local government units. From time to time, the Department also has oversight responsibilities for other recipient organizations. The Department has authorized the OIG to negotiate indirect cost rates and review cost allocation plans on its behalf. The OIG reviews and approves the methodology and principles used in pooling indirect costs and establishing an appropriate base for distributing those costs to ensure that each federal, state, and local program bears its fair share.

During this period, we negotiated 23 indirect cost rate agreements with nonprofit organizations and governmental agencies, and reviewed and approved 22 cost allocation plans. We also provided technical assistance to recipients of Commerce awards regarding the use of rates established by other federal agencies and their applicability to our awards. Further, we have worked closely with first-time for-profit recipients of Commerce awards to establish indirect cost proposals that are acceptable for OIG review. (*Atlanta Regional Office of Audits*)

Nonfederal Audit Activities

In addition to OIG-performed audits, the Department's financial assistance recipients are periodically audited by state and local government auditors and by independent public accountants. OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations,* sets forth the audit requirements for most of these audits. For-profit organizations that receive Advanced Technology Program (ATP) funds from NIST are audited in accordance with *Government Auditing Standards* and *NIST Program-Specific Audit Guidelines for ATP Cooperative Agreements,* issued by the Department.

We examined 350 audit reports during this semiannual period to determine whether they contained any audit findings related to Department programs. For 236 of these reports, the Department acts as oversight agency and monitors the auditee's compliance with the applicable OMB circulars or the NIST program-specific reporting requirements. The other 114 reports are from entities for which other federal agencies have oversight responsibility.

Report Category	OMB A-133 Audits	ATP Program-Specific Audits	Total
Pending (April 1, 2000)	15	96	111
Received	180	100	280
Examined	188	162	350
Pending (September 30, 2000)	7	34	41

The following table shows a breakdown by bureau of the $511 million in Commerce funds audited.

Bureau	Funds
EDA	$75,909,682
ITA	576,678
MBDA	2,269,914
NIST	266,624,602*
NOAA	133,905,971
NTIA	3,799,918
Agency not identified	27,617,737
Total	**$510,704,502**

* Includes $228,123,958 in ATP program-specific audits.

We identified a total of $3,578,891 in questioned costs. In most reports, the Department's programs were considered nonmajor, resulting in limited transaction and compliance testing against laws, regulations, and grant terms and conditions. The 23 reports with Commerce findings are listed in Appendix B-1. (*Atlanta Regional Office of Audits*)

INDEX

The Inspector General Act of 1978, as amended (1988), specifies reporting requirements for semiannual reports. The requirements are listed below and indexed to the applicable pages of this report.

The OIG is also required by section 804(b) of the Federal Financial Management Improvement Act of 1996 to report on instances and reasons when an agency has not met the dates of its remediation plan. We will discuss this matter in the March 2001 issue as part of our financial statement audit reporting.

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

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

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

This section requires an identification of each significant recommendation described in previous semiannual reports on which corrective action has not been completed. Section 5(b) requires that the Secretary transmit to the Congress statistical tables for audit reports for which no final action has been taken, plus an explanation of the reasons final action has not been taken on each such report, except when the management decision was made within the preceding year.

To include a list of all significant unimplemented recommendations in this report would be duplicative, costly, unwieldy, and of limited value to the Congress. Any list would have meaning only if explanations detailed whether adequate progress is being made to implement each agreed-upon corrective action. Also, as this semiannual report was being prepared, management was in the process of updating the Department's Audit Tracking System as of September 30, 2000, based on semiannual status reports due from the bureaus in mid-October. An accurate database was therefore not available to the OIG for reference here. However, additional information on the status of any audit recommendations may be obtained through the OIG's Office of Audits.

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

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

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

This section requires a summary of each audit report issued before the beginning of the reporting period for which no management decision has been made by the end of the reporting period (including the date and title of each such report), an explanation of the reasons such management decision has not been made, and a statement concerning the desired timetable for achieving a management decision on each such report.

As of September 30, 2000, one performance audit and one financial assistance audit were in this category, as discussed below.

Performance Audit

The unresolved report addresses the need for NOAA to improve the competitive review practices of OAR's Climate and Atmospheric Research Program. This report is discussed on page 56.

Financial Assistance Audit

The unresolved audit relates to an EDA award to a nonprofit grantee in Texas. The report is discussed on page 25.

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

This section requires an explanation of the reasons for any significant revised management decision made during the reporting period. Department Administrative Order 213-5, *Audit Resolution and Follow-up*, provides procedures for revision of a management decision. For performance audits, the OIG must be consulted and must approve, in advance, any modification to an audit action plan. For financial assistance audits, the OIG must concur with any decision that would change the audit resolution proposal in response to an appeal by the recipient.

The decisions issued on the seven appeals of audit-related debts were finalized with the full participation and concurrence of the OIG.

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

This section requires information concerning any significant management decision with which the Inspector General is in disagreement.

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

Statistical Highlights

Audit Statistical Highlights

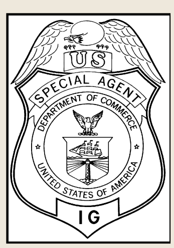
Questioned costs this period	$4,488,978
Value of audit recommendations made this period that funds be put to better use	2,107,989
Value of audit recommendations agreed to this period by management	13,927,695
Value of inspection recommendations made this period that funds be put to better use	489,701

Investigative Statistical Highlights

Indictments and informations	6
Convictions	3
Personnel actions*	7
Fines, restitutions, judgments, and other civil and administrative recoveries	$86,013

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

Allegations Processed by OIG Investigators



Accepted for investigation	34
Referred to operating units	406
Evaluated but not accepted for investigation or referral	159
Total	**599**

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

OIG HOTLINE

Telephone: (202) 482-2495 or (800) 424-5197
Internet E-Mail: oighotline@doc.gov

Tables and Appendixes

DEFINITIONS

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

The term **unsupported cost** refers to a cost that, at the time of the audit, is not supported by adequate documentation. Questioned costs include unsupported costs.

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

The term **management decision** refers to management's evaluation of the findings and recommendations included in the audit report and the issuance of a final decision by management concerning its response.

Table 1: Audits with Questioned Costs

Report Category	Number	Questioned Costs	Unsupported Costs
A. Reports for which no management decision had been made by the commencement of the reporting period	9	$458,369	$301,347
B. Reports issued during the reporting period	22	4,488,978	1,454,632
Total reports (A+B) requiring a management decision during the reporting period	31	4,947,347	1,755,979
C. Reports for which a management decision was made during the reporting period	9	271,725	114,703
i. Value of disallowed costs		177,695	114,392
ii. Value of costs not disallowed		94,030	311
D. Reports for which no management decision had been made by the end of the reporting period	22	$4,675,622	$1,641,276

Notes and Explanations:

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

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

Table 2: Audits with Recommendations That Funds Be Put to Better Use

Report Category	Number	Value
A. Reports for which no management decision had been made by the commencement of the reporting period	2	$17,977,000
B. Reports issued during the reporting period	3	2,107,989
Total reports (A+B) requiring a management decision during the reporting period	5	20,084,989
C. Reports for which a management decision was made during the reporting period	3	19,927,000
i. Value of recommendations agreed to by management		13,750,000
ii. Value of recommendations not agreed to by management		6,177,000
D. Reports for which no management decision had been made by the end of the reporting period	2	157,989

Notes and Explanations:

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

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

Appendix A. Office of Inspector General Reports

Type	Number	Appendix
Performance Audits	13	A-1
Inspections	9	A-2
Financial Related Audits	6	A-3
Total	**28**	

Appendix A-1. Performance Audits

Agency	Subject	Number	Date
BXA	Reporting of Performance Measures Needs Improvement	FSD-12847	09/00
ESA	Agreed-Upon Procedures and Results Assessment of Federal Audit Clearinghouse Database: Fiscal Year 1998 Audit Reports	ATL-12556	07/00
	Decennial Census Warehousing Operations Needed Attention	DEN-11950	07/00
	Review of Special Population Enumerations and Questionnaire Assistance Centers	ESD-12593	09/00
	Re-enumeration at Three Local Census Offices in Florida: Hialeah, Broward South, and Homestead	ESD-13215	09/00
NOAA	Improvements Are Needed in the Northwest Fisheries Science Center Use of Bankcards	STL-12555	06/00
	Small Business Innovation Research Program Award Procedures Need Improvement, CFDA No. 11.476	DEN-11001	08/00
NTIA	Reporting of Performance Measures Needs Improvement	FSD-12856	09/00
O/S	Most Departmental Discretionary Funding Decisions Are Competitive and Merit-Based, but Opportunities Exist to Further Improve the Awards Processes	ATL-10835	09/00
	Improvements Needed in Controls Over Approvals for and Testing of CAMS Software	FSD-12940	09/00
USPTO	Efforts to Protect U.S. Intellectual Property Rights Overseas Should Be Strengthened	BTD-11747	08/00
	Improved Internal Controls Needed for Office of Human Resources	BTD-12830	09/00
TA-NIST	Measurement and Engineering Research and Standards Program Should Expand Use of Competitive Award Procedures	DEN-10958	09/00

Appendix A-2. Inspections

Agency	Subject	Number	Date	Funds to Be Put to Better Use
ESA	Telephone Questionnaire Assistance Contract Needs Administration and Surveillance Plan	OSE-12376	08/00	- -
	Local Census Offices Were Successfully Opened, but Some Lessons Can Be Learned From Decennial Leasing Operations	IPE-11573	09/00	$476,000
	Review of the Special Census of the Village of Machesney Park, Illinois	IPE-12045	09/00	- -
	A Better Strategy Is Needed for Managing the Nation's Master Address File	OSE-12065	09/00	- -
	Unjustified Decennial Census Unemployment Compensation Claims Should Be Reduced Because Terminations for Cause Were Mostly Well Documented	IPE-13212	09/00	- -
ITA	US&FCS Overseas Security: Results and Improved Management Are Needed	IPE-12708	08/00	- -
NOAA	Raleigh Weather Forecast Office Provides Valuable Services, but Needs Improved Management and Internal Controls	IPE-12661	09/00	13,701
O/S	Improvements Are Needed in Commerce Agencies' Implementation and Oversight of Interagency and Other Special Agreements	IPE-9460	09/00	- -
	Critical Infrastructure Protection: Early Strides Were Made, but Planning and Implementation Have Slowed	OSE-12680	08/00	- -

Appendix A-3. Financial Related Audits

Agency	Auditee	Number	Date	Questioned Costs	Unsupported Costs	Funds to Be Put to Better Use
EDA	Quality Control Review of Rehmann Robson, CPAs & Consultants, for the Single Audit of the County of Iosco, MI	DEN-12071	04/00	- -	- -	- -
	City of Long Beach, CA	STL-12658(1)	06/00	- -	- -	- -
	City of Long Beach, CA	STL-12658(2)	06/00	- -	- -	- -
	Iron Range Resources and Rehabilitation Board, MN	DEN-13441	09/00	- -	- -	$1,950,000
MBDA	San Francisco Minority Business Development Center, operated by the Urban Economic Development Corp., CA	STL-11406	09/00	792,896	- -	25,192
NTIA	University of New Mexico	ATL-12645	09/00	117,191	102,408	132,797

Note: The questioned costs and unsupported costs include only the federal share of the total questioned and unsupported costs cited in the reports.

Appendix B. Processed Reports

The Office of Inspector General reviewed and accepted 350 financial-related audit reports prepared by independent public accountants and local, state, and other federal auditors. The reports processed with questioned costs, recommendations that funds be put to better use, and/or nonfinancial recommendations are listed in Appendix B-1.

Agency	Audits
Economic Development Administration	86
International Trade Administration	1
Minority Business Development Agency	4
National Institute of Standards and Technology	177*
National Oceanic and Atmospheric Administration	18
National Telecommunications and Information Administration	6
Multi-Agency	38
Agency Not Identified	20
Total	**350**

* Includes 162 ATP program-specific audits.

Appendix B-1. Processed Financial Related Audits

Agency	Auditee	Number	Date	Questioned Costs	Unsupported Costs
EDA	Franklin County Area Development Corporation, PA	ATL-9999-0-0269	06/00	- -	- -
	Economic Development Bank for Puerto Rico	ATL-9999-0-0306	08/00	$24,675	- -
	Jackson County, MS	ATL-9999-0-0397	06/00	- -	- -

Appendix B-1. Processed Financial Related Audits—Continued

Agency	Auditee	Number	Date	Questioned Costs	Unsupported Costs
EDA	Calstart, Inc., CA	ATL-9999-0-0434	08/00	79,407	- -
	Black Hawk County, IA	ATL-9999-0-0436	08/00	205,113	- -
	Northern Hills Community Development, Inc., SD	ATL-9999-0-0511	09/00	166,500	- -
	City of Rio Grande City, TX	ATL-9999-0-0541	08/00	41,625	$41,625
	MassDevelopment, MA	ATL-9999-0-0575	09/00	- -	- -
TA-NIST	Qualicon, Inc., DE	ATL-9999-0-0006	08/00	32,757	- -
	Vitria Technology, Inc., CA	ATL-9999-0-0016	08/00	269,461	148,163
	SI Diamond Technology, Inc., TX	ATL-9999-0-0017	07/00	147,285	63,152
	Utah Health Informatics Company	ATL-9999-0-0057	08/00	575,490	413,197
	BusinessBots, Inc., CA	ATL-9999-0-0064	08/00	165,458	77,420
	Integra LifeSciences Corporation, NY	ATL-9999-0-0072	09/00	79,520	48,445
	Solectria Corporation, MA	ATL-9999-0-0090	06/00	7,485	7,485
	NCR Corporation, Parallel Systems, Inc., CA	ATL-9999-0-0091	09/00	139,165	- -
	Ceramatec, Inc., UT	ATL-9999-0-0143	08/00	929,060	- -
	Computer Associates International, Inc., OH	ATL-9999-0-0202	09/00	185,748	145,480
	Applied Sciences, Inc., OH	ATL-9999-0-0247	06/00	21,031	- -
	Rhode Island Manufacturing Extension Services, Inc.	ATL-9999-0-0307	08/00	138,527	97,294
	United States Surgical, MA	ATL-9999-0-0362	08/00	6,621	- -
	Johnson & Johnson, Corporate Biomaterials Center, NJ	ATL-9999-0-0451	08/00	207,000	153,000
	Arkansas Science and Technology Authority	ATL-9999-0-0484	08/00	156,963	156,963

Note: The questioned costs and unsupported costs include only the federal share of the total questioned and unsupported costs cited in the reports.

Definitions of Types of OIG Reviews

OIG Reviews

Audits

Performance Audits—These audits look at the efficiency, effectiveness, and economy of the Department's programs, activities, and information technology systems. They may check a unit's compliance with laws and regulations, and evaluate its success in achieving program objectives.

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

Financial Statements Audits—The CFO Act, as amended by Government Management Reform Act, requires federal agencies to prepare annual financial statements and to subject them to audit. The OIG is responsible for conducting these audits and reporting the results to the Secretary.

Inspections

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

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

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

Glossary of Abbreviations

ATP . . . . . Advanced Technology Program
AWIPS . . . . . Advanced Weather Interactive Processing System
BEA . . . . . Bureau of Economic Analysis
BXA . . . . . Bureau of Export Administration
CAMS . . . . . Commerce Administrative Management System
CFDA . . . . . Catalog of Domestic Financial Assistance
CFO . . . . . Chief Financial Officer
CIO . . . . . Chief Information Officer
CIP . . . . . critical infrastructure protection
EDA . . . . . Economic Development Administration
ESA . . . . . Economics and Statistics Administration
GAO . . . . . General Accounting Office
GPRA . . . . . Government Performance and Results Act
GSA . . . . . General Services Administration
GWAC . . . . . government-wide agency contract
IG . . . . . Inspector General
ITA . . . . . International Trade Administration
JFMIP . . . . . Joint Financial Management Improvement Program
MAF . . . . . Master Address File
MBDA . . . . . Minority Business Development Agency
MEI . . . . . minimum essential infrastructure
MERS . . . . . Measurement and Engineering Standards and Research
MOU . . . . . memorandum of understanding
NIST . . . . . National Institute of Standards and Technology
NMFS . . . . . National Marine Fisheries Service
NOAA . . . . . National Oceanic and Atmospheric Administration
NTIA . . . . . National Telecommunications and Information Administration
NTIS . . . . . National Technical Information Service
NWS . . . . . National Weather Service
OHR . . . . . Office of Human Resources
OIG . . . . . Office of Inspector General
OLIA . . . . . Office of Legislative and International Affairs
OMB . . . . . Office of Management and Budget
PBO . . . . . performance-based organization
RLF . . . . . revolving loan fund
SBIR . . . . . Small Business Innovation Research
TA . . . . . Technology Administration
TIGER® . . . . . Topographically Integrated Geographic Encoding and Referencing
TRIPS . . . . . Agreement on Trade-Related Aspects of Intellectual Property Rights
TQA . . . . . Telephone Questionnaire Assistance
US&FCS . . . . . U.S. and Foreign Commercial Service
USPTO . . . . . U.S. Patent and Trademark Office
WIPO . . . . . World Intellectual Property Organization
WFO . . . . . weather forecast office

ƒIn Memoriam„

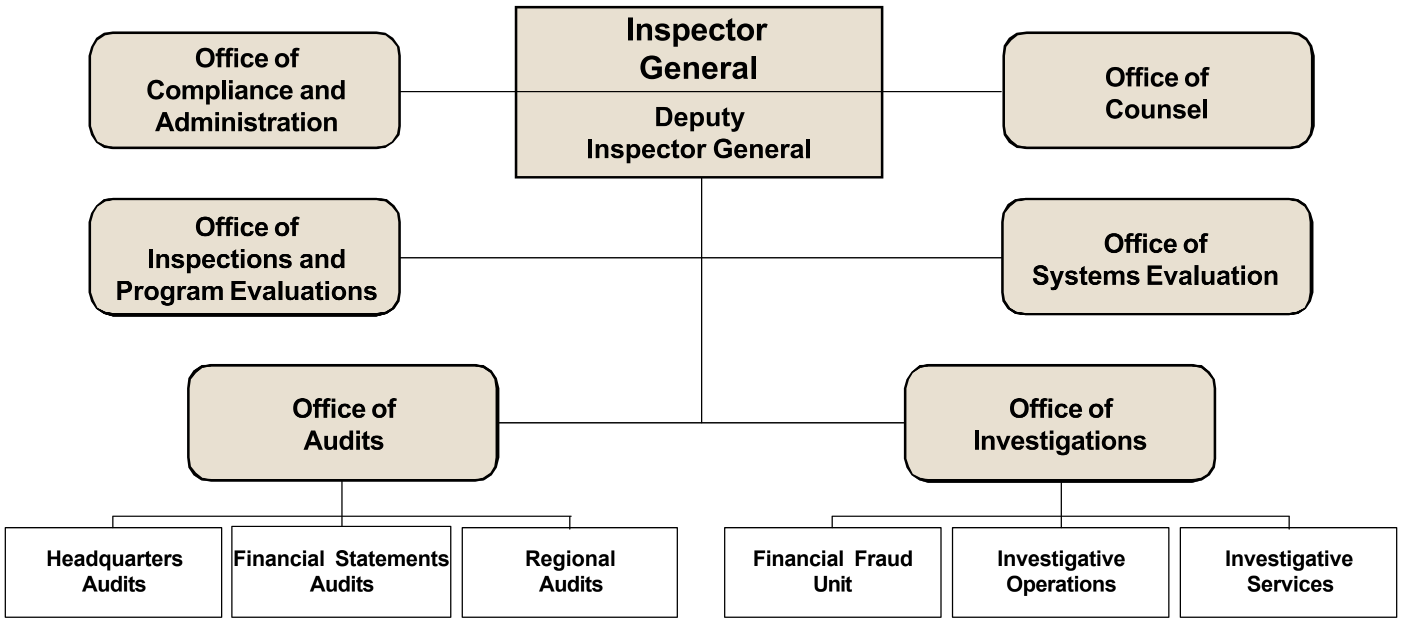
The Office of Inspector General dedicates this Semiannual Report to the memory of Douglas Powell and Charles Rodgers.

> **Douglas L. Powell** (1946-2000) was a senior auditor in the headquarters office of our Office of Audits. He spent his entire 30-year career auditing Department of Commerce activities, and was one of the original staff members of the OIG. He is survived by his wife Audrey, a son, a daughter, and two stepchildren.
>
> **Charles L. Rodgers** (1958-2000) was a senior auditor in our Atlanta Regional Office of Audits. After working several years with the Department of the Army, he joined the Commerce OIG in 1979. He is survived by his wife Judiette and a son.

Both Doug and Charles made invaluable contributions to the OIG and devoted a large portion of their many years of public service to addressing the major management challenges facing the Department of Commerce. Most recently, they were key members of the team that conducted the comprehensive review of the Department's discretionary financial assistance programs that is highlighted in this report. Their efforts contributed to the significant improvements being made in these programs.

Both of these fine men will be sorely missed by their many friends and colleagues in the OIG.

Office of Inspector General Organization Chart



OIG Points of Contact

Inspector General .... (202) 482-4661
Congressional/PCIE Liaison.................... (202) 482-3052
Office of Audits .... (202) 482-1934
Office of Compliance and Admin. .... (202) 482-0231
Office of Counsel .... (202) 482-5992
Office of Inspections and Program Eval. .. (202) 482-2754
Office of Investigations .... (202) 482-0934
Office of Systems Evaluation .... (202) 482-6186

TDD Number .... (202) 482-4948
Media Inquiries .... (202) 482-5992

REQUESTS FOR REPORTS:
Telephone .... (202) 482-0231
Internet E-Mail .... oigreports@doc.gov

OIG HOTLINE:
Telephone .... (202) 482-2495 or (800) 424-5197
Internet E-Mail .... oighotline@doc.gov

OIG Internet Home Page

http://www.oig.doc.gov

U.S. DEPARTMENT OF COMMERCE
Office of Inspector General

Room 7099C, HCHB
14th Street & Constitution Avenue, N.W.
Washington, D.C. 20230

Internet Web Site:
http://www.oig.doc.gov