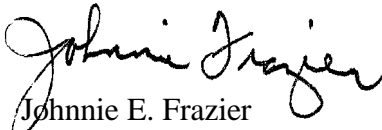




March 31, 1998

MEMORANDUM FOR: The Honorable William M. Daley
Secretary of Commerce

FROM:


Johnnie E. Frazier
Acting Inspector General

SUBJECT: Audit of the Department of Commerce's
Fiscal Year 1997 Consolidated Financial Statements
Audit Report No. FSD-9753-8-0001

This was the second audit of the Department of Commerce's consolidated financial statements under the requirements of the Chief Financial Officers Act of 1990 (CFO Act), as amended by the Government Management Reform Act of 1994 (GMRA). Attached is the final report on our audit of the Department's financial statements as of September 30, 1997.

Our report includes three components:

- ! Report on Financial Statements,
- ! Report on Internal Control Structure, and
- ! Report on Compliance with Laws and Regulations.

The executive summary is presented on pages i-iv. A disclaimer of opinion was issued on the Department's fiscal year 1997 consolidated financial statements due to management's inability to support certain account balances and the deficiencies noted in the Department's internal controls. However, improvement has occurred within the Department, as evidenced by the six bureaus that received upgraded opinions from the previous year. For example, NOAA received a qualified opinion on its Statement of Financial Position for fiscal year 1997 as compared to a disclaimer of opinion received on its overall financial statements in fiscal year 1996.

We make recommendations to address 10 reportable conditions, of which we consider 7 to be material weaknesses. Our findings and recommendations can be found in the Report on Internal Control Structure, pages 3-35. The findings and recommendations were reviewed by the Department's management during our audit, and we have incorporated their comments where appropriate. Based on our mutual agreement, we are issuing this report as final.

For the Department as a whole to reach an unqualified opinion in upcoming years, it must resolve the weaknesses identified in our Report on Internal Control Structure and Report on Compliance with Laws and Regulations, as well as the findings identified in the individual bureau audits. In addition, a review of current resources, including the qualifications of financial staff, needs to be performed in anticipation of the increased reporting requirements for the fiscal year 1998 financial statements. The upcoming reporting requirements include OMB Bulletin 97-01, *Form and Content of Agency Financial Statements*, and the Government Performance and Results Act (GPRA) of 1993.

Implementation of OMB Bulletin 97-01 poses tremendous challenges to the Department for various reasons. In particular, this bulletin requires six statements to be prepared, as compared to the two statements required under OMB Bulletin 94-01. One of these six statements, the Statement of Net Cost, requires the Department to report costs by suborganizations and programs, which should be based on the missions and outputs described in the Department's strategic and annual plans, its budget structure, and the Statement of Federal Financial Accounting Standards No. 4, *Managerial Cost Accounting Standards*. As the federal government has not previously been required to report information in such a manner for financial or budgetary purposes, the Department will need to ensure it places the appropriate emphasis on the implementation of OMB Bulletin 97-01.

We are also concerned with the Department's efforts to prepare for the increasing requirements of GPRA. The overview to the consolidated financial statements provides the linkage to GPRA, which mandates government entities to collect and report information on their performance against established goals and objectives. However, the Department's overview does not present sufficient performance and financial measures to provide a clear description of the Department's program and financial results. In addition, the measures included are not presented in a manner that adequately describes the Department's successes and challenges. We believe that management should take action to ensure that the Department compiles and reports financial and performance data in compliance with the requirements of GPRA, as well as OMB Bulletin 97-01.

Implementation of Statement of Federal Financial Accounting Standards No. 5 and Interpretation of Federal Financial Accounting Standards No. 2, *Accounting for Treasury Judgment Fund Transactions*, required the Department of Commerce and its bureaus, beginning in fiscal year 1997, to report all contingent liabilities associated with their operations. Due to this new reporting requirement, the Department needed to have implemented a process, beginning October 1, 1996, to accumulate and track the data pertinent to all contingent liabilities. However, Departmental and bureau management had not sufficiently prepared for implementation of this standard. Therefore, a significant, coordinated effort among the Office of General Counsel, the Office of Inspector General, and the Office of Financial Policy and Assistance was required to overcome the lack of preparedness to address the reporting requirement for fiscal year 1997. This issue was a major factor contributing to the Department's inability to meet OMB's deadline of March 1, 1998, for the issuance of audited financial statements.

In addition to the financial reporting aspects, we are concerned with the vitality of the systems used throughout the Department. Specifically, we are concerned about the Department's ability to become year 2000 compliant, as well as the implementation of the Commerce Administrative Management System (CAMS). Many of the Department's program and accounting systems use two-digit year dates that will become inaccurate after December 31, 1999. Unless this problem is corrected, there is serious risk that the Department's mission-critical computer applications will cease functioning properly. CAMS was initially intended to replace the majority of financial systems with year 2000 problems. However, it is evident that CAMS will not be fully operational at any bureau, other than Census, before the year 2000. As a result, most of the bureaus are moving to repair their affected systems, and are no longer relying on the implementation of CAMS. Given the short time frame remaining, the Department must focus intensely on its year 2000 program.

Finally, several bureau CFO and key financial management positions have yet to be permanently filled. We encourage the Department to continue its efforts in filling these positions.

In accordance with generally accepted auditing standards and *Government Auditing Standards* issued by the Comptroller General of the United States, the Inspector General reports are dated March 13, 1998, the date of completion of the audit field work. As required by DAO 213-5, please provide an audit action plan within 60 days of the date of this memorandum.

Should you need to discuss the contents of these reports, please contact George E. Ross, Assistant Inspector General for Auditing, at (202) 482-1934, or Lisa A. Casias, Deputy Assistant Inspector General for Financial Statement Audits, at (703) 603-0301.

We appreciate the cooperation and courtesies extended to us by the Department's managers and staff during this audit. We are committed to working with management of the Department and its bureaus to assist in addressing its financial reporting issues.

Attachments

cc: W. Scott Gould
Chief Financial Officer and
Assistant Secretary for Administration

Andrew Pincus
General Counsel

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