

# *Semiannual Report to Congress*

U.S. DEPARTMENT OF COMMERCE

March 2004



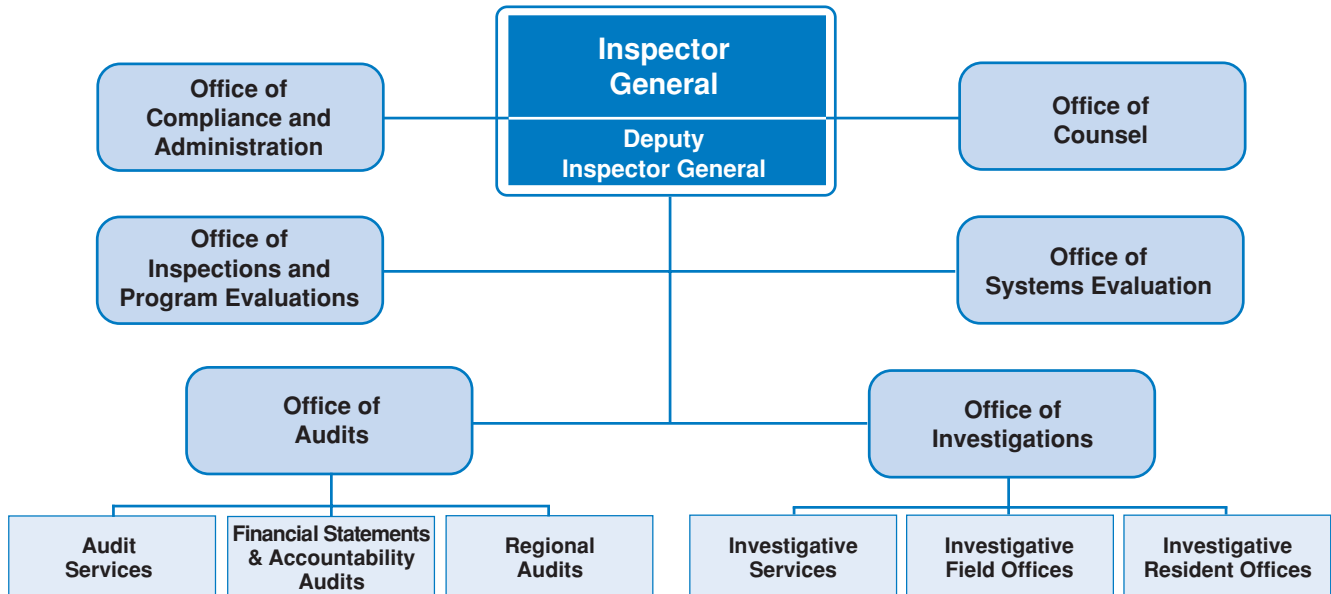
U.S. DEPARTMENT OF COMMERCE  
Office of Inspector General



# **IG'S Semiannual Report to Congress**

**March 2004**

# Office of Inspector General Organization Chart



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

June 2004

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

Dear Mr. Secretary:

I am pleased to provide you with the Inspector General's *Semiannual Report to Congress* for the first half of fiscal year 2004. Section 5 of the Inspector General Act requires that you transmit this report, with any comments you may wish to add, to the appropriate committees within 30 days of your receiving it.

You and the Department are to be congratulated on the outcome of the FY 2003 consolidated financial statements audit, which is detailed in this report. Once again, the Department received a clean opinion and made strides in resolving some of the weaknesses noted in prior-year audits. Overall financial management at Commerce has vastly improved over the years, and with it, the efficiency of the Department. It is essential that your officials continue to give attention to this area as Commerce moves to eliminate remaining identified weaknesses and avert others as they emerge.

Likewise, I note that the Department's standing in OMB's annual program evaluations improved in FY 2003, as 15 of the 19 programs reviewed were judged "adequate to effective." While this represents significant progress, further improvements are required in numerous areas, as indicated by some of the work we report here. We continue, for example, to find performance deficiencies in a wide range of departmental programs and bureaus of a nature that is often only detectable through in-depth probes such as the ones we conduct. The emphasis by the President, OMB, and Congress on improved government accountability underscores our resolve to enhance transparency within Commerce programs and operations, and to promote their improved efficiency and effectiveness. Progress and success in these endeavors require equally deep resolve from Department officials and staff at all levels.

I am confident that such resolve exists, and my staff and I look forward to assisting the Department in what must be a continuing pursuit of excellence.

Sincerely,

A handwritten signature in blue ink that reads "Johnnie Frazier".

Johnnie E. Frazier



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# IG's Message to Congress

As federal agencies have moved to implement performance-based budgeting, the demand for increased government accountability that began in 1990 with passage of the Chief Financial Officers (CFO) Act has come full circle. This legislation, along with the Government Performance and Results Act of 1993 and a string of likeminded laws that have followed, established standards for performance against which Congress, OMB, and others could better assess an agency's management, financial, and operational soundness. Budget and performance integration has taken the intent of these laws a step further by requiring agencies to use program outcomes as justification for their requests for and use of federal funds.

Through the years, offices of inspector general have responded to these initiatives with a broad range of audits, inspections, and evaluations aimed at assessing their respective agency's compliance with and performance under them, and reporting their findings to Congress to inform its decision making. At the Department of Commerce, our work has noted steady improvement in management and financial accountability as well as in program and operational effectiveness, along with deficiencies whose resolution requires the Department's dedicated attention. This semiannual report details some of the improvements and weaknesses identified in our most recent work, our recommendations for needed enhancements, and the Department's actions in response. Among the areas we assessed during this reporting period are the following:

**National Security.** Our annual export control review pursuant to the National Defense Authorization Act looked at whether the Bureau of Industry and Security's (BIS') implementation of deemed export control regulations prevents the transfer of controlled U.S. technologies and technical information to foreign national researchers or visitors from countries and entities of concern, and whether U.S. industry, academic institutions, and Commerce research agencies are complying with the regulations. We identified weaknesses and potential loopholes in the regulations, confusion over when and to whom they apply, consequent opportunities for the transfer of prohibited materials, and a need for increased BIS outreach to industry and research laboratories. (See page 14.)

**Noncompliance with Statutory and Departmental Requirements.** Our review of revelations that NOAA Corps was appointing and promoting officers without obtaining nominations from the Presi-

dent and confirmation by the Senate revealed a long-standing disregard for these legislative requirements dating back at least 2 decades. We also found that NOAA Corps accepted transfers of officers from other uniformed services without seeking the required concurrence of the Secretary of Commerce. We attributed this noncompliance with statutory requirements to a long-standing lack of internal controls, guidance, and oversight for the confirmation process, along with the view generally held by the Corps that the process was pro forma. (See page 29.)

**Performance Measurement.** As has been our practice in recent reporting periods, we reviewed the adequacy of performance measurement and reporting at select departmental units—this time looking at the Census Bureau. Our audit confirmed a pattern noted in similar reviews of other units: some of the measures, targets, and discussions presented in the Department's *Performance & Accountability Report* do not accurately or precisely convey the real basis for the data, and the data can therefore not be trusted as a reliable tool for congressional decision making. (See page 22.) Our in-process audit of National Marine Fisheries Service measures is uncovering many of these same problems as well.

Similarly, evaluations of three export assistance centers operated by the U.S. Commercial Service found that each center—though generally well run—had overstated its export success data. Commercial Service factors this data into the performance it reports under GPRA. (See page 24.)

**Financial Soundness and Accountability.** Audits of the Department's FY 2003 consolidated financial statements and of USPTO and NTIS gave unqualified opinions to all. The latter two agencies fully complied with laws and regulations, while the Department substantially complied with the Federal Financial Management Improvement Act (FFMIA) but remains noncompliant with OMB financial requirements. Audits of IT controls identified new weaknesses at NTIS and USPTO and some unresolved from last year at both units as well as at the Department. (See pages 36, 38, and 39.)

Our audits of EDA and NIST financial assistance recipients identified \$6,906,613 in questioned costs and recommended that \$6,603,432 be put to better use. (See pages 19 and 35, respectively.)

## **REVISITING OUR AGENDA**

With the fast approach of fiscal year 2005, we are in the process of developing a work plan to guide us through the next 2 years. Some of the areas that will demand our increased scrutiny are obvious—preparations for the 2010 decennial census will be a major focus throughout the decade. And as Commerce's role in advancing national, departmental, and personnel security will likely grow more pressing and complex, its activities in these areas will be priorities for us as well.

In an effort to fine-tune our broad agenda into specific work products, we are conducting a series of summits, each focusing on a

specific issue—the upcoming decennial, departmental procurement processes, USPTO operations, and trade, to name a few—and plan to meet with senior Commerce officials as well as congressional members and staff in the coming months. I am pleased with the process that is emerging thus far: it promises to produce a plan that is forward looking and thorough, and above all, well suited to assessing the Department's performance in all key areas, offering recommendations for improvement, and informing Congress of the results.

I look forward to sharing our completed plan with you.

# MAJOR CHALLENGES FOR THE DEPARTMENT

The Office of Inspector General, in assessing its work at the close of each semiannual period, develops the Top 10 Management Challenges the Department faces. Each challenge meets one or more of the following criteria: (1) it is important to the Department's mission or the nation's well-being, (2) it is complex, (3) it involves sizable expenditures, or (4) it requires significant management improvements. Because of the diverse nature of Commerce activities, many of these criteria cut across bureau and program lines. We believe that by addressing these challenges the Department can enhance program efficiency and effectiveness; eliminate serious operational problems; decrease fraud, waste, and abuse; and achieve substantial savings.

## CHALLENGE 1

### STRENGTHEN DEPARTMENT-WIDE INFORMATION SECURITY

Many of Commerce's information technology systems and the data they contain have national significance: the Bureau of Industry and Security's (BIS') export license data helps control the release of dual-use commodities to countries and entities of concern; the National Oceanic and Atmospheric Administration's (NOAA's) satellite, radar, and weather forecasting data and systems provide information used to protect lives and property; the Economics and Statistics Administration's (ESA's) economic indicators have policymaking implications that can affect the movement of global commodity and financial markets; and the U.S. Patent and Trademark Office's (USPTO's) patent and trademark information is essential to administering patent and trademark law, promoting industrial and technical progress, and strengthening the national economy. Loss of or serious damage to any of the critical systems containing this data could have devastating impacts. Therefore, identifying weaknesses in these systems and recommending solutions is a continuing top priority for the Office of Inspector General.

The Federal Information Security Management Act (FISMA), signed into law on December 17, 2002, provides a comprehensive framework for ensuring that information resources supporting federal operations and assets employ effective security controls. FISMA requires OIGs to perform independent security evaluations of their agencies annually.

As we reported in our last semiannual (see September 2003 *Semiannual Report*, page 37), the Department's chief information officer (CIO), with the support of the Deputy Secretary, has worked hard to improve information security Department-wide, and noteworthy progress has been made. Considerable challenges persist, however, in ensuring adequate security on the hundreds of Commerce systems. This effort requires (1) assessing risk and determining appropriate security controls, (2) testing and evaluating these controls, (3) certifying and accrediting systems,<sup>1</sup> and (4) ensuring that personnel with specialized information security responsibilities receive the necessary training.

#### MAJOR CHALLENGES FOR THE DEPARTMENT

1. Strengthen Department-wide information security.
2. Effectively manage departmental and bureau acquisition processes.
3. Successfully operate USPTO as a performance-based organization.
4. Control the cost and improve the accuracy of Census 2010.
5. Increase the effectiveness of marine resource management.
6. Promote fair competition in international trade.
7. Enhance export controls for dual-use commodities.
8. Enhance emergency preparedness, safety, and security of Commerce facilities and personnel.
9. Strengthen financial management controls and systems.
10. Continue to improve the Department's strategic planning and performance measurement in accordance with GPRA.

<sup>1</sup> Certification is the formal testing and evaluation of the security safeguards on a computer system to determine whether they meet applicable requirements and specifications. Accreditation is the formal authorization by management for system operation, including an explicit acceptance of risk.



As we advised in our FISMA reports, the Department has reported information security as a Federal Management Financial Integrity Act (FMFIA) material weakness in its *Performance & Accountability Report* for the past 3 fiscal years. Similarly, USPTO, which submits its *Performance & Accountability Report* separately, reported information security as an FMFIA material weakness the past 2 fiscal years. The Department, including USPTO, had set a goal of certifying and accrediting all systems that are part of the critical infrastructure or mission critical by the end of FY 2003. Although 97 percent of the Department's systems were reported as certified and accredited by that milestone, our FY 2003 FISMA evaluation revealed that many systems reported as certified and accredited contained significant deficiencies in their risk assessments, security plans, and contingency plans—i.e., certification and accreditation materials. Most also lacked evidence that security controls had been tested. Using a disciplined certification and accreditation process, USPTO planned to have its mission-critical systems and its classified system certified and accredited by the end of FY 2003, but was not able to accomplish this goal. USPTO reports that all of these systems were certified and accredited by March 29, 2004. The Department is now working to complete all system certifications and accreditations and improve their quality in FY 2004.

Our ongoing FISMA evaluation for this fiscal year includes reviews of the Census Bureau's information security program and the Department's computer incident response capability, as well as assessments of the quality and content of system certifications and accreditations and plans of action and milestones (POA&Ms).<sup>2</sup>

## CONTRACT SECURITY WEAKNESSES

We noted in our last semiannual (see September 2003 *Semiannual Report*, page 37) that inadequate security provisions in Commerce IT service contracts also place systems at risk. The Department continued to rely heavily on contractors to provide IT services in FY 2003, spending 65 percent of its IT contract dollars on this area. Our FY 2003 FISMA evaluation found that while progress had been made in incorporating security provisions into recent IT service contracts,<sup>3</sup> provisions for controlling contractor access to Department systems and networks were generally absent, and there was little evidence of contract oversight or of coordination among contracting, technical, and information security personnel in developing appropriate contract security. We summarized these findings in our September 2003 FISMA report, noting that the Department was finalizing standard contract clauses

<sup>2</sup> OMB guidance directs agencies to develop POA&Ms to correct program- and system-level IT security weaknesses and track each deficiency until it is corrected.

<sup>3</sup> The term "contract" includes task orders and delivery orders issued under multiple award contracts and government-wide agency contracts (GWACs).

for safeguarding information resources. We are currently preparing a report that provides additional discussion of these findings as well as recommendations to further ensure that information and information systems are adequately secure when contractor-provided services are used. This report notes that the contract clauses were issued in November 2003. We are recommending that the Department take steps to ensure that its service contracts contain the new security clauses and that appropriate contract oversight occurs.

## CHALLENGE 2

### EFFECTIVELY MANAGE DEPARTMENTAL AND BUREAU ACQUISITION PROCESSES

Federal acquisition legislation in the 1990s mandated sweeping changes in the way federal agencies buy goods and services. The intent was to reduce the time and money spent on purchasing, and improve the efficiency of the process. The latest legislative effort to streamline acquisition is the Services Acquisition Reform Act of 2003, whose provisions further push for performance-based service contracting: the act provides that service contracts under \$25,000 may be treated as "commercial" if certain performance-based criteria are met and thereby be eligible for simplified acquisition procedures. As the Department's reliance on contractor-provided services increases, so does the challenge to understand and effectively manage the new acquisition processes these initiatives fostered. At the same time, Commerce must be careful to ensure that taxpayer dollars are wisely spent and laws and regulations followed when using streamlined procedures.

This balance is best maintained by adhering to basic acquisition principles: careful planning, promotion of competition, prudent review of competitive bids, adept contract negotiations, well-structured contracts, and effective contract management and oversight. These are essential to ensuring that sound contracting decisions are made and contracts successfully executed. Problems we have identified with service contracting in the past include failure to use performance-based task orders where they would be beneficial; inadequate training in the use of performance-based service contracting; insufficient planning for contract administration and monitoring; and failure to ensure that adequate security provisions are included and enforced in IT service contracts.

We are currently monitoring certain major acquisitions related to the 2010 decennial census and intend to review the acquisition management process, from planning through contract closeout, at selected bureaus. The use of performance-based service contracting, where applicable, will be a key focus of our acquisition reviews.

## DEPARTMENTAL INITIATIVES

The Department agrees that acquisition planning and management need greater emphasis, and notes that its Office of Acquisition Management (OAM) is pursuing improvements. Among other things, OAM has established a review board to oversee all major acquisitions. Additionally, it is (1) evaluating Commerce's delegation and warrant program, with the goal of realigning contracting authorities to increase overall effectiveness and accountability; (2) revising the certification program for contracting officer's technical representatives (COTRs) to require expanded competencies and knowledge and to improve accountability, and changing the name of this function to "contracting officer's representative" to reflect its broader responsibilities; and (3) emphasizing the need for increased use of performance-based service contracting. It is assessing the effectiveness of these various initiatives as well.

Finally, in response to increased scrutiny from our office, Congress, and OMB, and in light of Commerce's increasing use of purchase cards, OAM is implementing a purchase card improvement plan that includes mandatory refresher training for all cardholders and approving officials. Under the auspices of the Chief Financial Officer and Assistant Secretary for Administration, an intradepartmental, cross-functional team was formed to evaluate options to further strengthen the Department's purchase, travel, and fleet card programs.

These actions address significant problems that we have identified in our acquisition-related reviews; we will determine their effectiveness as we conduct our acquisition review program.

**NOAA/NWS Contract Modification.** In this semiannual period, we continued monitoring NOAA's actions to correct the systemic deficiencies identified in our review of a major modification to a NOAA/National Weather Service (NWS) contract for a transition power source (TPS) for the NEXRAD weather radar. In our last semiannual, we reported that NOAA's Acquisition and Grants Office and NWS executed the modification without adequate negotiation or appropriate review and oversight of the contract, its management, or technical issues, and that NWS paid for defective equipment. These deficiencies resulted in an estimated increase in contract costs of \$4.5 million and purchase of a product that may not have been the best choice for NEXRAD. (See September 2003 *Semiannual Report*, page 25.)

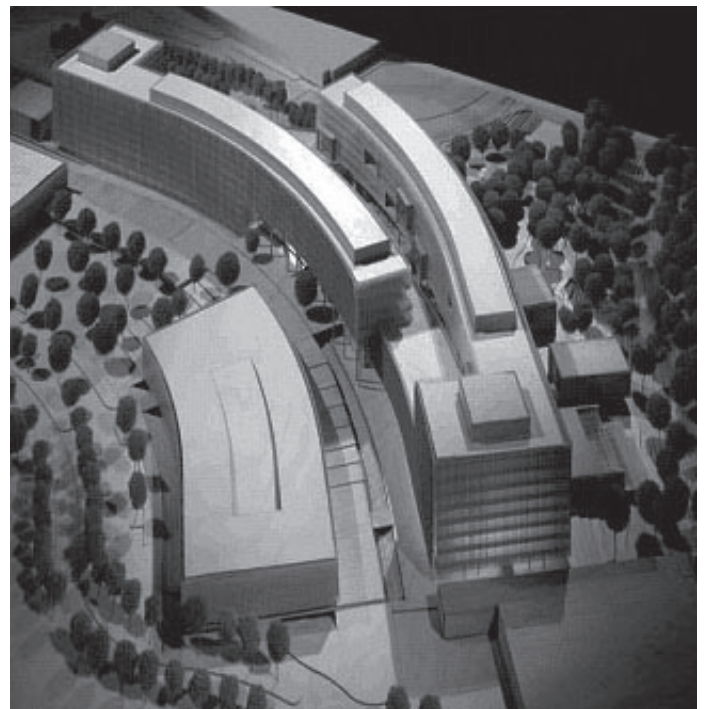
**NIST Acquisition Management.** We recently began a review of NIST's acquisition management process. As we reported in our last semiannual (see September 2003 *Semiannual Report*, page 32), our review of a NIST contract using the simplified acquisition procedures test program for soliciting and evaluating commercial items revealed that an error in citing the relevant procurement law caused some confusion and, if applied, could have resulted in unfair penalties being assessed to certain offerors. Also,

an incomplete explanation in the solicitation document denied offerors full information about the rules governing the procurement. In response to our review, NIST officials agreed to improve their internal quality assurance program for procurement actions, develop supplemental policy and guidance, and provide training to their acquisition workforce.

## MAJOR CONSTRUCTION AND RENOVATION PROJECTS

Contracts for large, costly, and complex capital improvement and construction projects carry numerous inherent risks. This is an area of particular vulnerability for the Department, given the many construction and/or renovation projects it has planned or under way for Commerce facilities. Departmental leadership and OIG oversight are needed to maximize Commerce's return on its investment in these projects. Detecting and addressing potential problems during the developmental stages rather than after a project is begun or completed saves time and money. For this reason, we continue to monitor the progress of the Department's current and planned construction projects.

At present we are reviewing USPTO's progress in completing, furnishing, and occupying its new headquarters complex in northern Virginia (see Challenge 3, page 6). Over time, we will also



Artist's rendering of the new Census headquarters complex in Suitland, Maryland, estimated to cost \$331 million and be ready for occupancy in 2008—at the height of the bureau's preparation for Census 2010.

Source: Census Bureau

assess several of the Department's other major<sup>4</sup> renovation and construction projects, which include the following:

- **NOAA.** According to NOAA, 21 projects are currently scheduled or in process including construction of a Pacific Region Center in Hawaii, projected to cost \$210-\$230 million; a fisheries research facility in Juneau, Alaska; and a Center for Weather and Climate Prediction in College Park, Maryland.
- **NIST.** The bureau continues its multimillion-dollar program to upgrade existing laboratories in Gaithersburg, Maryland, and Boulder, Colorado: it has begun occupying its new Advanced Measurement Laboratory in Gaithersburg and constructing a central utilities plant in Boulder.
- **Census.** Two buildings will be constructed at the bureau's Suitland, Maryland, headquarters. Construction drawings are nearly completed.
- **Commerce Headquarters (Herbert C. Hoover Building).** The Department is planning the modernization of its headquarters in Washington, D.C., and has established a Renovation Program Office to oversee and monitor this multiyear, multiphase project through completion.

## CHALLENGE 3

### SUCCESSFULLY OPERATE THE U.S. PATENT AND TRADEMARK OFFICE AS A PERFORMANCE-BASED ORGANIZATION

USPTO's operation as a performance-based organization continues to warrant special attention. According to USPTO, the efficiency with which it issues patents has a huge impact on the pace of technological advancement worldwide. The prompt registration of trademarks protects commercial investment, informs consumer choices, and promotes the availability of new goods and services.

Though USPTO has assumed responsibility for certain operational functions that were once controlled or monitored at the departmental level, it is essential that the bureau effectively use its expanded authority over budget allocations and expenditures, personnel decisions and processes, procurement, and information technology operations to process patent and trademarks in a high-quality and timely manner.

<sup>4</sup> According to the U.S. Department of Commerce's Office of Real Estate Policy and Major Programs, "major" projects are those costing \$2.3 million or more.

In June 2002, USPTO issued its *21st Century Strategic Plan*. The 5-year plan was intended to help the agency overcome the challenges accompanying its transition to performance-based operations; successfully develop necessary personnel policies; establish procurement and administrative policies as well as performance-oriented processes and standards for evaluating cost-effectiveness; and, simultaneously, meet its performance goals under the Government Performance and Results Act (GPRA) and the timeliness goals of the American Inventors Protection Act.

In February 2003, USPTO revised this plan. According to the agency, it is now more aggressive and far-reaching and provides a roadmap for major changes in patent and trademark processes. These include steps to (1) improve and maintain patent and trademark quality, (2) move to a paperless environment and promote e-government, (3) enhance employee development, and (4) explore competitive sourcing. The plan also calls for the agency to work with international intellectual property offices to create a global framework for enforcing intellectual property rights.

Our office is currently reviewing aspects of USPTO's Office of Human Resources in response to complaints of noncompliance with merit system principles and a subsequent request for review from the agency's chief financial officer/chief administrative officer. In addition, we are auditing selected aspects of USPTO's trademark review process and evaluating certain efforts to increase productivity and reduce the time it takes to process trademark applications. The review covers fiscal years 1999 through 2003. Similarly, we are evaluating patent examiner production goals, awards, and performance appraisal plans to determine their effect on production.

We are also reviewing progress on construction of the agency's new, state-of-the-art headquarters complex in Alexandria, Virginia, and its plans for relocating to these facilities. This project is one of the federal government's largest real estate ventures. When completed in 2005, the five-building complex will bring together the majority of USPTO employees and contractors, who are currently scattered among 18 buildings in Crystal City, Virginia. USPTO has occupied two of the new buildings earlier than anticipated and is working with the General Services Administration to ensure the project stays on schedule.

Our current focus is USPTO's management of the project—we are looking at the agency's handling of issues we identified during the project's planning and design phases, such as relocation strategies and actual versus estimated costs and completion schedules. Accomplishing the relocation with minimal disruptions to operations is critical to minimizing adverse impacts on costs, employees, and services to patent and trademark applicants and the public.

## CHALLENGE 4

### CONTROL THE COST AND IMPROVE THE ACCURACY OF CENSUS 2010

Few Commerce activities have more ambitious goals, higher costs, or more intensive resource requirements than the constitutionally mandated decennial census, and with each decade, this undertaking becomes more costly, complex, and challenging. Costs of \$1 billion in 1980, for instance, rose to \$2.6 billion in 1990, and to \$6.5 billion in 2000. For 2010, Census estimates the cost will be

between \$10 billion and \$12 billion. (Note: Dollar amounts are not adjusted for inflation.)

Much has changed in the methods and technologies used for decennial census taking over the past 3 decades. And during that time, the nation's population has increased and diversified dramatically. But the primary weaknesses we have noted in monitoring the 1980, 1990, and 2000 decennials have remained the same and are at least partially responsible for the ballooning costs: insufficient planning and lack of upfront funding for an operation that by its very nature requires long-term vision and development, as well as continued testing at key points along the way.

#### OIG RECOMMENDATIONS FOR IMPROVING THE DECENNIAL CENSUS

1. **Reach early consensus on the 2010 design to facilitate effective planning and obtain sufficient funding.** Delays in finalizing the Census 2000 design and obtaining needed funding left insufficient planning, development, and testing time for many key components.
2. **Produce accurate, complete address lists and maps.** The bureau's master address file (MAF) and associated mapping system (Topologically Integrated Geographic Encoding and Referencing, or TIGER) contained a higher-than-acceptable level of unreliability, which meant too many forms and too many enumerators could not reach the intended households.
3. **Conduct a carefully targeted and aggressive public awareness campaign.** The bureau's efforts to increase public awareness of and participation in Census 2000 were successful, enabling the bureau to achieve a response rate of 67 percent—6 percentage points beyond the projected rate of 61 percent. Census needs to further refine its public outreach program to achieve even higher rates in 2010.
4. **Strengthen quality control of nonresponse follow-up.** Instances of falsified and questionable data in Census 2000 required costly reenumeration and undermined confidence in the overall census results.
5. **Implement clear policies and guidance for managing temporary staff.** The logistics of hiring, training, and supervising nearly 1 million temporary workers require strong management policies and procedures.
6. **Determine whether sampling has a role beyond measuring coverage.** Sampling has been a contentious issue in the past two decennials, and initial plans to use it to improve coverage were ultimately overruled.
7. **Implement rigorous system and software development processes and effective information security measures.** The bureau's approach to systems and software development for Census 2000 provided inadequate controls, insufficient testing, and poor or no documentation, all of which led to inefficiency and disruptive errors.
8. **Upgrade and maintain contracting and program management expertise.** The bureau lacked adequate in-house management skills to oversee decennial contracts and contractor-operated programs.
9. **Generate timely and accurate management and operational information.** The bureau lacked procedures for evaluating operations and thus failed to identify improprieties in a timely manner. Nor did it have expeditious methods for collecting and disseminating information to stakeholders.
10. **Mitigate potential disruptions and distractions to the work environment and workforce.** The bureau must have plans to counter the potentially negative impacts of two major events: the possible retirement of roughly half of the bureau's decennial staff during this decade, and the anticipated move to new facilities in 2008—the year of the dress rehearsal for Census 2010.

Source: *Improving Our Measure of America: What Census 2000 Can Teach Us in Planning for 2010*. U.S. Department of Commerce Office of Inspector General. Report No. OIG-14431, Spring 2002.

## CENSUS 2010 REVIEW AGENDA

In addition to work already completed or under way, OIG plans a series of targeted reviews over the coming months and years on key aspects of the following areas:

- The plan for the 2010 census—its completeness, as well as coordination and integration of its elements.
- Systems and software design, acquisition, development, testing, and security.
- Corrections to address and map information.
- Field tests planned for 2004 and 2006.
- Conduct of the American Community Survey.
- Approach to measuring data quality.
- Conduct of the 2008 dress rehearsal.
- Impact of construction and occupancy of Census' new headquarters on decennial scheduling.
- Implementation of decennial operations beginning in 2009.

Our work on the 2010 decennial began when we issued *Improving Our Measure of America: What Census 2000 Can Teach Us in Planning for 2010*. Using our recommendations from that report, we have established a comprehensive agenda for monitoring a broad range of critical decennial activities from their planning through execution. Our goal, as always, is to support and enhance the bureau's readiness by identifying problems early, offering solutions, and informing the key decision-makers—departmental officials, Congress, and the administration.

The Census Bureau has taken numerous steps toward improving 2010 operations and controlling costs. In September 2002 it adopted a reengineered framework for conducting the decennial: an American Community Survey to collect and tabulate long-form data throughout the decade; an enhanced address list and geographic information database; and a program of early planning, development, and testing for a short-form-only census. The three-pronged strategy is aggressive and intended to capitalize on the latest technology, such as handheld computers for nonresponse follow-up data collection, which will incorporate a global positioning system to register the correct geographic location of households. In addition, the Department is seeking an increased level of upfront funding.

We have assessed Census's progress in modernizing its MAF/TIGER processing system thus far (see September 2003 *Semiannual Report*, page 19), and are concerned that the bureau's late start in establishing a strong project management structure and its

lack of a plan for accelerating its software improvement process may delay completion of the new system, preventing it from being thoroughly tested before the dress rehearsal in 2008. The successful redesign of this system is crucial to improving Census 2010 operations, and it must be ready to support the dress rehearsal. We are closely monitoring this and other aspects of systems and software acquisition and development, as well as the bureau's actions to ameliorate any problems we identify.

We are also focused on the bureau's 2004 testing of new approaches to staffing census operations and improving data quality and coverage. Specifically, we will evaluate (1) enumerator hiring, training, and quality control processes; (2) new methods for improving coverage of population and housing, including procedures to minimize address duplication; (3) the effectiveness of improved definitions and methods for distinguishing between group quarters and housing units; (4) the impact of handheld computers and associated systems on enumerator performance; and (5) the efficiency and effectiveness of support functions at 2004 local census office test sites.

## CHALLENGE 5

### INCREASE THE EFFECTIVENESS OF MARINE RESOURCE MANAGEMENT

The National Marine Fisheries Service (NMFS) must balance two competing interests: (1) promoting commercial and recreational fishing as vital elements of our national economy and (2) preserving populations of fish and other marine life. Eight regional fishery management councils, along with NMFS, are responsible for developing plans for governing domestic fisheries in federal waters. Their combined goal is to prevent overfishing, rebuild overfished stocks, and protect, restore, and promote the long-term health and stability of U.S. fisheries.

Developing conservation and management measures requires collecting, analyzing, and reporting demographic information about fish populations via stock assessments. These reports are a key element of the fishery management process; they are used to determine whether additional regulations are necessary to rebuild fish stocks or whether greater fishing opportunities can be allowed. Because of their potential impact on commercial and recreational fishing, these assessments are often controversial, and the methods used to create the estimates typically undergo intense scrutiny by fishers and conservation groups.

Following on our recent assessments of data collection processes and equipment used by an NMFS science center to survey New England groundfish (see September 2003 *Semiannual Report*, page 30) and enforcement of fishing regulations by NMFS' Office for

Law Enforcement (see March 2003 *Semiannual Report*, page 25), we reviewed the agency's observer program. Observers deployed on U.S. commercial fishing vessels collect catch statistics, monitor bycatch and protected species interactions, and perform biological sampling to obtain information that NMFS, industry, and academic researchers use to supplement their own work and to aid in the management of living resources. We reviewed seven programs to determine how NMFS ensures data quality, and whether the data is meeting research and fishery management needs. Although we found a number of best practices that may lend themselves to replication across all observer programs, we noted several problematic issues: procedures for choosing observers' vessel assignments were improperly designed and/or implemented in ways that could potentially introduce bias; retaining qualified observer staff is difficult; and NMFS did not adequately monitor the performance of the programs or of contractors hired to provide observers. We made recommendations to address each of these issues (see page 30), and also suggested that—to foster better industry cooperation with the observer program—NMFS' National Observer Program office and the regional science centers do more outreach to the fishing industry.

Also during this semiannual period, we concluded an audit of NMFS' acquisition of services to secure fishery research support (see page 33). This review was prompted by our audit of an NMFS financial assistance recipient conducting biological sampling and data collection for Pacific salmon, which turned up information suggesting that NMFS may have inappropriately used cooperative agreements to acquire the services. Our follow-up assessment revealed that these services were for work that directly benefited the federal government, and as such, should have been secured by contracts, not cooperative agreements.

## CHALLENGE 6

### PROMOTE FAIR COMPETITION IN INTERNATIONAL TRADE

To compete effectively in today's global marketplace, many U.S. companies need help identifying and taking advantage of new or expanded export market opportunities as well as addressing unfair trade practices, trade disputes with foreign firms, noncompliance with or violations of trade agreements, inadequate intellectual property protection, and other impediments to fair trade. Commerce must ensure that its export promotion assistance and trade compliance and market access efforts adequately serve U.S. exporters and its enforcement of U.S. trade laws helps eliminate unfair competition from imports priced at less than fair market value or subsidized by foreign governments.

To help meet the challenges in highly competitive world markets, Commerce and its International Trade Administration (ITA) work

with the Office of the U.S. Trade Representative, the Departments of State and Agriculture, and numerous other federal agencies to monitor and enforce trade agreements. The number and complexity of those agreements have increased substantially in recent years, and the Secretary of Commerce has made monitoring and enforcing trade agreements a top priority for ITA and the Department as a whole. Over the years, Commerce has received additional funding for trade compliance activities, such as placing compliance officers overseas in several key markets. Our work has shown that the increased funding enabled ITA to attract needed staff for its Market Access and Compliance unit without having to request special hiring authority or offer recruitment incentives (see March 2003 *Semiannual Report*, page 20).

Commerce has numerous mechanisms to monitor and help enforce U.S. trade agreements and review trade complaints. When warranted, its Trade Compliance Center forms teams to follow up on complaints and bring them to satisfactory conclusion. In addition, ITA's overseas offices, operated by the U.S. and Foreign Commercial Service (US&FCS), as well as its other operating units perform a substantial amount of market access and trade compliance work. Overall, ITA's approach to trade compliance and market access is to engage the issue at the working level wherever possible, thus avoiding formal dispute settlement structures such as the World Trade Organization, which can take years to resolve trade disagreements. The Department and ITA pursue important matters of policy—such as intellectual property rights protection, standards development, trading rights, and distribution services—in government-to-government negotiations.

Commerce's many overseas US&FCS offices and domestic U.S. Export Assistance Centers (USEACs) help U.S. companies identify specific export market opportunities or trade leads and offer other trade promotion and export finance counseling services, especially to small and medium-size firms that are new to exporting or looking to expand their overseas markets. During this semiannual period, we reviewed three USEAC networks—Chicago, Pacific Northwest, and Philadelphia—assessing their management, operations, and performance; their ability to provide value-added export counseling to U.S. companies; and their success at developing relationships with federal and nonfederal trade promotion partners (see page 24). In all three cases, we found that client satisfaction was high, strong relationships generally existed with local partners, and financial and administrative operations were generally sound. However, in all three networks, we found some inconsistencies in reporting and oversight that led to overstated export success dollar values—one key barometer of performance—for the periods we reviewed. When presented with these issues, ITA demonstrated that it was aware of and was taking systematic organization-wide steps to address some of these reporting problems.

We are currently analyzing the crosscutting, systemic issues we identified in these three reviews. One such issue is that US&FCS is not recovering the full costs for some of its fee-based products

and services. OMB Circular A-25 requires federal agencies to recover the full costs of goods and services they provide to customers when such resources convey benefits beyond those enjoyed by the general public. In addition, US&FCS' own fee policy conflicts with OMB's in that it requires recovery of direct costs only. ITA has asked OMB to waive the requirement and is awaiting a decision. In requesting the waiver, ITA contends that it is not able to comply with Circular A-25 because compliance would jeopardize its congressionally mandated mission to increase U.S. exports.

Our USEAC findings mirror those of our recent reviews of overseas operations. Inspections of US&FCS posts in Greece and Turkey revealed that, again, most customers were satisfied with the products and services they received, but both posts had overstated the value of their export successes. (For more detail on Greece, see September 2003 *Semiannual Report*, page 22. For Turkey, see the March 2003 issue, page 19.) As noted earlier, however, we learned during follow-up discussions with ITA management that ITA was addressing this issue organization-wide to ensure that US&FCS staff consistently adhere to reporting guidelines.

We will continue our oversight of the Department's promotion of U.S. exports and also look at Commerce's efforts to track, detect, and combat unfair competition to U.S. industry in domestic markets.

## CHALLENGE 7

### ENHANCE EXPORT CONTROLS FOR DUAL-USE COMMODITIES

In today's political climate, hostile countries and terrorist groups seeking weapons of mass destruction and the systems to deliver them pose new threats to global security and U.S. foreign policy goals. In this environment, advancing U.S. national and economic security interests through export controls has become an ever-greater challenge for the agencies that share this responsibility, particularly for Commerce's Bureau of Industry and Security, which oversees the federal government's export licensing and enforcement system for goods and technologies that have both civilian and military uses ("dual-use commodities"). Strengthening dual-use export licensing and enforcement requires new, comprehensive legislative authority to replace the expired Export Administration Act of 1979 and appropriately address current export control needs and realities. Passed during the Cold War, the act sought to prevent the export of critical goods and technologies to Communist bloc countries. Legislation is needed to address the new threats posed by terrorism as well as to bolster BIS' regulatory authority, strengthen penalties for violations, and maintain strong export controls while encouraging other countries to do the same.

Given the importance of export controls to national security, we devote considerable attention to the challenges facing BIS. The

National Defense Authorization Act (NDAA) for Fiscal Year 2000, as amended, directed the inspectors general of the Departments of Commerce, Defense, Energy, and State, in consultation with the directors of the Central Intelligence Agency and the Federal Bureau of Investigation, to report to Congress by March 30, 2000, and annually until the year 2007, on the adequacy of export controls and counterintelligence measures to prevent the acquisition of sensitive U.S. technology and technical information by countries and entities of concern. In addition, NDAA for FY 2001 requires the IGs to discuss in their annual interagency report the status or disposition of recommendations made in earlier reports submitted in accordance with the act. To date, we have completed five reviews of export controls in compliance with the act as well as four separate follow-up reports. Together with the other IGs, we have also issued five interagency reports on export controls for dual-use items and munitions.

### REVIEW OF DEEMED EXPORT CONTROLS

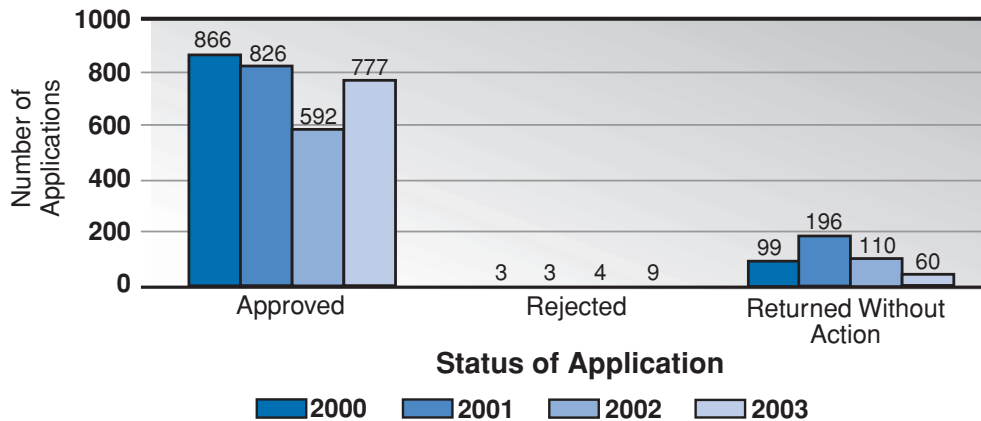
To comply with the NDAA's FY 2004 requirement, we sought to assess (1) the effectiveness of the dual-use deemed export regulations and policies,<sup>5</sup> including their implementation by BIS, and (2) compliance with the regulations by U.S. industry and academic institutions. We also followed up on prior OIG findings and recommendations from our March 2000 report, *Improvements Are Needed in Programs Designed to Protect Against the Transfer of Sensitive Technologies to Countries of Concern* (IPE-12454-1), as appropriate.

Our report highlights some areas that are working well, such as certain aspects of BIS' deemed export outreach program. However, we identified problems that hamper the efforts of both BIS and the U.S. government to more effectively prevent the transfer of sensitive technology to foreign nationals from countries or entities of concern while they are in the United States. To address these issues, we recommended that BIS (1) modify or clarify some of the dual-use deemed export licensing regulations and policies, (2) expand its efforts to raise awareness of deemed export control regulations by refocusing its outreach and periodically updating its deemed export guidance, and (3) institute a deemed export compliance program. We also encouraged BIS to work with Congress and the National Security Council to reexamine the broadly applied licensing exemptions contained in the Export Administration Regulations that allow foreign nationals access to otherwise controlled technology. (See page 14.)

In addition to our assessment of Commerce-administered deemed export regulations and policies, the interagency OIG review team

<sup>5</sup> According to the Export Administration Regulations, any release to a foreign national of technology or software subject to the regulations is deemed to be an export to the home country of the foreign national. These exports are commonly referred to as "deemed exports," and may involve the transfer of sensitive technology to foreign visitors or workers at U.S. research laboratories and private companies.

## NUMBER OF DEEMED EXPORT LICENSE APPLICATIONS PROCESSED IN FYS 2000-2003



Source: Export Administration, Bureau of Industry and Security

(Commerce, Defense, Energy, State, and the CIA) and the Department of Homeland Security's OIG<sup>6</sup> completed a crosscutting review of the adequacy and effectiveness of government-wide deemed export control laws and regulations to determine if they protect against the transfer of controlled U.S. technologies and technical information. The interagency OIG report will be discussed in detail in our September 2004 report to Congress.

### FOCUSED PRIORITIES

While BIS, the administration, and Congress work to (1) target federal licensing and enforcement efforts on exports that present the greatest proliferation and national security risks and (2) streamline or eliminate controls that hamper trade and are not necessary to address national security or foreign policy concerns, congressional enactment of a new Export Administration Act is vital to the success of the U.S. government's efforts to enhance export controls. We will continue to monitor BIS' efforts to improve dual-use export controls through the annual reviews required by the National Defense Authorization Act.

## CHALLENGE 8

### ENHANCE EMERGENCY PREPAREDNESS, SAFETY, AND SECURITY OF COMMERCE FACILITIES AND PERSONNEL

Since our March 2002 report on the status of emergency preparedness and security programs at a cross-section of Commerce facilities,

<sup>6</sup> Homeland Security participated in this year's assessment because of the nature of the review topic.

ties, the Department has made significant improvements, but the challenge remains. Heightened security requires a variety of measures: infrastructure risk assessments, emergency backup sites, upgraded physical security, and employee awareness and training, to name a few. The Department has made significant progress in these areas, but it will need to regularly revisit that progress to ensure it adequately provides for the safety and security of employees and operations, and must make modifications as needed.

Commerce has taken a number of actions to enhance security thus far this year. This includes its completion of a new draft policy on security and a new

chapter in its security manual, both of which relate to foreign national visitors and guest researchers in Commerce facilities. The draft policy is currently being coordinated with Commerce bureaus. The Department also is developing a counterespionage risk assessment program, using an emergency operations center to oversee crisis management response during and after an emergency, updating its continuity of operations and emergency operations plans, and providing regular information and training on emergency preparedness to Commerce employees.

Given the size of its workforce and the geographical spread of its hundreds of facilities nationwide and at more than 150 overseas locations, complying with recent security-related guidance is a complex, resource-intensive undertaking for Commerce. Our inspections of overseas posts and domestic U.S. Export Assistance Centers operated by the U.S. and Foreign Commercial Service identified the need for more timely security upgrades, improved oversight of security operations, and in some cases, specific security improvements.

Security of U.S. embassies throughout the world remains an important priority. The Department has requested an appropriations increase of \$4.5 million in FY 2005 to help fund ITA's share of the State Department's Capital Security Cost Sharing Program, which proposes to build more than 150 high-security embassies and consulates during the coming years, at a total cost of more than \$15 billion. Under the cost-sharing program, all agencies represented in U.S. embassies and consulates will be charged on a worldwide per capita basis.

We believe Commerce is making progress on many emergency preparedness, safety, and security fronts, but the challenge is massive. We will continue to monitor its efforts and report our findings accordingly.



## CHALLENGE 9

### STRENGTHEN FINANCIAL MANAGEMENT CONTROLS AND SYSTEMS

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 require that agencies prepare information needed by Congress, agency executives, and the public to assess the management of federal programs and operations. Also required are audits of an entity's financial statements to determine whether its financial position and results of operations are presented fairly and whether its financial management systems comply with federal requirements.

The Department as a whole has made substantial improvements in financial management, and received an unqualified (clean) opinion on its FY 2003 consolidated financial statements—the fifth consecutive year for this accomplishment. The Department resolved the weaknesses in its accounting for personal property and made noteworthy improvements in its financial management systems (both problems noted in the previous year's audit). One reportable condition related to financial management systems was identified (which had in prior years been a material weakness<sup>7</sup>) as well as two repeat findings of noncompliance with laws and regulations (see page 39).

In FY 2003, the Department substantially complied with the Federal Financial Management Improvement Act and OMB Circular A-127 requirements for a single, integrated financial management system, by having completed implementation of the Commerce Administrative Management System (CAMS)<sup>8</sup> at all but one bureau, and using it in conjunction with a Commerce-wide database for consolidated financial reporting. Ten departmental entities, including the Bureau of the Census and NOAA, used CAMS as their financial system of record in fiscal year 2003. In addition, CAMS was deployed at NIST at the beginning of FY 2004, thus replacing the only remaining system not in compliance with federal requirements.

<sup>7</sup> Material weaknesses are serious flaws in the design or operation of an internal control component that increase the risk that errors, fraud, or noncompliance in material amounts may occur and not be readily detected. Reportable conditions are significant deficiencies in the design or operation of an internal control component that could adversely affect the organization's ability to record, process, summarize, and report financial statement data.

<sup>8</sup> CAMS is a software package based on a commercial off-the-shelf accounting system application that was extensively modified and substantially augmented with capabilities to support both departmental accounting and financial management needs as well as individual Commerce unit requirements.

Despite these accomplishments, maintaining a clean audit opinion remains a major challenge under the accelerated financial reporting dates mandated by the Office of Management and Budget (OMB) for fiscal year 2004. The Department must now have its FY 2004 consolidated financial statements prepared and audited within 45 days of fiscal year-end.

## CHALLENGE 10

### CONTINUE TO IMPROVE THE DEPARTMENT'S STRATEGIC PLANNING AND PERFORMANCE MEASUREMENT IN ACCORDANCE WITH THE GOVERNMENT PERFORMANCE AND RESULTS ACT

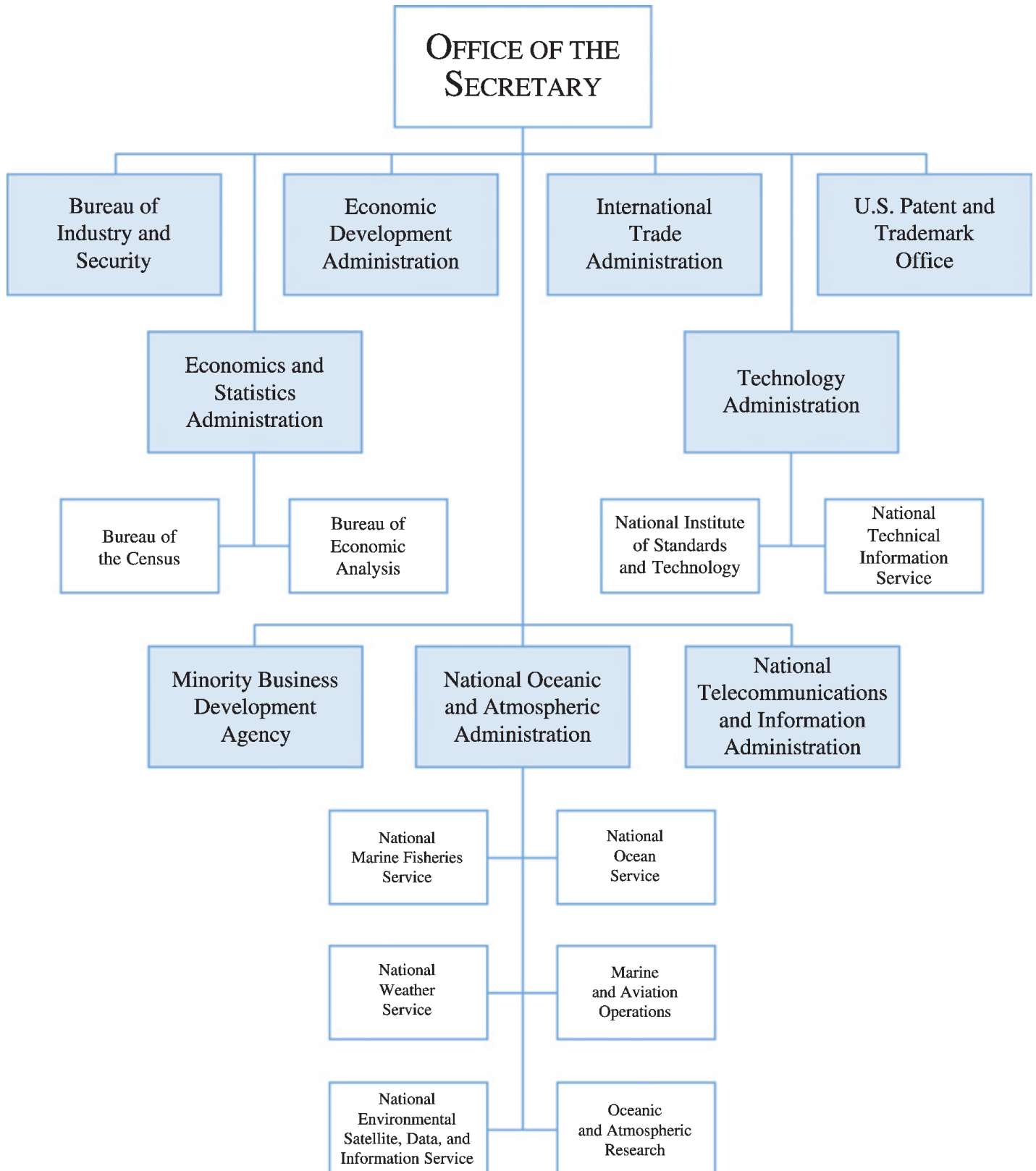
Congress and agency managers require relevant performance measures and credible performance data to effectively oversee federal programs. The Government Performance and Results Act of 1993 was designed to ensure the availability of such data by mandating that agencies set goals for program performance and report outcomes measured against them. The validity of reported performance results is essential in order for government agencies to develop integrated budget and performance information and use performance data to make funding decisions.

Over the past several years, we have reviewed the collection and reporting of performance data by 6 of Commerce's 14 operating units. Our audits have identified the need for (1) stronger internal controls to ensure that reported data is accurate and (2) improved explanations and disclosures of results to clarify and enhance the usefulness of the results. In every case we offered recommendations to address these problems.

During this past semiannual period, these same issues emerged in our audit of performance measures at the Bureau of the Census. We found that the reliability and usefulness of reported information is undercut by (1) imprecise measures and related targets, (2) incorrect descriptions of verification procedures, and (3) conflicting and incomplete disclosures. (See page 22.) An in-progress audit at NOAA is finding similar issues, suggesting a possible systemic weakness in these areas.

The operating units for which we have completed audits have been responsive to our recommendations: they have generally developed action plans to address identified deficiencies and have revised previously reported performance information accordingly. As each unit takes such steps, we are more confident that performance data will become increasingly reliable and useful, and thus better serve the purpose and intent of GPRA.

# Department of Commerce Organization Chart





# BUREAU OF INDUSTRY AND SECURITY

**T**he Bureau of Industry and Security is primarily responsible for administering and enforcing the nation's system for controlling exports of sensitive dual-use goods and technologies. BIS' major functions include formulating and implementing export control policy; processing export license applications; conducting various policy, technical, and economic analyses; promulgating regulations; conducting industry outreach; and enforcing the Export Administration Act and regulations. BIS' activities also include promoting federal initiatives and public-private partnerships across industry sectors to protect the nation's critical infrastructures. BIS is divided into two units:

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

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

## DEEMED EXPORT CONTROLS MAY NOT STOP THE TRANSFER OF SENSITIVE TECHNOLOGY TO FOREIGN NATIONALS IN THE U.S.

To meet the fifth-year requirement of the National Defense Authorization Act for Fiscal Year 2000, the inspectors general of the Departments of Commerce, Defense, Energy, Homeland Security, and State,<sup>9</sup> and the Central Intelligence Agency conducted an interagency review to determine whether deemed export control laws and regulations prevent the transfer of controlled U.S. technologies and technical information to foreign nationals from countries and entities of concern. Within Commerce, we assessed how effectively the dual-use deemed export regulations and policies, as implemented by BIS, prevent such transfer, and whether U.S. industry and academic institutions are complying with the regulations. Our specific observations follow.

### REGULATIONS AND POLICIES COULD ENABLE FOREIGN NATIONALS FROM COUNTRIES AND ENTITIES OF CONCERN TO ACCESS OTHERWISE CONTROLLED TECHNOLOGY

Some of the deemed export licensing exemptions in the Export Administration Regulations (EAR) as well as BIS' deemed export licensing policies may inadvertently affect national security, and require further examination.

Export controls for technical data apply to a wide variety of information, including technology related to the design, development, and use of certain products such as computers, semiconductors, integrated circuits, lasers, and sensors. According to the Export Administration Regulations, any release to a foreign national of technology or software subject to the regulations is deemed to be an export to the foreign national's home country. These deemed exports may involve the transfer of sensitive technology to foreign visitors or workers at U.S. private, public, or government research laboratories and private companies. In FY 2003 BIS processed 12,443 export license applications; approximately 846 (7 percent) were for deemed exports.

<sup>9</sup> NDAA mandates that the IGs, in consultation with the directors of Central Intelligence and the FBI, assess the adequacy of export controls and counterintelligence measures for preventing countries and entities of concern from acquiring sensitive U.S. technology and technical information. The act further mandates that the IGs report their findings to Congress no later than March 30 of each year, until 2007.

**EAR exemptions eliminate a large number of foreign nationals from dual-use export controls.** As we noted in 1999<sup>10</sup> and 2000,<sup>11</sup> the EAR does not require licenses for foreign nationals working with publicly available technology and software that (1) are already or will be published, (2) arise during or result from fundamental research, (3) are educational, or (4) are included in certain patent applications. As such, many foreign students or researchers at U.S. academic institutions and federal research facilities are exempt from the regulations, as are foreign nationals who are permanent U.S. residents. We previously recommended that BIS work with the National Security Council and Congress to ensure that deemed export control policies and regulations are clear and devoid of loopholes that would permit countries or entities of concern to obtain protected U.S. equipment or technology. BIS raised this issue with the council in 2000, but no action has been taken.

**Confusion exists over the “use” of controlled equipment.** Confusion over the definition and implementation of controls associated with the “use” of EAR-controlled equipment by foreign nationals creates opportunities for inappropriate transfers. The EAR defines “use” as “operation, installation (including on-site installation), maintenance (checking), repair, overhaul, and refurbishing,” and some BIS licensing officials maintain that all these activities must occur to constitute “use.” While BIS normally grants approval for a foreign entity to operate, install, maintain, repair, overhaul, and refurbish a piece of controlled equipment exported from the United States in order to permit the full range of uses for an export, the same definition of use does not seem to apply to foreign nationals “using” the equipment in the United States. It is unlikely that one individual would accomplish all these tasks in most situations. In addition, two of the four multilateral control regimes<sup>12</sup> define the term either with an “or,” or without any connector word (i.e., a bullet listing of the activities). The Defense Technology Security Administration notes each of the listed activities with the compound conjunction “and/or.”

This difference in interpretation is critical in determining how to enforce EAR’s deemed export provisions. For instance, the U.S. academic and federal research community generally uses EAR’s

<sup>10</sup> *Improvements Are Needed to Meet the Export Licensing Requirements of the 21st Century*, U.S. Department of Commerce Office of Inspector General, IPE-11488, June 1999.

<sup>11</sup> *Improvements Are Needed in Programs Designed to Protect Against the Transfer of Sensitive Technologies to Countries of Concern*, U.S. Department of Commerce Office of Inspector General, IPE-12454-1, March 2000.

<sup>12</sup> The United States is a member of several multilateral regimes concerned with the export of dual-use and munitions items to countries of concern. Those organizations include the Australia Group (concerned with the proliferation of chemical and biological weapons), the Missile Technology Control Regime (concerned with the proliferation of missiles capable of delivering weapons of mass destruction), the Nuclear Suppliers Group (concerned with nuclear weapons proliferation), and the Wassenaar Arrangement (concerned mainly with the transfer of conventional weapons).

fundamental research exemption for most of its research. However, when controlled equipment is used by foreign nationals at a U.S. university or federal research facility, it is most likely accompanied by a transfer of technology. Some academics believe such equipment use is exempt from export licensing requirements if the use occurs when working on fundamental research. But according to BIS, the technology for the “use” of controlled equipment is subject to the deemed export provisions regardless of whether the associated research is fundamental. This means that academic and federal laboratories might need to seek deemed export licenses for some foreign nationals working with controlled equipment or otherwise restrict their access to it. BIS needs to clarify the definition of “use” accordingly and ensure that the U.S. academic, federal, and industrial research community understands and complies with licensing requirements.

**Citizenship/residency requirements could permit unintended access.** The bureau’s deemed export licensing policy only recognizes a foreign national’s most recent citizenship or permanent residency, and thus allows foreign nationals originally from countries of concern to obtain access to controlled dual-use technology if their current citizenship or permanent resident status is with a country not subject to controls. We recommended that BIS amend its current policy to require U.S. entities to apply for a deemed export license for foreign national employees or visitors who will have such access to controlled technology if they were born in a country where the technology is subject to EAR controls, though their current citizenship or residency may be in a country that is not.

BIS stated that it is prepared to consider modifying its current policy of only recognizing a foreign national’s most recent country of permanent residency or citizenship for purposes of determining deemed export license requirements. However, the bureau noted that (1) its policy reflects the traditional understanding of citizenship as denoting a substantial personal connection to a given country, and (2) its current licensing practice includes a thorough review of the foreign national’s contacts (personal, professional, financial, and employment related). The bureau further stated that it would work with the Office of Chief Counsel for Industry and Security to identify any potential legal impediments or inappropriate policy outcomes that should be considered if BIS were to modify its current policy on the matter.

**BIS’ approval of licenses is inconsistent with EAR policies.** BIS approved 78 of 107 deemed export license applications (73 percent) involving foreign nationals from Iran (76) and Iraq (2) between FYs 2000-2003, citing as justification a 1997 legal opinion by the agency’s former deputy chief counsel. The opinion states that deemed export licenses are permissible for foreign nationals from Iran and Iraq because the laws prohibiting “exports” to those two countries did not apply to their respective nationals. However, the EAR states that the release of controlled technology to a foreign national “is deemed to be an export to the home country or countries of the foreign national.” BIS should reevaluate its

approval of deemed export licenses for foreign nationals from Iran and Iraq to ensure they are consistent with current law and deemed export control licensing policies and procedures.

BIS stated that it has the discretion to approve deemed export license applications to Iraqi or Iranian nationals when there is no knowledge that the individuals will actually “export” the technology back to Iraq or Iran. While we acknowledge that BIS has the authority, with the concurrence of the other reviewing Departments, to approve deemed export license applications involving Iraqi and Iranian nationals, we reminded the bureau that, according to EAR, export applications to these countries are subject to a general policy of denial.

### **BIS COULD FURTHER RAISE AWARENESS OF DEEMED EXPORT CONTROL REGULATIONS BY REFOCUSING OUTREACH AND CLARIFYING WEB SITE INFORMATION**

BIS has greatly expanded its efforts to raise awareness of deemed export controls since our March 2000 report. But expanded activities in FY 2003 mainly focused on companies and industry sectors that already apply for deemed export licenses rather than on those that do not. BIS needs a strategic outreach plan that targets priority industries, federal agencies, and academic institutions not currently applying for licenses. The bureau also needs to clarify and periodically update some of the EAR information available on its web site to help exporters better evaluate applicability of the regulations to their particular situation.

### **BIS NEEDS A DEEMED EXPORT COMPLIANCE PROGRAM**

The EAR allows BIS to limit a transaction authorized under an export license by placing conditions on the license itself. For instance, deemed export license conditions might state “no exposure to [Defense] contracts will be allowed” or “use of computers [above a certain threshold] must be controlled and monitored to ensure that only job-related work is performed.” Placing conditions on a license provides the bureau with an additional means of monitoring certain transactions. However, BIS stated previously that it lacks the resources needed to adequately monitor compliance. Monitoring license conditions is an important component of ensuring that licenses are used as authorized in the interagency review process. A company’s failure to comply with license conditions should be a factor in the interagency review of future license applications for that company.

In response to prior OIG recommendations concerning compliance with license conditions, BIS plans to develop a “license condition enforcement program” in FY 2005. BIS needs a compliance program that effectively evaluates license holders’ compliance with conditions and deemed export regulations, to include

on-site monitoring. BIS has stated that it will initiate a pilot program to conduct pre-license checks and post-shipment verifications for deemed exports. We believe this end-use check program for deemed exports—when implemented—will meet the intent of our recommendations.

### **DEEMED EXPORT CONTROL COMPLIANCE BY COMMERCE BUREAUS IS MIXED**

As part of our review, we followed up on recommendations made to NIST and NOAA in FY 2000 regarding their compliance with deemed export control licensing for foreign national visitors to their facilities.

**NIST** had instituted a policy to regulate foreign national access to controlled technologies after our March 2000 review, and provided deemed export control training to employees. Though NIST maintained that the majority of its research is fundamental and therefore exempt from deemed export controls, we learned that agency officials were unaware that technology for the “use” of controlled equipment during the conduct of fundamental research by foreign nationals is still subject to the EAR.

During our current survey work, we identified at least one EAR-controlled commodity at a NIST facility that may be accessible to foreign nationals. Because NIST is unsure of what other EAR-controlled equipment may be housed at its facilities, it should review its equipment on hand in the labs to identify any that is EAR-controlled; interview managers of labs that have controlled equipment to establish which foreign nationals (if any) use or have access to the equipment; and work with BIS to develop an effective means for identifying when a deemed export license may be required. In addition, NIST should provide periodic training on deemed export requirements to employees who work with EAR-controlled technology or equipment.

**NOAA** lacks a policy for effectively monitoring foreign national access to controlled technology despite our March 2000 recommendations and subsequent follow-up in this area. NOAA believed that deemed export controls for the most part did not apply to the work of its line offices because their research was primarily fundamental. Like their counterparts at NIST, however, NOAA officials were generally unaware that the technology for the “use” of controlled equipment during the conduct of fundamental research by foreign nationals is subject to the EAR, and the agency has since indicated that some NOAA facilities might contain controlled equipment accessible to foreign visitors or guest researchers.

In response to our past and present concerns, NOAA is developing deemed export control policies and procedures. Like NIST, NOAA should also (1) review its equipment inventory to identify commodities that are EAR-controlled, (2) identify foreign nationals who have access to them, and (3) work with BIS to develop any needed controls and determine when a deemed export license may

be required. Finally, NOAA should review the research it conducts or sponsors to determine whether it is subject to deemed export controls.

Given the potential security vulnerabilities identified at NIST and NOAA, we also recommended that the Department's Office of Security enforce its security policies (including that for conducting periodic on-site security reviews) related to foreign national visitors or guest researchers in Commerce facilities and hold the bureaus accountable for compliance.

## BUREAU RESPONSES

BIS, NIST, NOAA, and the Department's Chief Financial Officer and Assistant Secretary for Administration generally agreed with our recommendations and reported that responsive action is planned or under way. For example, the Department's Office of Security was working with both NIST and NOAA to help strengthen their security procedures, had developed a chapter in its security manual and drafted a new departmental policy related to foreign national visitors and guest researchers, and was working more closely with other federal agencies on visa and counterintelligence matters that impact Commerce security. The Department is also developing a new risk assessment program that includes on-site evaluations to mitigate the risks associated with espionage. However, NIST's response did take issue with a number of our observations and conclusions, which we address as appropriate, in the body of the report. (*Office of Inspections and Program Evaluations: IPE-16176*)

## ANNUAL EXPORT CONTROL FOLLOW-UP REVIEW IDENTIFIES OPEN RECOMMENDATIONS FROM FISCAL YEARS 2001 THROUGH 2003

Our NDAA-mandated follow-up of export control recommendations from the four prior annual reviews we have completed since the act's implementation<sup>13</sup> noted closure of all outstanding issues from 2000, but numerous items from subsequent years are still open.

<sup>13</sup> March 2000: *Improvements Are Needed in Programs Designed to Protect Against the Transfer of Sensitive Technologies to Countries of Concern*; March 2001: *Management of the Commerce Control List and Related Processes Should Be Improved*; February 2002: *BXA Needs to Strengthen Its ECASS Modernization Efforts to Ensure Long-Term Success of the Project*; March 2003: *Improvements Are Needed to Better Enforce Dual-Use Export Control Laws*.

## MARCH 2003 REPORT

Last year's review of export control enforcement yielded 55 recommendations to BIS and 4 to ITA regarding deficiencies in investigative processes, license determinations and oversight, outreach to U.S. exporters, and end-use checks. BIS has resolved or taken appropriate action on 36 recommendations, but has yet to adequately address the remaining 19. These deal with the need to improve administrative and criminal case processing and outcomes, enhance interagency enforcement relationships, adequately monitor licenses with reporting conditions, foster greater industry understanding of and compliance with export controls, improve information sharing among U.S. government agencies, and institute internal controls in its automated licensing system to strengthen its pre-license check process.

ITA has adequately addressed all four of our recommendations for helping US&FCS conduct end-use checks more effectively.

## FEBRUARY 2002 REPORT

This review focused on BIS' plans for and progress toward modernizing its Export Control Automated Support System (ECASS) for dual-use export licensing. Five of our 13 recommendations remain open. They deal with the critically important needs to identify and secure adequate funding for the project, validate requirements for the licensing subsystem, document security requirements, revise and approve the project management plan, complete the target architecture, and select a location to house the system. We were particularly troubled by the fact that during the prior year, estimated costs for the redesign jumped from \$7.5 million to \$24.5 million, and the projected completion date pushed out from FY 2006 to FY 2008. Additionally, BIS—as the federal agency charged with administering the dual-use controls process—is still not effectively coordinating the ECASS modernization with the interagency export licensing community.

In response to the issues raised, BIS has taken the critical step of halting the ECASS redesign project until a new chief information officer has been hired and a new requirements study has been completed.

## MARCH 2001 REPORT

Three of 14 recommendations remain open from our review of BIS policies and procedures for designing and administering the Commerce Control List (CCL), which specifies the technologies and commodities subject to Export Administration Regulations. Specifically, BIS still needs to make the CCL more user friendly; work with the National Security Council to review and possibly revise commodity classification guidance; and provide State with copies of the final determinations on commodity classifications that it reviews.

## MARCH 2000 REPORT

In our FY 2004 NDAA report on deemed exports (see page 14), we address a number of open issues we first raised in our March 2000 report. As a result, we closed the five recommendations that we identified as still open in FY 2000—four of which pertained to BIS and one to NOAA. (*Office of Inspections and Evaluations: IPE-16178*)

## BIS TAKES PROMPT ACTION TO CORRECT WEAKNESSES IN ITS TRAVEL CARD PROGRAM

An audit survey of the BIS travel card program concluded that overall, the program is currently administratively sound. However, this has not always been the case. Prior to fiscal year 2003, our audit survey showed that BIS personnel did not, as required by departmental policy, generally conduct any monthly review of

charges made to the cards, consistently track and follow-up on all card delinquencies, or notify supervisors of problem accounts. In an effort to identify any abuse of the travel card program by its employees, at the beginning of fiscal year 2003 BIS conducted an internal review of all travel card transactions for the preceding fiscal year. As a result of the review BIS discovered that 19 of its 312 cardholders had used their cards for inappropriate personal use and began to take remedial action.

Having determined that BIS' internal review was both comprehensive and reliable, we found no need to conduct a full-scale audit, but suggested a number of ways that BIS could further enhance the administration of the program: (1) review monthly transactions for all BIS employees; (2) develop a plan for consistent follow-up of problem accounts; (3) improve controls over credit limits and number of cards issued; (4) reinforce travel card requirements (e.g., ensure that cardholders take required training and periodically update their Employee Acknowledgment forms); and (5) implement a disciplinary plan for travel card misuse.

BIS took prompt action to implement our suggestions, and we thus closed out our review. (*Office of Audits: BTD-15771*)



# ECONOMIC DEVELOPMENT ADMINISTRATION

## REVOLVING LOAN FUNDS

### **T**he **Economic Development**

**Administration** was established by the Public Works and Economic Development Act of 1965 to generate new jobs, help retain existing jobs, and stimulate commercial and industrial growth in economically distressed areas of the United States. EDA continues to fulfill this mission under the authority of the Economic Development Administration Reform Act of 1998, which introduced the concept of Comprehensive Economic Development Strategies, a local planning process designed to guide the economic growth of an area. Based on these locally and regionally developed strategies, EDA works in partnership with state and local governments, regional economic development districts, public and private nonprofit organizations, and Indian tribes to help distressed communities address problems associated with long-term economic deterioration and recent, severe economic dislocations, including recovery from the economic impact of natural disasters, the closure of military installations and other federal facilities, changes in trade patterns, and the depletion of natural resources. EDA provides eligible recipients with technical assistance, as well as grants for public works and economic development, planning, training and research, and economic adjustment.

EDA's Economic Adjustment Program provides, among other things, grants to capitalize revolving loan funds (RLFs). Currently more than 600 RLFs are operating throughout the country, with a total capital base of about \$1 billion. This includes EDA's share of the initial investment and matching funds contributed by state and local governments, nonprofit organizations, and other eligible recipients that operate RLFs. The program focuses on communities and regions that have experienced or are threatened by serious structural damage to their underlying economic base. The purpose of an RLF is to leverage other public and private investment in key sectors of the local economy and to stimulate employment for the local workforce. RLFs offer loans to local businesses that otherwise cannot secure sufficient private financing, providing a continuous infusion of economic development funds into the affected community.

Because RLFs manage cash and other liquid assets, they are particularly susceptible to fraud, waste, and abuse if not adequately managed and monitored. Recognizing the sizable federal investment in these funds, we have worked cooperatively with EDA over the past several years to identify high-risk investments, and have conducted a series of RLF audits targeting projects on the basis of a variety of factors that typically suggest heightened vulnerability. Such factors include minimal use of grant funds, large uncommitted cash balances, and lack of single audit coverage. Our audits have identified several recurring issues, the most serious of which are

- unneeded funds from recapitalization grants,
- excessive cash reserves,
- inappropriate loans,
- inadequate accounting for RLF assets (cash and loans), and
- inadequate audit coverage.

Based on findings in individual audits, we have made recommendations, as appropriate, to recoup unused grant funds, remedy fiscal and administrative deficiencies, and ensure compliance with applicable laws and program requirements. In all cases, EDA has required grant recipients to take prompt action to correct deficiencies, and has either sought immediate repayment of unused funds or allowed recipients additional time to generate new loan activity.

Summarized below are the results of the three RLF audits we conducted this semiannual period, which include recommendations that more than \$2.3 million of revolving loan funds be put to better use. EDA is reviewing the audit findings and recommendations to develop corrective action plans.



## TERMINATION OF MISMANAGED WASHINGTON, D.C., RLF RECOMMENDED

In September 1980, EDA awarded a \$750,000 Long-Term Economic Deterioration grant to the District of Columbia to establish a revolving loan fund. The RLF—intended to stimulate economic development and revitalize neighborhoods—is administered by the city’s housing and community development department.

Our May 2003 audit disclosed a history of poor financial management and noncompliance with EDA grant requirements: among other things, the authority had understated RLF income by almost \$590,000; maintained inadequate documentation for borrowers and loan balances; had not pursued collection of defaulted loans in 2 years; and had no support for \$113,000 in administrative expenses. Additionally, the authority had submitted inaccurate, incomplete, and untimely semiannual status reports; and was operating the fund without an approved RLF plan.

We recommended that EDA’s Philadelphia regional director terminate the grant for cause, recover the projected RLF balance of \$1,772,666, and transfer administration of \$331,967 in outstanding loans to another district agency. (*Atlanta Regional Office of Audits: ATL-15984*)

## AUDIT FINDS SIGNIFICANT NONCOMPLIANCE AT NEW HAMPSHIRE RLF

We audited an RLF established in 1994 as part of a \$1 million Sudden and Severe Economic Dislocation grant awarded to a New Hampshire state port authority. The RLF was intended to create jobs and promote business and financial opportunities for unemployed fishing industry workers in two counties. EDA provided \$810,000 to capitalize the fund and initially required a \$270,000 match. As of September 30, 2003, the authority had 23 outstanding loans totaling \$603,296.

Our audit of the fund’s administration for the past 3 fiscal years disclosed excess cash of \$146,123 as of September 30, 2003—the result of inadequate loan activity. Additionally, the authority did not comply with numerous EDA requirements: it did not have an approved RLF plan and failed to provide annual plan certifications; its single audit did not properly include the RLF, as required by OMB Circular A-133; semiannual status reports were incomplete; and loan files did not document the eligibility of borrowers.

To resolve the excess funds finding, we recommended that EDA’s Philadelphia regional director require the authority to (1) deposit the \$146,123 in excess funds into a separate interest-bearing account and remit the monthly interest to the U.S. Treasury; (2) use the excess funds within 6 months to make loans in accordance with RLF program objectives; and (3) remit EDA’s share of any

unused excess funds remaining in the account after 6 months to the U.S. Treasury.

We further recommended requiring the authority to provide an RLF plan for EDA’s approval; submit annual plan certifications and complete semiannual status reports; document in the loan files that applicants have no other sources of credit available; and ensure that the RLF program is properly accounted for in annual single audits. (*Atlanta Regional Office of Audits: ATL-16544*)

## PENNSYLVANIA GRANTEE MUST REPAY MATCHING FUNDS TO RLF

EDA awarded \$500,000 to a Pennsylvania development commission in 1984 for an RLF intended to promote business development in six north central counties in the state. The required matching share of \$166,667 brought total capitalization to \$666,667. A subsequent amendment increased the award to \$800,000 and the match to \$266,667, for total capitalization of \$1,066,667. City and county organizations were to provide the matching funds.

Our financial and compliance audit, covering October 1, 2000, through September 30, 2003, disclosed that the commission never fully controlled the matching funds: as loans were repaid, the contributing organizations reclaimed their portions of the match rather than leaving them in the fund for subsequent lending. As a result, the commission owes the RLF a total of \$409,606—which includes the \$266,667 match plus \$142,939 in earned interest returned to the contributors.

Additionally, the commission did not submit timely and accurate semiannual reports, properly document borrower eligibility in loan files, or properly include the RLF in its annual single audits.

We recommended that the EDA Philadelphia regional director require the commission to (1) suspend RLF lending activity until it reimburses the fund for \$409,606, (2) submit timely and accurate semiannual reports, (3) provide required eligibility documentation in borrowers’ files; and (4) ensure that the RLF program is properly accounted for in annual single audits. (*Atlanta Regional Office of Audits: ATL-16512*)

## PUBLIC WORKS PROGRAM

The Public Works Program empowers distressed communities in economic decline to revitalize, expand, and upgrade their physical infrastructure to attract new industry, encourage business expansion, diversify local economies, and generate or retain long-term, private sector jobs and investment. In many cases, Public Works Program projects are used to upgrade or expand an area’s economic infrastructure to support the next generation of indus-

try or commerce. Whenever possible, this program seeks to redevelop existing facilities and industrial/commercial locations. EDA encourages such redevelopment projects because they promote sustainable economic development by taking advantage of readily available infrastructure and markets. During this reporting period we audited one public works grant.

### **AUDIT FINDS NO IMPROPRIETY IN TEXAS PROJECT'S LOCATION SWITCH**

In January 2003, the U.S. Department of Housing and Urban Development OIG referred to our office a complaint it received alleging improprieties in the conduct of an EDA-funded construction project by a Texas redevelopment authority.

The authority had received a public works grant in July 1997 to convert a college facility it had purchased from the city into a business incubator for area entrepreneurs. The initial grant had total estimated costs through February 1999 of \$1.85 million, with the federal government's share not to exceed \$1.11 million.

The recipient subsequently requested EDA approval for renovating a different site and extending the completion deadline. EDA agreed, and in September 2002 amended the grant to provide an additional \$2.58 million. Estimated project costs thus increased

to \$4.43 million, with the federal share not to exceed \$2.61 million. At the time of our audit (May through December 2003) the grantee had claimed costs totaling \$1.11 million for the period July 1997 through January 2002.

The complainant alleged that the authority misled EDA to obtain the grant award by promising to redevelop the original building, when its intention was to use the funds to develop a different building.

We determined that the authority acted appropriately in switching the site of the development project because substantial hidden defects were discovered in the original building only as renovation proceeded. Thus, claimed costs for this work were justifiable, as was EDA's decision to provide supplementary funding and additional time to complete the project at the new location.

However, the authority did violate EDA grant terms by failing to obtain competitive bids for asbestos removal services and by awarding a prohibited cost-plus-percentage-of-cost contract to the engineering firm selected for the job. As a result, we questioned \$188,316 in fees paid to the engineering firm and recommended that the EDA Austin regional director recover the agency's share of that amount—\$107,273. (*Denver Regional Office of Audits: DEN-15908*)



# ECONOMICS AND STATISTICS ADMINISTRATION

## AUDIT OF CENSUS PERFORMANCE REPORTING FINDS PROBLEMS NOTED AT OTHER BUREAUS

**T**he Economics and Statistics

Administration analyzes economic developments, formulates policy options, and produces a major share of U.S. government economic and demographic statistics. The Chief Economist monitors and analyzes economic developments and directs studies that have a bearing on the formulation of economic policy. ESA has two principal agencies:

**Bureau of the Census** is the country's preeminent statistical collection and dissemination agency. It publishes a wide variety of statistical data about the nation's people and economy, conducting approximately 200 annual surveys, in addition to the decennial census of the U.S. population and the decennial census of industry.

**Bureau of Economic Analysis** prepares, develops, and interprets the national income and product accounts (summarized by the gross domestic product), as well as aggregate measures of international, regional, and state economic activity.

We continued our scrutiny of Commerce performance reporting in this semiannual period, this time assessing the measures and data Census provided in support of its three performance goals presented in the Department's FY 2001 *Performance & Accountability Report*.

Our audit revealed the same problems in collecting, verifying, and presenting information that we have often noted in our performance measurement audits of other bureaus: some measures, collection and verification techniques, explanations, and disclosures were inaccurate or inadequate, and the reliability of reported data was thus compromised. At Census, we found that the reliability and usefulness of reported information was undercut by (1) imprecise measures and related targets, (2) incorrect descriptions of verification procedures, and (3) conflicting and incomplete disclosures.

**Imprecise measures and targets.** The wording of measures and targets in some instances either inaccurately reflected what was being assessed or did not capture the full range of activities. For example, the goal 1 measure "percentage of household surveys attaining specified reliability measurements" contained data for two nonhousehold demographic surveys. Likewise, Census reported having met its targets for goal 2 and goal 3 measures. In the case of goal 2, the target was different from the measure in that Census only included in its target the release of decennial census products. Because this was not explained, the reader was left to assume that all three census products mentioned in the measure were included in the target as well. For goal 3, the target for the MAF/TIGER measure implied that Census would have the plan and systems supporting housing unit coverage of the master address file in place by the end of FY 2002. In fact, the bureau measured and reported its progress only toward developing the plan and identifying the required systems.

**Inaccurately described verification procedures.** Census's verification methodology for the goal 2 measure—comparing actual data dissemination dates against projections—was used for only two of the three products. For the American Community Survey measure under goal 3, Census reported that it verified data by comparing actual product release dates against scheduled completion, but in reality it compared actual and projected dates for data *collection*.

**Conflicting and incomplete disclosures.** For goal 1, "improving current measures of the U.S. population, economy, and governments," explanations for two of the four measures contained inconsistent, noncomparable, and incomplete information. The household response rate measure explains at one point that Census met the stated target for obtaining response rates "better than 90%." Later in the text, the target is reported as a "90 percent or better response rate." Under the first guideline, the bureau did not fully meet the measure, as the response rate for the American Housing Survey (AHS) was exactly 90 percent in FY 2001. Under the second guideline—the correct

## CENSUS GOALS AND RELATED MEASURES

GOALS	MEASURES
1. Provide and Improve Current Measures of the U.S. Population, Economy, and Governments that Meet the Needs of Policy Makers, Businesses, and the Public.	<ul style="list-style-type: none"> <li>■ Percentage of household surveys attaining specified reliability measurements.</li> <li>■ Household response rate for Current Population Survey, National Crime Victimization Survey, and American Housing Survey. Response rate for the National Health Interview Survey. Household Response Rate for the Survey of Income and Program Participation.</li> <li>■ Release data products from Survey of Income and Program Participation (SIPP) and Survey of Program Dynamics (SPD).</li> <li>■ Release principal economic indicators.</li> </ul>
2. Provide the Statistical Foundation and Benchmark Measures of the Population, Economy, and the Government that Meet the Needs of Policy Makers, Federal, State, and Local Government Agencies, Businesses, and the Public.	<ul style="list-style-type: none"> <li>■ Release Decennial Census, Census of Governments, and Economic Census products.</li> </ul>
3. Reengineer the 2010 Decennial Census to be More Efficient and Cost Effective, Provide Richer Data, Improve Coverage, and Reduce Risk in Meeting Constitutional and Legislative Mandates.	<ul style="list-style-type: none"> <li>■ Implement Master Address File (MAF)/ Topologically Integrated Geographic Encoding and Referencing (TIGER) Modernization.</li> <li>■ Implement American Community Survey (ACS).</li> </ul>

Source: U.S. Department of Commerce, FY 2001 *Performance & Accountability Report*

one—it did. The reader, however, had no way of knowing which target was correct and whether one or both were met.

Among other things, Census also improperly included response rates for the American Community Survey (ACS) in its discussion of household response rates; inaccurately reported having met the target for all surveys in FY 2001—it did not meet that target for the Survey of Income and Program Participation; and did not provide an FY 2001 or FY 2002 target for this survey, while it did for all others. And finally, the discussion of the release data products measure under goal 1 suggests that reported data is comparable across the years, when in fact it is not. Data for

FY 1999 is based on two surveys; data for FY 2000 through 2002 is based on only one. Such omissions and inconsistencies undermine the credibility of reported results because readers do not have full and accurate information with which to assess them.

We recommended that the Census Bureau revise measures and targets to accurately convey the results it is evaluating; restate unclear or incorrect results in future Accountability Reports; and provide complete explanations of the measures, data, and verification procedures. We note that the bureau has already taken corrective actions in response to our findings. (*Financial Statements Audits Division: FSD-15990*)



# INTERNATIONAL TRADE ADMINISTRATION

## U.S. EXPORT ASSISTANCE CENTERS

### The International Trade Administration

is responsible for trade promotion and policy issues associated with most nonagricultural goods and services. ITA works with the Office of the U.S. Trade Representative to coordinate U.S. trade policy. ITA has four principal units:

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

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

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

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

The International Trade Administration plays a major role in leading the federal government's efforts to increase U.S. exports. ITA's U.S. Commercial Service,<sup>14</sup> as the Department's key export promotion agency, works closely with U.S. businesses and federal, state, and local trade partners to promote export awareness, protect U.S. business interests, and increase U.S. sales abroad.

Founded in 1980, the Commercial Service (CS) focuses its assistance primarily on small and medium-sized businesses that are beginning to export or are interested in expanding sales to new export markets. CS also provides assistance to traditionally underserved sectors such as women- and minority-owned companies and rural concerns. To this end, it operates more than 100 U.S. export assistance centers (USEACs), grouped geographically into 12 networks across the United States. Many of the centers bring together federal and nonfederal trade-related agencies into one-stop shops to provide firms with information about various export promotion and financing opportunities. In each network, one USEAC serves as the hub office supporting the activities of several satellite offices.

## SOUND OPERATIONS NOTED AT THREE USEACS REVIEWED

During this past semiannual period, we evaluated the management, program, and financial and administrative operations of three USEAC networks—Chicago, Pacific Northwest, and Philadelphia. We found for the most part that the networks have strong and collaborative relationships with trade partners; and that network offices and staff are inno-

The Export Enhancement Act of 1992 directed the Commerce Department to take the lead in setting up "one-stop shops," working primarily with the Export-Import Bank and Small Business Administration to assist U.S. exporters. The resulting organizations—U.S. Export Assistance Centers—seek to collocate federal, state, and local trade partners, where possible, and provide U.S. exporters with assistance, counseling, and information on all export-related promotion and finance opportunities.

<sup>14</sup> Commercial Service is also known as the U.S. and Foreign Commercial Service.

vative and highly regarded for their services by clients and partners alike. Financial and administrative functions are generally well managed, though a few need improvement, as does each network's export success reporting. The specific weaknesses we noted in these areas are detailed below.

## CHICAGO

**Export Successes Need Better Management Review.** We reviewed the export success records approved during the period October 1, 2002, to July 9, 2003, and found some that were inaccurately reported or of poor quality: problems ranged from overstated values (totaling approximately \$4.3 million of the \$42.1 million reported for our review period) to poorly demonstrated links between the assistance rendered and the reported outcome. For these cases, the network did not comply with Commercial Service's export success reporting guidelines. To its credit and to help eliminate the problems we identified, Commercial Service has updated its export success reporting guidance, designated a senior official to oversee and ensure consistent application of the revised guidelines, and increased manager and staff training.

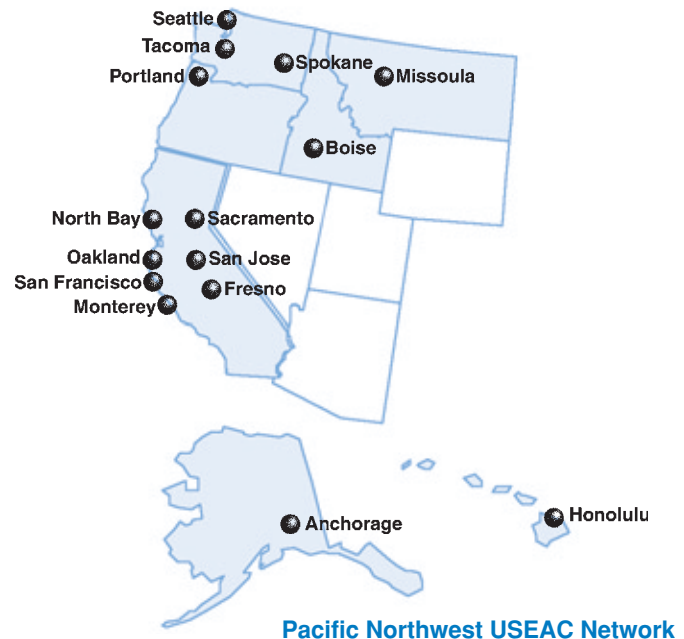


### Lease Payments

**Are Not Promptly Collected.** Commercial Service had failed to collect accumulated lease payments totaling \$16,088 and dating back to 2000 from a nonfederal trade partner collocated in Chicago, as well as in Houston and Newport Beach. After we brought this issue to its attention, CS invoiced the partner and received payment. Commercial Service also initiated action to ensure that it consistently tracks, bills for, and collects payments due from its nonfederal trade partners.

## PACIFIC NORTHWEST

**Reported Export Success Values Were Overstated, and Assistance to New Exporters Appears Low.** Based on a 20 percent sample, we concluded that the Pacific Northwest USEAC network overstated its fiscal year 2003 reported export success values by at least 60 percent (\$156 million of the \$263 million reported), and claimed \$6 million of exports that did not occur. Further, three



USEACs in the network did not report any export successes for new-to-export companies—another important CS performance measure. We are concerned that some trade specialists may not be adequately reaching out to inexperienced exporters, preferring instead to help existing clients and thus more easily reach their export success goals.

**User Fees Are Not Consistently Collected and Do Not Recover Full Costs.** Pacific Northwest USEAC offices do not consistently charge international buyers for Gold Key USA services provided, nor do their fees appear to fully cover their associated costs. OMB Circular A-25 requires federal agencies to recover the full costs of goods and services they provide to customers when such resources convey benefits beyond those enjoyed by the general public. The Commercial Service's fee policy conflicts with OMB's in that it requires recovery of direct costs only. Further, CS has not consistently enforced its own fee collection policy—especially for Gold Key USA services executed by USEACs—so trade specialists sometimes forgo charging clients even for direct costs. ITA has requested a waiver from OMB's full cost recovery requirement, and is awaiting an answer. In the absence of a waiver, we recommended that Commercial Service take steps to ensure the USEACs—and all CS components—consistently and fully recover their costs. ITA is taking steps to address this recommendation, such as reviewing and analyzing a study on pricing, and developing proposals for full cost recovery. We will be following up on this issue in our upcoming crosscutting report on USEACs.

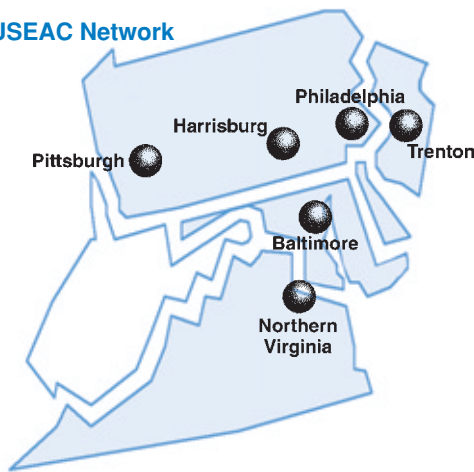
**Purchase Card Program, Time and Attendance Record Keeping Need Better Oversight.** We found that some purchase cardholders exceeded the \$2,500 annual per card limit for cell

phone services, and some made advance payments for monthly recurring cell phone charges, which is prohibited. Also, one USEAC office failed to deduct leave to cover 200 hours in absences taken by an employee, because the employee did not submit leave slips. Appropriate time and attendance adjustments have been made.

## PHILADELPHIA

**Gaps in Leadership Undercut Trade Partner Relations and Office Operations.** We found a number of strong, mutually beneficial working relationships between the Philadelphia USEAC network and a diverse mix of trade partners at the federal, state, and local levels. However, turnover in the director's position at

### Philadelphia USEAC Network



three of the six network offices in recent years has caused office priorities and expectations to shift, and has thus adversely impacted long-term planning, services, and collaboration with some trade partners.

**Export Successes Were Inflated and Client Records Inadequately Maintained.** As with the other two networks, we found Philadelphia's export success reporting to be overstated. Our review of 20 percent of FY 2003 approved successes identified duplicate export success stories and use of estimated rather than actual sales, which resulted in a minimum overstatement of \$14.46 million (10 percent) of the network's \$145.13 million export value for the year, and an overcount of the number of successes by at least 30 (6 percent of the 489 total). Client records were poorly maintained for several export successes, and often failed to clearly document the USEAC assistance that led to the success. Also, as with the Pacific Northwest network, we are concerned that Philadelphia's trade specialists may be focusing too much on re-

peat clients, which may lead to the neglect of inexperienced but ready-to-export companies.

**Inadequate Oversight of Network Travel Has Permitted Questionable Practices and Reimbursements.** We identified a number of questionable practices, weak internal controls, lack of accountability, and potentially unnecessary expenses with regard to USEAC staff travel: travel vouchers were sometimes signed by persons other than the traveler and the appropriate authorizing/approving official; the purpose of some trips was not documented; voucher information did not match receipts; and rental cars were used excessively. We discovered that CS management did not review the travel vouchers, question the necessity of trips, or determine whether the chosen mode of transportation was practicable and commensurate with the nature and purpose of the traveler's duties.

**Purchase Card Program Needs Better Oversight.** Again, as with the Pacific Northwest network, we found that some Philadelphia purchase cardholders exceeded the \$2,500 annual spending limit for cell phone charges, and that some inappropriately prepaid for cell phone service. Further, we could find no evidence that Philadelphia network employees consistently reviewed their cell phone bills and reimbursed the government for personal calls. We also noted that one cardholder shared the card with another employee and paid sales tax on tax-exempt purchases.

## AGENCY RESPONSE

ITA welcomed the insights provided in the three USEAC reports. During the course of our review, the Commercial Service worked to cooperatively address the issues we identified. It indicated that it intends to assess internal controls associated with many of the management, financial, and administrative matters we raised. ITA also indicated that it intends to strengthen the reporting and verification of export successes and other performance data by (1) revising performance measure guidance, (2) ensuring that management understands and complies with the new guidance, (3) improving training on performance measures, and (4) designating a headquarters senior official to review export success reporting worldwide. However, the agency did not agree with our finding that the Pacific Northwest USEAC network had overstated the value of its reported export successes by \$156 million, asserting that the overstatement totaled only \$6 million. We thoroughly evaluated ITA's position and provided a discussion in our final report of why we continue to conclude that the overstated amount of the export successes we reviewed was \$156 million. (*Office of Inspections and Program Evaluations: IPE-16136, 16507, and 16402*)

## MBDA'S NATIVE AMERICAN BUSINESS DEVELOPMENT CENTER PROGRAM

### 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.

Established in 1982, the Native American Business Development Center (NABDC) program funds a network of centers whose professional business consultants provide one-on-one technical assistance and commercial development services to Native American entrepreneurs. Consultants assist with business plan formulation, marketing, management, financial planning, and a variety of specialized services to help firms secure adequate financing.

During this past semiannual period, we audited the California, Northwest, and Arizona Indian business development centers, all of which are funded by MBDA cooperative agreements with the same Native American nonprofit organization. The recipient has used MBDA funding to operate the California center since 1972, the Arizona center since 1986, and the Northwest center since 1990. In each case, we performed a financial and compliance audit of two budget periods—calendar years 2001 and 2002—funded under 3-year cooperative agreements that extended through 2003. We sought to determine whether the recipient was performing in accordance with award objectives; claiming project costs that were reasonable, allowable, and allocable; and maintaining required administrative, financial, and program controls. We found varying degrees of noncompliance with MBDA performance guidance and inadequate management controls for ensuring that claimed performance is documented completely and within the specified deadline.

### CALIFORNIA CENTER'S PERFORMANCE CLAIMS AND IN-KIND CONTRIBUTIONS NOT SUPPORTED

This project had total estimated costs of \$681,477 for the 2-year period covered by our audit, with the federal share not to exceed \$575,000. We found that though the recipient generally complied with program and award objectives, its claims for two of four performance measures we considered for 2001—dollar value of transactions and client service hours—were in some instances inaccurate or poorly supported: for the first measure we did not accept the recipient's largest claimed transaction; for the second, we found that the center either was late in obtaining required documentation for service hours or did not obtain it at all.

The recipient also did not comply with uniform administrative requirements and federal cost principles for in-kind contributions in either calendar year. We therefore questioned claimed costs of \$29,700 and recommended that the MBDA grants officer disallow these costs, recover the federal share of \$25,089, and require the recipient to establish procedures for properly claiming in-kind contributions. The recipient disagreed with the questioned costs but provided no information to cause us to modify our finding. (*Seattle Regional Office of Audits: STL-15885-4-0003*)

### DEFICIENCIES AND NONCOMPLIANCE FOUND IN ARIZONA CENTER OPERATIONS

The Arizona center had total estimated costs for the 2-year audit period of \$437,142, with the federal share not to exceed \$360,000. For both years, we found the recipient's performance substantially deficient in that its claims for three critical performance measures—dollar value of transactions, client service hours, and strategic partnerships—were inaccurate in some instances and inadequately sup-



ported in others. We thus determined its overall performance should have been rated unsatisfactory (MBDA had rated it satisfactory in 2001 and good in 2002). We also found that the recipient had failed to comply with uniform administrative requirements and federal cost principles, which caused us to question costs of \$10,425 and recommend repayment to the federal government of \$8,557. Though the recipient subsequently submitted additional documentation for some questioned transactions and revised performance claims downward, neither action changed the findings in our audit. (*Seattle Office of Audits: STL-15885-4-0001*)

### **NORTHWEST CENTER EXCELS IN MEETING MBDA PERFORMANCE GOALS**

This center serves the states of Idaho, Oregon, and Washington. Its total estimated costs for the 2-year period of our audit were \$498,367, with the federal share not to exceed \$380,000. Its performance was rated “excellent” by MBDA in both 2001 and 2002.

Our audit disclosed only minor discrepancies in claimed performance for dollar value of transactions in calendar year 2001 along with an inconsistent track record for obtaining required documentation for client service hours. For calendar year 2002, we questioned one claimed strategic partnership, but this would not have been significant enough to impact the center’s performance rating.

Though the recipient substantially complied with uniform administrative requirements and federal cost principles for both budget periods, it could not produce the required support for 2002 in-kind contributions, which caused us to question \$4,385 in claimed costs and recommend the government recover \$2,428 in federal funds. As with California, we recommended that the grants officer disallow questioned costs, recover the federal share, and require the recipient to establish procedures to properly claim in-kind contributions. (*Seattle Regional Office of Audits: STL-15885-4-0002*)



# NATIONAL OCEANIC AND ATMOSPHERIC ADMINISTRATION

## NOAA CORPS DID NOT FOLLOW SENATE CONFIRMATION PROCESS FOR AT LEAST 2 DECADES

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

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

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

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

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

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

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

NOAA Corps—the smallest of the seven U.S. uniformed services—consists of approximately 260 commissioned officers led by a rear admiral. Established in 1970, the Corps serves all five NOAA line offices and various other federal agencies.

Like other uniformed services, NOAA Corps is required by statute to obtain Senate confirmation<sup>15</sup> for officer appointments and promotions. However, it came to light in early 2003 that the Corps had been appointing and promoting officers before and in some cases without ever receiving the requisite approvals. NOAA's General Counsel examined appointments and promotions made during 1999 through April 2003, and issued a report on May 1, 2003, that examined the process of appointments and promotions from the mid-1990s onward. The Department's Office of General Counsel (OGC) developed a list of unconfirmed appointments and promotions for the period of October 1999 through February 2003.

Subsequent to these actions, we received House and Senate requests to conduct an independent review of NOAA Corps' confirmation process. In summary, we found a culture of management indifference toward statutory and procedural detail at NOAA Corps that dated back to at least the mid-1980s, which is as far back as we went in our review. Our specific findings are as follows:

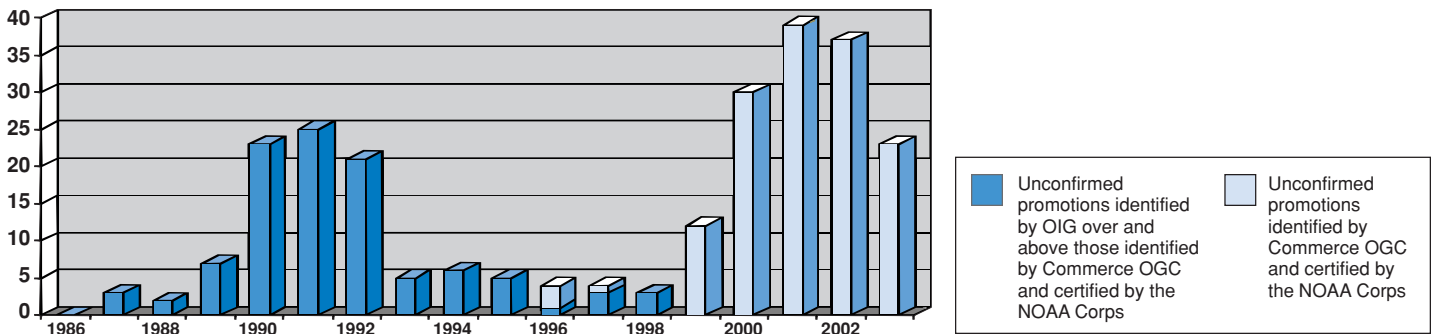
**NOAA Corps Has Failed to Consistently Seek and Obtain Senate Confirmation for Appointments and Promotions Since at Least 1986.** Thirty-one percent (137 of 435) of original appointments to NOAA Corps between 1986 and 2003 were never confirmed by the Senate. In addition, 65 (24 percent) of 270 appointments were confirmed after the statutory deadline for confirmation. The law requires that when the deadline passes, unconfirmed temporary appointments be terminated.

Neither did the Corps obtain proper Senate confirmation for 705 of 938 promotions (75 percent) made between 1986 and the present. Of that total, 454 were confirmed after promotion to a permanent position had been conferred, and 251 were never confirmed at all.

We found no discernable pattern in the Corps' timing of nominee submissions for confirmation—sometimes it was within required deadlines, many times it was not. But we noted several factors that contributed to the Corps' noncompliance with statutory require-

<sup>15</sup> Including nomination of candidates by the President.

## NOAA CORPS PROMOTIONS THAT DID NOT RECEIVE SENATE CONFIRMATION (1986–2003)



ments: (1) responsible Corps officials apparently viewed the confirmation process as pro forma and did not take it seriously; (2) no internal controls were in place to prevent unconfirmed candidates from being appointed or promoted to permanent positions and no operations manual existed to help ensure compliance with the statute; and (3) neither NOAA management nor the Department provided the necessary oversight to ensure that the Corps complied with statutory mandates.

**NOAA Corps Exceeded its Authority for Appointing Temporary Ensigns, Reappointing Former Corps Officers, and Accepting Interservice Transfers.** Since 1986, the Corps has appointed 390 new recruits to temporary positions as ensigns without required Secretarial approval; (2) reinstated former Corps officers at ranks higher than permitted; and (3) allowed officers from other U.S. uniformed services to transfer to the Corps (“interservice transfers”) without the necessary action by the Secretary of Commerce and approval from the President.

### RECOMMENDATIONS AND AGENCY RESPONSE

We made several recommendations designed to establish accountability among appropriate officials for ensuring that Corps appointments and promotions are handled in accordance with statutory requirements and internal regulations and procedures. NOAA concurred with our recommendations, and in implementing them, will bolster the corrective actions we noted in process at the time of our review: for instance, OGC has been working closely with the Corps to bring its internal regulations in line with statutory requirements and develop a procedures manual. In addition, the Department’s Office of Human Resources Management plans to more actively monitor NOAA Corps’ human resources function, review and approve future personnel policies and procedures, and clear all NOAA Corps appointments and promotions. (*Office of Inspections and Program Evaluations: IPE-16138*)

## BETTER DATA QUALITY, PERFORMANCE MONITORING, AND OUTREACH NEEDED FROM NMFS OBSERVER PROGRAMS

In fulfilling its responsibilities for protecting and managing marine resources, the National Marine Fisheries Service (NMFS) has since the 1970s placed “observers” on fishing vessels to collect catch and bycatch data, as well as information on marine mammal interactions and a variety of other areas. Over the years, the practice evolved into a loose network of observer programs developed by regional agency components to meet local scientific and resource management needs. All but one of the programs uses observers supplied by private entities under contract to NMFS. More than 500 observers are currently deployed in 14 observer programs, most of which are administered through NMFS’ regional fisheries science centers (FSCs).

To promote coordination among the programs, NMFS established the National Observer Program Office in 1999 to support their activities and increase their usefulness to the agency’s overall goals.

We reviewed seven observer programs (see box) to determine whether they are meeting users’ data collection needs, how NMFS ensures data quality, and how well the program’s missions and objectives are communicated to stakeholders.

### FINDINGS AND RECOMMENDATIONS

**Best practices for improving data quality should be shared.** Many practices at work in individual programs may be applicable to the other observer programs. For example, some programs use at-sea communications systems and portable computers to capture and communicate observer data more quickly, efficiently, and accurately. Some have added data fraud detection and prevention capabilities to their observer debriefing and data quality assurance

processes. NMFS should explore the feasibility of adopting these practices nationwide to improve data quality and program efficiency.

**Improved oversight is needed to ensure that processes for assigning observers to ships result in unbiased, representative data.** Each observer program has a process for placing observers on vessels that is supposed to ensure collection of a representative data sample. Most of the programs we reviewed lacked internal controls to ensure their sampling design was implemented correctly, and they all had problems that could bias the data. For example, in two programs run by the Northeast Science Center, observers—not the center—are responsible for finding and informing vessel captains that they are required to take an observer on board, with the result that some observers repeatedly board those



Observer aboard fishing vessel examines catch.

Source: North Pacific Fisheries Observer Training Center

### NMFS' 14 REGIONAL OBSERVER PROGRAMS

#### Alaska Regional Office, Juneau, AK

1. Alaska Marine Mammal

#### Alaska FSC, Seattle, WA

2. North Pacific and Bering Sea Groundfish Trawl and Fixed Gear Fishery\*

#### Northwest FSC, Seattle, WA

3. At-sea Pacific Hake
4. West Coast Groundfish\*

#### Pacific Islands FSC, Honolulu, HI

5. Hawaii Swordfish-Tuna Longline

#### Southwest FSC, Long Beach, CA

6. California/Oregon Drift Gillnet
7. West Coast Pelagic Longline

#### Southeast FSC lab, Galveston, TX

8. Southeastern Shrimp Otter Trawl Fishery

#### Southeast FSC, Miami, FL

9. Southeastern FSC Pelagic Longline\*

#### Southeast FSC lab, Panama City, FL

10. Southeastern FSC Shark Drift Gillnet

#### Northeast FSC, Woods Hole, MA

11. New England Groundfish\*
12. New England and Mid-Atlantic Gillnet Fisheries\*
13. Atlantic Sea Scallop Dredge Fishery/Georges Bank\*

#### Highly Migratory Species Division, Silver Spring, MD

14. Atlantic and Gulf of Mexico Shark Bottom Longline\*

Source: NMFS

\*Programs reviewed by OIG.

ships that have willingly accepted them in the past, rather than approaching new ships and thus obtaining a more representative sample of data.

**NMFS needs to take actions to keep an experienced corps of observers.** Observer programs worldwide report that maintaining a qualified observer corps is key to collecting quality data. But building a qualified corps takes time, as observers learn their duties and adapt to the rigors of a hazardous work environment. High turnover rates in NMFS observer programs impede efforts to develop an experienced observer corps, increase training costs, and adversely affect data quality and reliability. NMFS is reviewing its recruitment practices, a step in the right direction, but needs to take action to improve retention, perhaps by enhancing training and advancement opportunities.

**Program-wide performance measurement would improve regional accountability.** The regional programs we reviewed lacked comprehensive, consistent performance measures, and thus accountability for outcomes. Accountability is further compromised by NMFS' overall organizational structure for these programs, which supports independent regional operations and lacks clear reporting relationships with headquarters. Although creation of the National Observer Program and a National Observer Program Advisory Team improved communications between headquarters and the regions, national priorities and performance measures for observer programs would ensure better regional accountability. NMFS needs to develop program-wide performance measures as well as a reporting mechanism to facilitate monitoring, enhance program outcomes, and ensure accountability for and dissemination of program results.

NMFS should also restructure contracts with observer providers to make them performance based and include objective criteria for assessing outcomes, where feasible. The Southeast and Northeast science centers have taken steps to incorporate some performance-based elements. The remaining centers should do the same.

**A national outreach strategy is needed to better communicate the mission and goals of the observer program to industry.**

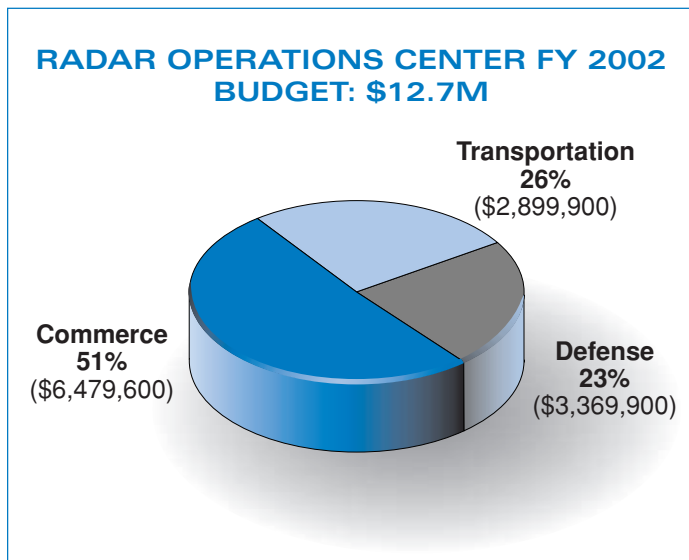
NMFS fisheries management activities have come under increasing criticism from Congress, agency advisory groups, environmentalists, and the fishing industry in recent years. Some attribute these problems to NMFS’ failure to share information and effectively interact with public constituents and stakeholders. These problems—and the lack of understanding among industry that may have resulted—could be at the root of industry antipathy toward the observer program and the reason why some refuse to cooperate. NMFS needs to develop a consistent and unified national outreach strategy that informs and educates, provides opportunities for personal contacts with fishing industry representatives, and establishes a forum for stakeholders to voice their concerns about the program and be heard.

**AGENCY RESPONSE**

NMFS and NOAA concurred with our recommendations, but expressed concern about their applicability across all observer programs. We believe that, regardless of regional or program differences, our recommendations may be generally applicable to all. (*Office of Inspections and Program Evaluations: IPE-15721*)

**\$3.6 MILLION DISCREPANCY IN NOAA’S ACCOUNTING OF PERSONAL PROPERTY AT RADAR OPERATIONS CENTER**

The Radar Operations Center (ROC), a component of NOAA’s National Weather Service, supports the operation of 166 weather surveillance radars (WSR-88D) deployed by the Departments of



Commerce, Defense, and Transportation. The ROC’s fiscal year 2002 budget was nearly \$13 million, half of which was provided by Commerce.

Our audit of the ROC’s property management records for FY 2002 was prompted by (1) weaknesses in NOAA’s accounting for personal property noted in the Department’s financial statements audit, and (2) an anonymous complainant’s charge that the center’s electronic maintenance team was missing equipment worth approximately \$100,000. Although we were able to confirm that the team had asked staff at radar sites to search for and return any equipment left by center technicians, we could not prove or disprove the \$100,000 loss of property because the anonymous complainant did not specify what property was missing. We did, however, find numerous weaknesses both in the ROC’s and NOAA’s procedures and record keeping for personal property. In addition to NOAA’s agencywide personal property system, the ROC maintains its own supplemental property accounting system. Our findings were as follows:

**Comparison of property records maintained by NOAA and the ROC revealed 442 records that did not match.**

The table below shows our comparison of NOAA’s and the ROC’s property databases. The ROC’s property data in its in-house integrated property management system (IPM) contained 1,699 records, while NOAA’s personal property system (PPS) and its replacement Sunflower system<sup>16</sup> contained 1,399. We found that 442 records appeared in only one or the other database, and that the total acquisition cost of the inventory in IPM exceeded that of PPS by nearly \$3.6 million.

In addition, we could only match 51 percent of the total records in both systems (3,098) by serial number, identified 62 records that had no serial numbers and 6 with duplicate numbers, and found discrepancies in asset valuation for 598 records.

Personal Property Database Differences	
Records in IPM but not PPS	371
Records in PPS but not IPM	71
Total unmatched records	442
Net unmatched records (1,699 – 1,399)	300

**Physical inventory confirms data unreliability.** During our check of 133 ROC accountable property items shown in IPM, we only found 101 items, or 76 percent, at locations noted in the data system. We initially could not find the remaining 32 items, but subsequently determined that 18 of them had been moved to off-site storage or were donated to local schools. We could not determine

<sup>16</sup> The Sunflower system replaced PPS in November 2002.

whether the other 14 were lost, stolen, or otherwise disposed of because the ROC maintained no supporting documentation.

**Inadequate internal controls over the ROC's property management function increase risk of property loss.** We found weaknesses in the ROC's internal controls for property management, some of which are noted below, that in some cases reflected ineffective departmental or NOAA policies and in other cases, the ROC's failure to follow appropriate procedures.

- **Separation of duties for property purchase, custody, and management.** NOAA guidance for property-related duties encourage that they be handled by the property custodian, a practice that makes it more difficult to readily detect a loss. The ROC gave its property custodian responsibility for procuring, receiving, preparing accounting documents, and certifying annual inventories.
- **Physical security.** The ROC facilities had no secure space for shipping and receiving; one storage facility stored unused computers in an area that was fully visible to passers-by. The NOAA handbook requires the property accountability officer to safeguard items from misuse or theft, however neither handbook provides specific security guidance.
- **Procedures for lending and taking property off-site.** ROC technicians routinely take center tools and equipment off-site to repair NOAA radars, but in some cases, the center did not maintain checkout and check-in records for the equipment. One branch kept such records, but did not verify the condition or even the actual return of an item when a user reported bringing it back; one branch did not follow up on the status of equipment and tools that had been checked out for more than a year. The Department's property management manual does not address procedures for off-site property use. The NOAA handbook only requires property custodians to ensure that loaned items are returned when due; and neither the NOAA handbook nor the handbook of the Mountain Administrative Support Center (MASC) sufficiently addresses procedures for increasing internal controls over an operation, like the center, that routinely uses equipment off-site.
- **Documentation of transactions.** Both the Department's manual and the NOAA handbook stipulate how the receipt of personal property must be documented. However, the ROC did not provide the required documentation, but simply noted the date of receipt on the item's purchase order.
- **Recording changes in PPS.** The Department's manual requires that additions, transfers, and removals of accountable personal property be noted in PPS in a timely manner. Only staff from NOAA's MASC and Finance and Administration office can make such entries. The average lag time for entry of the ROC's property transactions in FY 2002 was 98 days, reportedly because

of a backlog created by the high volume of transactions from all entities for which MASC inputs data.

- **Property board review of missing items.** NOAA's handbook requires property officers to convene a property review board to determine the circumstances of the loss, theft, or damage of an item. We found that NOAA did not follow its own guidelines for appointing members of this board.

## RECOMMENDATIONS AND AGENCY RESPONSE

We made numerous recommendations to resolve the weaknesses we identified, including that the ROC submit accurate inventory records to NOAA to correct the information currently in the Sunflower system, and that NOAA record the ROC's personal property transactions in a timely manner.

NOAA generally concurred with our recommendations. (*Seattle Office of Audits: STL-15720*)

## NOAA'S USE OF COOPERATIVE AGREEMENTS TO SECURE SUPPORT SERVICES WAS IMPROPER

In April 1998 and again in April 2001, NOAA awarded cooperative agreements to a nonprofit fisheries research organization that together totaled \$5.1 million; and in an intervening year—May 2000—it entered into a \$3 million contract with the same organization. In each case, NOAA sought similar support services. We conducted an audit to determine whether the use of both a cooperative agreement and a contract for what appeared to be essentially the same services was appropriate.

Federal law states that a procurement contract, not a cooperative agreement, should be used by federal agencies when acquiring property or services that directly benefit the government. Our audit determined that the support services NOAA sought under both agreements directly benefited its own in-house research. Further, we observed that NOAA appeared to treat the organization's workers as federal employees during the performance of both agreements. For example, NOAA managers directed the work of organization staff, and recommended them for monetary awards, raises, and promotions. NOAA officials reported that the May 2000 contract was similarly managed. We cautioned NOAA to take the necessary steps to (1) ensure the use of appropriate funding instruments for all services provided by outside sources, and (2) administer all such arrangements in a manner that avoids any appearance of a personal services contract. (*Seattle Office of Audits: STL-15753*)

The nonprofit University Corporation for Atmospheric Research was formed in 1959 by a consortium of research universities that have doctoral programs in the atmospheric and related sciences. UCAR operates the National Center for Atmospheric Research—a federally funded research and development center sponsored and primarily funded by NSF. Commerce (through NOAA), the Federal Aviation Administration, and NASA also contribute significant funding.

## NONREPORT ACTIVITY

### NATIONAL SCIENCE FOUNDATION AND COMMERCE OIGs CONDUCT JOINT AUDIT SURVEY OF NONPROFIT'S RISK ASSESSMENT

The National Science Foundation (NSF) and Commerce OIGs collaborated in reviewing the *Internal Audit Risk Assessment & Audit Plan Development* prepared by nonfederal auditors for the University Corporation for Atmospheric Research (UCAR)—a nonprofit firm that operates a federally funded research and development center, predominately with NSF funding. Commerce's National Oceanic and Atmospheric Administration is UCAR's second largest federal contributor.

The risk assessment and audit plan was designed to enable UCAR to establish a continual process for gauging the vulnerability of 44 business functions that are critical to its sound administrative and financial performance. The OIGs reviewed the plan and its implementation to determine whether it (1) provided assurance that UCAR was adequately managing federal programs and dollars, and (2) can be used as a model for other organizations operating federally funded research centers.

We jointly determined that the plan did not fully address UCAR's risks related to managing federal awards. Consequently, it does not assure the adequacy of UCAR's federal grants management capabilities. Further, the plan does not develop a management structure necessary to implement the assessment process or to fully act on its results.

The plan's primary benefit was that it raised awareness of risk management throughout UCAR, prioritized the risks facing the organization, and determined the likelihood and impact of their occurrence.

UCAR reviewed our survey findings, to which it responded that risk assessment is an ongoing activity for the organization. UCAR noted that it intends to conduct another assessment within the next 18 months and will use the audit survey to help shape and improve this next one.



# TECHNOLOGY ADMINISTRATION

## 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. It includes three major organizations:

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

**National Institute of Standards and Technology** promotes U.S. economic growth by working to develop and apply technology, measurements, and standards. NIST manages four programs: the Advanced Technology Program, the Manufacturing Extension Partnership program, the Baldrige National Quality Program, and NIST Laboratories.

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

## UNDOCUMENTED PATENT LICENSE AGREEMENT PROCESS MAY LEAVE INTERESTS OF NIST UNPROTECTED

In March 2003, the National Institute of Standards and Technology asked OIG to audit a license agreement between itself and a private sector firm. The original agreement had been negotiated in 1988 by the National Technical Information Service—which at the time had authority to negotiate and administer all such agreements on behalf of the federal government. NIST assumed responsibility for its own agreements in 1995.

We initiated a two-part review: first looking at NIST's patent licensing agreement process to understand how the agency manages these agreements and to assess its internal controls on the process; then looking at the specific agreement and associated records. We detailed our findings regarding the agreement in a July 2003 memo to NIST officials, and in a full report, presented the following findings regarding the overall process:

### Key steps in the patent licensing process are not documented.

Although NIST's administrative manual provides written guidance for issuing patent license agreements, there are no written policies and procedures to explain how the agreements are to be monitored once they have been negotiated and signed. As a result, there is a general lack of understanding of and accountability for the monitoring process among NIST personnel, and thus no assurance that licensees are complying with an agreement's terms and conditions or that patented technology is being protected.

### Reporting requirements are not met by licensees or enforced by NIST.

In the case of the specific agreement at issue, we found instances in which the company was late in remitting required royalty and maintenance payments, submitted incomplete and untimely activity reports, and sometimes submitted no reports at all. Yet NIST officials did not contact the licensee in a timely manner regarding missing payments, information, or reports. We found evidence of these problems with other agreements in the files we reviewed, and noted that NIST officials do not routinely read submitted reports and are therefore unaware of any inadequacies or the need for follow-up.

**License agreement language undermines NIST's oversight authority.** We found that the standard terms and conditions in license agreements lack specificity and hinder NIST's ability to oversee licensee compliance and collect proper fees. For example, the agreement that prompted the complaint requires the licensee to file semiannual reports detailing product development, sales information, and maintenance and royalty fees due, and to submit these payments with the reports. However, there is no requirement that the licensee certify the report's accuracy—a key step in establishing accountability. In addition, the licensee has the right to approve NIST's choice of accountants to inspect report- and payment-related records, and need only retain



such records for 2 years. We noted that NIST could have changed these terms, which were part of the original 1988 agreement, when it modified the agreement in 1997.

## RECOMMENDATIONS

To address the deficiencies we identified in the licensing agreement process, we recommended that NIST

- develop and document formal policies and procedures that outline the purpose, objectives, roles, responsibilities, and key milestones for the patent license agreement process;
- review and update, as necessary, the standard clauses in its license agreement template to ensure full protection of NIST and inventor interests;
- when modifying existing patent license agreements, examine the entire document to ensure that the interests of both NIST and the inventor are protected throughout, and revise any portions that do not do so.

NIST officials concurred with our recommendations and are taking action to implement them. (*Office of Audits: STD-16009*)

## QUESTIONED COSTS OF \$852,869 RESULT FROM GRANTEE'S INADEQUATE FINANCIAL MANAGEMENT SYSTEMS

In September 2001, NIST awarded a \$2 million ATP cooperative agreement to a Utah firm for development of a prototype digital electric motor to increase the efficiency and range of vehicles powered by electricity. Total costs for the 2-year project are \$2.6 million, with the federal share not to exceed \$1,999,447 of eligible costs. As of March 31, 2003, the recipient had claimed project costs of \$1,873,678 and requested reimbursement of \$1,683,080.

Our interim financial and compliance audit of the project's initial 18 months (October 2001 through March 2003) found that the recipient's accounting and financial management system failed to meet federal requirements in that it could not provide details of project expenditures by line item or document claimed costs. We were only able to verify salaries and a portion of fringe benefit costs from records provided by the recipient's payroll processing contractor, totaling \$1,020,809, and therefore questioned the remaining claims for \$852,869.

As a result, we recommended that NIST disallow the questioned amount and recover \$746,181 in excess federal disbursements. (*Denver Regional Office of Audits: DEN-16157*)

## AUDIT OF NTIS' FY 2003 FINANCIAL STATEMENTS

NTIS' track record of strong financial management continued in FY 2003, as the agency again received an unqualified opinion on its financial statements, showed no material weaknesses, and fully complied with related financial management laws and regulations.

### ASSESSMENT OF IT CONTROLS

The related assessment of information technology controls supporting NTIS' financial management systems found that the agency had fully resolved 12 of 14 weaknesses identified in FY 2002, while 2 remained open. These were in areas of security planning and change control. The auditors also identified a new weakness in access controls as well as one in service continuity. (*Financial Statements and Audits Division: FSD-16073 and 16074*)

## AUDITS UNRESOLVED FOR MORE THAN 6 MONTHS

### MASSACHUSETTS MEP

Our September 2003 *Semiannual Report* (page 34) detailed our audit of the costs claimed by a nonprofit recipient under an MEP cooperative agreement for the period of March 17, 2000, through June 30, 2001. We recommended that NIST disallow questioned costs of \$8,177,606, recover the federal share of \$1,599,349, and require the recipient to implement improvements to its financial reporting system.

We are currently reviewing the audit resolution proposal submitted by NIST.

### TEXAS MEP

Also in our September 2003 issue (page 34) we reported the findings of our interim audit of an MEP cooperative agreement with a Texas engineering service that is a component of a state university. We recommended that NIST (1) disallow the questioned costs of \$1,954,279 and seek recovery of the resulting \$771,555 in excess federal disbursements; (2) require the recipient to adjust sub-

sequent financial reports to eliminate these questionable items, and (3) direct the recipient to prepare financial analyses by award budget categories and obtain required approvals for award budget deviations. Implementation of our recommendations will result in \$3,360,000 in funds being put to better use during the remainder of the cooperative agreement.

We are currently evaluating NIST's audit resolution proposal.

## **APELON, INC., CONNECTICUT**

An OIG desk review of this NIST ATP program-specific audit (September 2003 issue, page 55) questioned a total of \$25,417, based on the recipient exceeding a line-item budget allowance without approval from the NIST grants officer. In addition, we found that the recipient received excess funds from NIST amounting to \$36,928, and identified these as funds to be put to better use. We are engaged in ongoing discussions with the recipient, the auditor, and NIST to resolve the audit.



# UNITED STATES PATENT AND TRADEMARK OFFICE

## AUDIT OF USPTO'S FY 2003 FINANCIAL STATEMENTS

**T**he 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, invest in research, commercialize new technology, and draw attention to inventions that would otherwise go unnoticed. USPTO also collects, assembles, publishes, and disseminates technological information disclosed in patents.

USPTO received an unqualified opinion on its FY 2003 financial statements—the 11th consecutive year for this accomplishment. The audit determined the agency's internal control over financial reporting was free of defect and in full compliance with laws and regulations.

### ASSESSMENT OF IT CONTROLS

The auditors reviewed USPTO's IT controls against the six criteria outlined in GAO's *Federal Information System Controls Audit Manual* (FISCAM)—entitywide security program planning and management; access controls; application software development and change control; system software; segregation of duties; and service continuity. USPTO had fully resolved 10 of 11 weaknesses identified in last year's audit. The remaining weakness is in the area of service continuity. The FY 2003 audit reported four deficiencies in access control and five in entitywide security program planning and management. (*Financial Statements and Audits Division: FSD-16075 and 16076*)



# DEPARTMENT-WIDE MANAGEMENT

## AUDIT OF DEPARTMENT'S FY 2003 CONSOLIDATED FINANCIAL STATEMENTS

**T**he  
United States  
Department of

Commerce promotes job creation and improved living standards for all Americans by creating infrastructure that fosters economic growth, technological competitiveness, and sustainable growth. The Department has three strategic goals:

**Goal 1:** Provide for information and the framework to enable the economy to operate efficiently and equitably.

**Goal 2:** Provide infrastructure for innovation to enhance American competitiveness.

**Goal 3:** Observe and manage the Earth's environment to promote sustainable growth.

The Department has also established a Management Integration Goal that is equally important to all bureaus:  
**Strengthen management at all levels.**

The Department received an unqualified opinion on its consolidated statements for FY 2003 and resolved many of the weaknesses reported in the FY 2002 audit: last year, the independent auditors noted problems in the Department's internal control over financial reporting that together constituted a material weakness: (1) general IT controls were deficient in all six FISCAM areas; (2) automated budgetary controls were not in place on legacy systems operated by NOAA and NIST; and (3) Commerce still did not comply with OMB's requirement for a single, integrated financial management system. This year, the auditors noted significant progress in these three areas and determined that remaining deficiencies—though still constituting a reportable condition<sup>17</sup>—were not serious enough to be considered a material weakness.

**IT controls.** The auditors found IT controls in all six FISCAM areas had improved, but noted lingering weaknesses throughout the Department in entitywide security, and deficiencies at select bureaus in the following areas: access controls, application software development and change control, system software, segregation of duties, and service continuity.

**Automated budgetary controls.** Lack of these controls was noted at both NOAA and NIST last year. In FY 2003, NOAA used CAMS as its system of record, and CAMS provides automated budgetary controls. NIST implemented CAMS at the beginning of FY 2004 and thus can utilize the automated budgetary control feature for FY 2004.

**Integrated financial management.** NOAA and NIST were also responsible for the Department's FY 2002 noncompliance with OMB's requirement for a single, integrated financial management system. NOAA and the one bureau whose financial transactions it processes account for 59 percent of the Department's consolidated assets. NIST and the bureaus it processes account for 13 percent. With NOAA's conversion to CAMS, the Department became substantially compliant with the OMB requirement.

**FY 2002 reportable condition.** Commerce also resolved the FY 2002 reportable condition pertaining to NOAA's personal property accounting. While the auditors noted some minor remaining issues, they found that NOAA had either fully rectified or substantially improved processes for han-

<sup>17</sup> Material weaknesses are serious flaws in the design or operation of an internal control component that increase the risk that errors, fraud, or noncompliance in material amounts may occur and not be readily detected. Reportable conditions are significant deficiencies in the design or operation of an internal control component that could adversely affect the organization's ability to record, process, summarize, and report financial statement data.

ding construction work in progress, procedures for reconciling personal property balances with the general ledger, and controls over accounting for personal property leases.

## COMPLIANCE WITH LAWS AND REGULATIONS

Compliance testing of the Department’s financial management procedures and systems showed improvement in one area and remaining deficiencies in two others:

**Federal Financial Management Improvement Act (FFMIA) of 1996.** Because the auditors determined that a material weakness in internal control over financial reporting no longer existed, the Department for the first time had no instances in which its financial management systems did not substantially comply with FFMIA.

**OMB Circular A-11, Preparation, Submission, and Execution of Budget.** The Department was noncompliant with the circular on two counts: (1) as in prior years, NOAA did not fully fund capital leases, which means that its FY 2002 budget did not allow for sufficient funding to cover present value for capital lease payments and purchases; (2) NIST’s legacy accounting system did not include budgetary control features to prevent the overobligation of funds. (As noted earlier, NIST implemented CAMS at the beginning of FY 2004 and therefore now has such budgetary controls.)

**OMB Circular A-25, User Charges.** Also as in prior years, ITA did not recover the full cost of the goods and services it provided to customers. (See discussion of ITA user fee issue on page 25.) (*Financial Statements and Audits Division: FSD-16071 and 16072*)

## PREAWARD FINANCIAL ASSISTANCE SCREENING

As part of our ongoing emphasis on prevention of fraud, waste, and abuse, we continue to work with the Office of Acquisition Management, NOAA and NIST grant offices, and EDA program offices to screen the Department’s proposed grants and cooperative agreements before they are awarded. Our screening serves two functions: it provides information on whether the applicant has unresolved audit findings and recommendations on earlier awards, and it identifies any negative financial or investigative history on individuals or organizations connected with a proposed award.

On January 1, 2004, we implemented new policies and procedures for our preaward screening process. OIG and the Department determined that there are several categories of recipients for whom the costs and administrative burden of the screening process may well outweigh the government’s risk of financial loss. Our new policies exempt from review recipients who (1) receive awards in amounts of \$100,000 or less; (2) have received financial assistance from the Department for 3 or more consecutive years without any adverse program or audit findings; or (3) are units of a state or local government.

During this period we screened 347 proposed awards. For 41 of the awards, we found major deficiencies that could affect the ability of the prospective recipients to maintain proper control over federal funds. On the basis of the information we provided, the Department delayed 16 awards and established special award conditions for 25 awards. (*Office of Audits*)

## PREAWARD SCREENING RESULTS

Results	Award Number	Amount
Awards delayed to resolve concerns	16	\$14,232,050
Special award conditions established	25	\$27,521,389

## NONFEDERAL AUDIT ACTIVITIES

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

We examined 216 audit reports during this semiannual period to determine whether they contained any audit findings related to Department programs. For 151 of these reports the Department acts as oversight agency and monitors the audited entity’s compliance with OMB Circular A-133 or NIST’s program-specific reporting requirements. The other 65 reports are from entities for

which other federal agencies have oversight responsibility. We identified 28 reports with findings related to the Department of Commerce.

Report Category	OMB A-133 Audits	ATP Program-Specific Audits	Total
Pending (October 1, 2003)	24	59	83
Received	120	91	211
Examined	127	89	216
Pending (March 31, 2004)	17	61	78

The following table shows a breakdown, by bureau, of the nearly \$389 million in Commerce funds audited.

Bureau	Funds
EDA	\$71,869,630
MBDA	346,307
NIST*	194,352,078
NOAA	16,863,007
NTIA	1,174,676
Multiagency	103,916,293
Agency not identified	156,704
<b>Total</b>	<b>\$388,678,695</b>

\* Includes \$168,214,873 in ATP program-specific audits.

We identified a total of \$5,973,883 in questioned costs and \$4,275,037 in funds to be put to better use. In most reports the subject programs were not considered major programs; thus the audits involved limited transaction and compliance testing against laws, regulations, and grant terms and conditions. The 28 reports with Commerce findings are listed in Appendix B-1. (*Atlanta and Denver Regional Offices of Audits*)



# OFFICE OF INSPECTOR GENERAL

## OIG AUDIT OPERATIONS RECEIVE HIGH MARKS FOR COMPLIANCE WITH STANDARDS

The mission of the Office of Inspector General is to promote economy, efficiency, and effectiveness and detect and prevent waste, fraud, abuse, and mismanagement in the programs and operations of the U.S. Department of Commerce. Through its audits, inspections, performance evaluations, and investigations, OIG proposes innovative ideas and constructive solutions that lead to positive changes for the Department. By providing timely, useful, and reliable information and advice to departmental officials, the administration, and Congress, OIG's work helps improve Commerce management and operations as well as its delivery of services to the public.

Every 3 years the quality controls over our audit function are evaluated by a colleague OIG to determine whether they ensure that our work products conform with audit standards issued by the Comptroller General of the United States. We in turn review the quality control system of one of our peers.

During this semiannual period, the Federal Deposit Insurance Corporation's OIG conducted such a review of our Office of Audits, giving its quality control system an unqualified opinion—the highest rating possible.

In forming its opinion, the FDIC team reviewed a number of completed performance and financial assistance audit reports, our financial statements audit and monitoring activities, and operations at our headquarters and regional offices.

### OIG CONDUCTS QUALITY CONTROL REVIEW OF USAID OFFICE OF INSPECTOR GENERAL

Our quality control review of the U.S. Agency for International Development's OIG, also conducted during this past reporting period, found that office's audit work and operations in material compliance with professional auditing standards as well, and deserving of an unqualified opinion. We based our findings on an evaluation of audits (performance and financial) performed by both OIG and contract auditors, as well as the office's financial statements audit and monitoring activities. We assessed operations at the OIG's headquarters and two overseas offices. (*Office of Audits: DEN-16303*)



## HIGHLIGHTS OF OIG INVESTIGATIONS

### OFFICE OF INVESTIGATIONS

The Office of Investigations (OI) consists of criminal investigators and technical support personnel deployed at various Commerce OIG locations. OI criminal investigators investigate allegations of misconduct by employees, contractors, or grantees that may involve fraud, waste, abuse, or mismanagement in the programs or operations of the Department. These investigations may result in criminal, civil, or administrative sanctions against violators of federal law, Department regulations, or employee standards of conduct.

On December 8, 2003, the provisions of the Homeland Security Act of 2002 became fully effective and thus invested OI criminal investigators with statutory law enforcement authority. Our investigators now have independent authority to carry firearms, make arrests, and execute search warrants.

During the first half of fiscal year 2004, OI established an investigative presence in Seattle, Washington, and Arlington, Virginia. These offices have already produced significant investigative results and are expected to further expand their results and extend their reach.

OI has initiated an aggressive program to police the criminal misuse of Department of Commerce computer and information technology resources. The rapid pace of change in IT equipment and applications constantly creates new vulnerabilities in departmental resources and an extremely challenging environment for law enforcement professionals in the areas of securing, retrieving, seizing, and examining evidence stored on computer systems.

## **SIGNIFICANT INVESTIGATIVE ACTIVITIES DURING THIS SEMI-ANNUAL PERIOD**

This section details some of the outcomes of investigations and resulting legal proceedings that occurred during this past semi-annual period. These reflect a variety of cases—employee theft and fraud, use of government equipment to access child pornography, violations of departmental standards of conduct, to name a few—as well as examples of our successful collaboration with Commerce officials, operating units, and law enforcement agencies to ensure the integrity of Commerce programs and operations, protect Commerce personnel, and facilitate administrative remedies.

### **SENIOR OFFICIAL'S ACTIONS CREATED THE APPEARANCE OF CONFLICT OF INTEREST**

OIG investigated allegations that a senior departmental official had improperly used his position to direct a \$1.4 million grant to fund a major business and technology development project at a university located in his hometown. The purported motive was to enhance his position as a candidate for the university's presidency, as the funds allegedly provided personal benefit to a selection committee member who sponsored the official's nomination.

Our investigation disclosed no evidence that the official had used his position to facilitate or otherwise affect the award of the grant to the university. However, he did sign letters announcing the grant award to the university president and to other interested parties, in violation of his previous recusal from matters involving his hometown. He also authorized the presidential search committee to consider his candidacy shortly after the grant was awarded. These activities created the appearance of a conflict of interest in violation of the Standards of Ethical Conduct.

As a result of our investigation, the official was instructed by the Deputy Secretary to meet with the Department's ethics counsel to review his responsibilities under the Standards of Conduct to avoid

matters that might create even the appearance of impropriety. In addition, the agency was directed to ensure that its regional officials were made aware of the terms of the official's recusal, and are notified of all relevant disqualifications of headquarters officials. (*Washington Field Office*)

### **RLF ADMINISTRATORS PLEAD GUILTY TO ILLEGAL DIVERSION OF EDA GRANT FUNDS**

In our March 2003 *Semiannual Report* (page 39), we reported that four local officials in Massachusetts were indicted for misuse of EDA and other federal grant funds administered by a municipal economic development organization. Among other things, the organization operated an EDA-funded revolving loan fund and a Small Business Administration loan program. The organization had been established to administer a low-interest loan fund to promote additional capital investment and job creation in the municipality. On March 22, 2004, two of the four administrators pleaded guilty in U.S. District Court for the District of Massachusetts to multiple counts of the indictment, including program fraud, conspiracy, and money laundering. Sentencing is scheduled for June and July 2004. Trial for the remaining two defendants commenced in March 2004. (*Washington Field Office*)

### **OFFICE OF THE SECRETARY TIMEKEEPER INDICTED FOR CLAIMING AND RECEIVING UNEARNED OVERTIME PAY**

In our September 2003 *Semiannual Report* (page 44) we reported the results of our investigation into alleged fraud by a timekeeper in the Office of the Secretary (O/S): the employee was arrested after we determined that she had obtained approximately \$3,300 by claiming overtime hours she never worked. In January 2004, she was indicted in the Superior Court for the District of Columbia on one felony count of theft and one felony count of fraud. Trial is scheduled for May 2004. As a result of this investigation, O/S issued a new time and attendance policy that requires additional supervisory review to prevent similar future misconduct. (*Washington Field Office*)

### **PHONY PAYROLL ACCOUNT RESULTS IN INDICTMENT OF FORMER CENSUS ASSISTANT FIELD MANAGER**

An OIG investigation disclosed that a former Census assistant field manager had created a payroll account in the name of another former employee and had \$12,268 in paychecks to the employee sent to her own post office box. The manager forged endorsements on the checks and deposited them into her personal bank account. In February 2004, the former assistant manager was indicted for theft in U.S. District Court for the Western District of Michigan. (*Arlington Resident Office*)



### FORMER CENSUS PAYROLL SUPERVISOR SENTENCED FOR ISSUING AND CASHING FRAUDULENT PAYCHECKS

As reported in our September 2003 *Semiannual Report* (page 44), a former Census payroll supervisor pleaded guilty to one count of theft of government property in U.S. District Court for the Middle District of North Carolina, after an OIG investigation disclosed that she had issued fraudulent paychecks in the names of other former Census employees and deposited them into bank accounts belonging to her and her husband. In December 2003, she was sentenced to 36 months' probation, a \$1,100 fine, and ordered to make restitution to the Department in the amount of \$1,617. (*Silver Spring Resident Office*)

### FORMER INTERN INDICTED FOR THREATENING NOAA EMPLOYEE

A former NOAA intern was indicted in U.S. District Court for the District of South Carolina on one count of interstate communication of a threat, after a joint OIG-FBI investigation disclosed that he had sent an e-mail from Virginia to a NOAA employee in South Carolina, in which he threatened the employee with bodily harm. The former intern contended that he sent the threatening message because the NOAA employee had treated him abusively and was responsible for termination of the internship. (*Atlanta Field Office*)

### NIST SCIENTIST RESIGNS AMID CHARGES OF ACCESSING PORNOGRAPHY ON GOVERNMENT COMPUTERS

Computer forensics were key to our investigation into allegations that a NIST research scientist had used government computers to access child pornography. The employee admitted misusing government equipment, but denied accessing child pornography. He was immediately placed on administrative leave by NIST, pend-

ing the outcome of our investigation, which is ongoing. He subsequently resigned from federal service. (*Washington Field Office*)

### USPTO EMPLOYEE TERMINATED FOLLOWING FRAUD CONVICTION

Our September 2003 issue (page 44) detailed an OIG investigation that resulted in the conviction of a former USPTO employee for fraudulent use of a fellow employee's social security number to illegally obtain several credit cards. In October 2003, the individual was officially terminated from his position at USPTO. (*Silver Spring Resident Office*)

### INVESTIGATIVE STATISTICAL HIGHLIGHTS FOR THIS PERIOD

Criminal Investigative Activities	
Arrests	1
Indictments and informations	3
Convictions	2
Personnel actions	6
Fines, restitutions, judgments, and other civil and administrative recoveries	\$2,803
Allegations Processed	
Accepted for investigation	31
Referred to operating units	55
Evaluated but not accepted for investigation or referral	11
<b>TOTAL</b>	<b>97</b>

# TABLES AND STATISTICS

## STATISTICAL OVERVIEW

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## AUDIT RESOLUTION AND FOLLOW-UP

The Inspector General Act Amendments of 1988 require us to present in this report those audits issued before the beginning of the reporting period (October 1, 2003) for which no management decision had been made by the end of the period (March 31, 2004). Three NIST audit reports remain unresolved for this reporting period (see page 45).

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.

**TABLE 1. AUDIT RESOLUTION FOLLOW-UP**

Report Category	Modifications	Appeals
Actions pending (October 1, 2003)	0	21
Submissions	0	4
Decisions	0	16
Actions pending (March 31, 2004)	0	9

**TABLE 2. AUDIT AND INSPECTION STATISTICAL HIGHLIGHTS FOR THIS PERIOD**

Questioned costs	\$6,906,613
Value of audit recommendations that funds be put to better use	6,603,432
Value of audit recommendations agreed to by management	6,260,532
Value of inspection recommendations that funds be put to better use	16,088

**DEFINITIONS OF TERMS USED IN THE TABLES**

**Questioned cost:** a cost questioned by 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.

**Unsupported cost:** a cost that, at the time of the audit, is not supported by adequate documentation. Questioned costs include unsupported costs.

**Recommendation that funds be put to better use:** an OIG recommendation 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 specifically identified.

**Management decision:** 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 3. AUDITS WITH QUESTIONED COSTS**

Report Category	Number	Questioned Costs	Unsupported Costs
A. Reports for which no management decision had been made by the beginning of the reporting period	19	\$9,091,850	\$1,610,513
B. Reports issued during the reporting period	30	6,906,613	3,599,467
Total reports (A+B) requiring a management decision during the reporting period <sup>1</sup>	49	15,998,463	5,209,980
C. Reports for which a management decision was made during the reporting period <sup>2</sup>	18	5,596,480	1,604,573
i. Value of disallowed costs		3,257,107	817,280
ii. Value of costs not disallowed		2,364,388	813,435
D. Reports for which no management decision had been made by the end of the reporting period	31	10,401,983	3,605,407

<sup>1</sup> Seven audit reports included in this table are also included among reports with recommendations that funds be put to better use (see table 4). However, the dollar amounts do not overlap.

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

**TABLE 4. 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 beginning of the reporting period	8	\$13,675,585
B. Reports issued during the reporting period	8	6,603,432
Total reports (A+B) requiring a management decision during the reporting period <sup>1</sup>	16	20,279,017
C. Reports for which a management decision was made during the reporting period <sup>2</sup>	6	10,278,657
i. Value of recommendations agreed to by management		3,003,425
ii. Value of recommendations not agreed to by management		7,275,232
D. Reports for which no management decision had been made by the end of the reporting period	10	10,000,360

<sup>1</sup>Seven audit reports included in this table are also included in the reports with questioned cost (see table 3). However, the dollar amounts do not overlap.

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

#### APPENDIX A. REPORT TYPES THIS PERIOD

Type	Number of Reports	Appendix Number
Performance audits	4	A-1
Financial assistance audits	8	A-2
Financial statements audits	6	A-3
Inspections and systems evaluations	7	A-4
<b>Total</b>	<b>25</b>	

**APPENDIX A-1. PERFORMANCE AUDITS**

<b>Report Title</b>	<b>Report Number</b>	<b>Date Issued</b>	<b>Funds to Be Put to Better Use</b>
<b>Economic and Statistics Administration</b>			
Improvements Needed in the Reporting of Performance Measures by the U.S. Census Bureau	FSD-15990-4-0001	03/29/04	—
<b>National Institute of Standards and Technology</b>			
NIST's Patent License Agreement Process Needs Improvement	STD-16009-4-0001	12/18/03	—
<b>National Oceanic and Atmospheric Administration</b>			
NOAA Needs to Use Appropriate Funding Instruments to Acquire Support Services for the Northwest Fisheries Science Center	STL-15753-4-0001	01/12/04	—
Property Controls at the National Weather Service Radar Operations Center Need Improvement	STL-15720-4-0001	03/31/04	—

## APPENDIX A-2. FINANCIAL ASSISTANCE AUDITS

Report Title	Report Number	Date Issued	Value of Funds to Be Put to Better Use	Federal Amount Questioned	Federal Amount Unsupported
<b>Economic Development Administration</b>					
The Government of the District of Columbia's Department of Housing and Community Development	ATL-15984-4-0001	12/23/03	\$1,772,666		
City of Houston/Midtown Redevelopment Authority, TX	DEN-15908-4-0001	02/27/04		\$112,990	
Pease Development Authority, NH	ATL-16544-4-0001	03/26/04	146,123		
North Central Pennsylvania Regional Planning & Development Commission	ATL-16512-4-0001	03/31/04	409,606		
<b>Minority Business Development Agency</b>					
Arizona Statewide Native American Business Development Center, Operated by the National Center for Native American Enterprise Development	STL-15885-4-0001	12/22/03		8,579	
California Statewide Native American Business Development Center, Operated by the National Center for Native American Enterprise Development	STL-15885-4-0003	03/11/04		25,061	
Northwest Native American Business Development Center, WA, Operated by the National Center for Native American Enterprise Development	STL-15885-4-0002	3/26/04		3,337	3,337
<b>National Institute of Standards and Technology</b>					
XiDEM, Inc., UT	DEN-16157-4-0001	3/30/04		782,763	782,763

**APPENDIX A-3. FINANCIAL STATEMENTS AUDITS**

<b>Report Title</b>	<b>Report Number</b>	<b>Date Issued</b>
<b>National Technical Information Service</b>		
Financial Statements Fiscal Year 2003	FSD-16073-4-0001	12/12/03
Assessment of Information Technology Controls Supporting NTIS' Financial Management Systems FY 2003 Financial Statement Audit	FSD-16074-4-0001	12/12/03
<b>Office of the Secretary</b>		
Consolidated Financial Statements Fiscal Year 2003	FSD-16071-4-0001	12/11/03
Assessment of Information Technology Controls Supporting DOC's Financial Management Systems FY 2003 Financial Statement Audit	FSD-16072-4-0001	12/15/03
<b>United States Patent and Trademark Office</b>		
Financial Statements Fiscal Year 2003	FSD-16075-4-0001	12/01/03
Assessment of Information Technology Controls Supporting USPTO's Financial Management Systems FY 2003 Financial Statement Audit	FSD-16076-4-0001	12/12/03

## APPENDIX A-4. INSPECTIONS AND SYSTEM EVALUATIONS

Report Title	Report Number	Date Issued	Funds to Be Put to Better Use
<b>Bureau of Industry and Security</b>			
Deemed Export Controls May Not Stop the Transfer of Sensitive Technology to Foreign Nationals in the U.S.	IPE-16176	3/31/04	—
Annual Follow-Up Report on Previous Export Control Recommendations, as Mandated by the National Defense Authorization Act for Fiscal Year 2000	IPE-16178	3/31/04	—
<b>International Trade Administration</b>			
Chicago USEAC Network is Generally Operating Well But Needs to Improve Its Export Success Reporting	IPE-16136	2/20/04	\$16,088
Pacific Northwest USEAC Network Generally Operates Well, But Export Success Reports Need More Management Scrutiny	IPE-16507	3/31/04	—
Philadelphia USEAC Network Provides Good Service to Clients, but Oversight and Export Success Reporting Need to be Improved	IPE-16402	3/31/04	—
<b>National Oceanic and Atmospheric Administration</b>			
NOAA Corps Has Improperly Handled Confirmation of Officer Appointments and Promotions	IPE-16138	2/27/04	—
NMFS Observer Programs Should Improve Data Quality, Performance Monitoring, and Outreach Efforts	IPE-15721	3/31/04	—



## APPENDIX B. PROCESSED AUDIT REPORTS

The Office of Inspector General reviewed and accepted 216 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 .....	62
Minority Business Development Agency .....	2
National Institute of Standards and Technology* .....	101
National Oceanic and Atmospheric Administration .....	20
National Telecommunications Information Administration .....	4
Multiagency .....	18
Agency not identified .....	9
<b>Total .....</b>	<b>216</b>

\*Includes 89 ATP program-specific audits.

**APPENDIX B 1. PROCESSED REPORTS WITH AUDIT FINDINGS**

<b>Report Title</b>	<b>Report Number</b>	<b>Date Issued</b>	<b>Value of Funds to Be Put to Better Use</b>	<b>Federal Amount Questioned</b>	<b>Federal Amount Unsupported</b>
<b>Economic Development Administration</b>					
Regional Development Funding Corporation, PA	ATL-09999-4-1659	02/18/04			
State of Rhode Island	ATL-09999-4-1746	03/18/04	\$3,486,000		
Operation Hope, Inc., CA	ATL-09999-4-1714	03/31/04		\$159,624	
City of Hutchinson, KS	ATL-09999-4-1748	03/31/04		4,860	
Alabama State Port Authority	ATL-09999-4-1802	03/31/04		696,000	
<b>National Institute of Standards and Technology</b>					
Cell Based Delivery, Inc., RI	ATL-09999-3-1584	11/06/03		6,512	6,512
CIIMPLEX Consortium, c/o IBM Corporation, NY	DEN-09999-4-1414	12/03/03		190,874	
BlueLeaf, Inc., CA	DEN-09999-4-1244	12/11/03		268,086	249,855
MTI MicroFuel Cells, Inc., NY	DEN-09999-4-1313	12/12/03		12,478	
Merix Corporation, OR	ATL-09999-4-1619	12/17/03	14,819	137,330	
Planar Systems, Inc., OR	DEN-09999-4-0984	12/22/03		336,484	
Titan Technologies, CA	DEN-09999-4-1488	01/08/04		41,199	37,183
Honeywell International, Inc., MN	DEN-09999-4-1489	01/15/04		42,353	
Asyst Technologies, Inc., CA	DEN-09999-4-1491	01/22/04		75,587	4,934
Maxygen, Inc., CA	DEN-09999-4-1399	01/27/04		31,988	
Plug Power, Inc., NY	DEN-09999-4-1493	01/29/04		97,114	
StrikoDynarad Corporation, MI	DEN-09999-4-1494	01/29/04		7,721	
Asyst Technologies, Inc., CA	DEN-09999-4-1492	01/30/04	19,153	47,421	30,795
Varian Medical System's Ginzton Technology Center, CA	ATL-09999-4-1536	03/11/04		57,620	57,620

**APPENDIX B 1. PROCESSED REPORTS WITH AUDIT FINDINGS (CONT'D.)**

<b>Report Title</b>	<b>Report Number</b>	<b>Date Issued</b>	<b>Value of Funds to Be Put to Better Use</b>	<b>Federal Amount Questioned</b>	<b>Federal Amount Unsupported</b>
<b>National Institute of Standards and Technology (cont'd.)</b>					
Honeywell International, Inc., MN	ATL-09999-4-1663	03/11/04		128,912	128,912
Michigan Economic Development Corporation	ATL-09999-4-1671	03/18/04			
Real-Time Innovations., CA	DEN-09999-4-1401	03/18/04		29,892	29,892
Lightwave Microsystems Corp., CA	DEN-09999-4-1408	03/18/04		209,494	15,505
Lilliputian Systems, Inc., MA	ATL-09999-4-1820	03/25/04	240,353	119,396	119,396
PolyFuel, Inc., CA	DEN-09999-4-1400	03/29/04		56,408	10,375
Minnesota Technologies, Inc.	ATL-09999-4-1702	03/30/04	514,712	1,864,604	1,850,637
3M Company, MN	ATL-09999-4-1502	03/31/04		1,080,175	
<b>National Oceanic and Atmospheric Administration</b>					
Cameron Parish Police Jury, LA	ATL-09999-4-1775	03/31/04		271,751	271,751

# REPORTING REQUIREMENTS

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

Section	Topic	Page
4(a)(2)	Review of Legislation and Regulations	55
5(a)(1)	Significant Problems, Abuses, and Deficiencies	14-41
5(a)(2)	Significant Recommendations for Corrective Action	14-41
5(a)(3)	Prior Significant Recommendations Unimplemented	55
5(a)4	Matters Referred to Prosecutive Authorities	43-44
5(a)(5) and 6(b)(2)	Information or Assistance Refused	43-44
5(a)(6)	Listing of Audit Reports	45-54
5(a)(7)	Summary of Significant Reports	14-41
5(a)(8)	Audit Reports—Questioned Costs	46
5(a)(9)	Audit Reports—Funds to Be Put to Better Use	47
5(a)(10)	Prior Audit Reports Unresolved	56
5(a)(11)	Significant Revised Management Decisions	56
5(a)(12)	Significant Management Decisions with which OIG Disagreed	56

## 4(A)(2): REVIEW OF LEGISLATION AND REGULATIONS

This section requires the inspector general of each agency to review existing and proposed legislation and regulations relating to that agency’s programs and operations. Based on this review, the inspector general is required to make recommendations in the semi-annual report concerning the impact of such legislation or regulations on the economy and efficiency of the management of programs and operations administered or financed by the agency or on the prevention and detection of fraud and abuse in those programs and operations. Comments concerning legislative and regu-

latory initiatives affecting Commerce programs are discussed, as appropriate, in relevant sections of the report.

## SECTION 5(A)(3): PRIOR SIGNIFICANT RECOMMENDATIONS UNIMPLEMENTED

This section requires identification of each significant recommendation described in previous semiannual reports for which corrective action has not been completed. Section 5(b) requires that the Secretary transmit to Congress statistical tables showing the number and value of audit reports for which no final action has been

taken, plus an explanation of the reasons why recommended action has not occurred, except when the management decision was made within the preceding year.

To include a list of all significant unimplemented recommendations in this report would be duplicative, costly, unwieldy, and of limited value to Congress. Any list would have meaning only if it explained whether adequate progress is being made to implement each agreed-upon corrective action. Management updates the Department's Audit Tracking System annually, most recently as of July 2003. Information on the status of any audit recommendations can be obtained through OIG's Office of Audits.

#### **SECTIONS 5(A)(5) AND 6(B)(2): INFORMATION OR ASSISTANCE REFUSED**

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

#### **SECTION 5(A)(10): PRIOR AUDIT REPORTS UNRESOLVED**

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

the desired timetable for delivering a decision on each such report. There were three NIST reports more than 6 months old.

#### **SECTION 5(A)(11): SIGNIFICANT REVISED MANAGEMENT DECISIONS**

This section requires an explanation of the reasons for any significant revision to a management decision made during the reporting period. Department Administrative Order 213-5, Audit Resolution and Follow-up, provides procedures for revising a management decision. For performance audits, OIG must be consulted and must approve in advance any modification to an audit action plan. For financial assistance audits, OIG must concur with any decision that would change the audit resolution proposal in response to an appeal by the recipient. The decisions issued on the 16 appeals of audit-related debts were finalized with the full participation and concurrence of OIG.

#### **SECTION 5(A)(12): SIGNIFICANT MANAGEMENT DECISIONS WITH WHICH OIG DISAGREED**

This section requires information concerning any significant management decision with which the inspector general disagrees. Department Administrative Order 213-5 provides procedures for elevating unresolved audit recommendations to higher levels of Department and OIG management, including their consideration by an Audit Resolution Council. During this period no audit issues were referred to the council.

# ACRONYMS

ATP ..... Advanced Technology Program

BEA ..... Bureau of Economic Analysis

BIS ..... Bureau of Industry and Security (formerly Bureau of Export Administration)

CAMS ..... Commerce Administrative Management System

CIO ..... chief information officer

CCL ..... Commerce Control List

COTR ..... contracting officers’ technical representative

ECASS ..... Export Control Automated Support System

EDA ..... Economic Development Administration

ESA ..... Economics and Statistics Administration

FFMIA ..... Federal Financial Management Improvement Act

FISCAM ..... Federal Information System Controls Manual

FISMA ..... Federal Information Management Security Act

GPRA ..... Government Performance and Results Act

GWAC ..... government-wide agency contract

IG ..... inspector general

IT ..... information technology

ITA ..... International Trade Administration

MAF ..... master address file

MASC ..... Mountain Administrative Support Center

MBDA ..... Minority Business Development Agency

MBOC ..... Minority Business Opportunity Committee

MEP ..... Manufacturing Extension Partnership

NDA	National Defense Authorization Act
NIST	National Institute of Standards and Technology
NMFS	National Marine Fisheries Service
NOAA	National Oceanic and Atmospheric Administration
NSF	National Science Foundation
NTIA	National Telecommunications and Information Administration
NTIS	National Technical Information Service
NWS	National Weather Service
OAM	Office of Acquisition Management
OGC	Office of General Counsel
OIG	Office of Inspector General
OMB	Office of Management and Budget
PAR	<i>FY 2002 Performance &amp; Accountability Report</i>
POA&M	plan of action and milestone
QAR	quality assessment review
RLF	revolving loan fund
ROC	Radar Operations Center
TIGER	Topologically Integrated Geographic Encoding and Referencing
TPS	transition power source
UCAR	University Corporation for Atmospheric Research
USEAC	U.S. export assistance center
US&FCS	U.S. and Foreign Commercial Service
USPTO	U.S. Patent and Trademark Office

# Types of OIG Work Products

The various kinds of audits, evaluations, inspections, and investigations at our disposal enable the IG's office to assess Commerce programs and operations from a range of perspectives. Thus we are able to provide program managers with reviews and recommendations that are either narrowly focused or comprehensive, as needed, to aid them in ensuring the most efficient and effective use of taxpayer dollars.

## AUDITS

**Performance Audits** address 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. They may also involve review of final contract cost claims or review of financial assistance awards by assessing an award recipient's compliance with laws, regulations, and award terms; the allowability and reasonableness of claimed costs; and the degree to which projects achieved intended results.

**Financial Audits** determine whether (1) a reporting entity's financial statements are presented fairly and in accordance with generally accepted accounting principles; (2) the entity has an internal control structure that provides reasonable assurance of achieving the control objectives set forth by OMB; and (3) the entity complied with laws and regulations that could have a direct and material effect on the financial statements, the Federal Financial Management Improvement Act, and other laws and regulations.

**Attestation Engagements** involve examining, reviewing, or performing agreed-upon procedures on a subject matter or an assertion about a subject matter and reporting the results. Attestation engagements can have a broad range of financial or nonfinancial focuses, such as an entity's compliance with laws and regulations and management's discussion and analysis presentations.

## INSPECTIONS

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

## EVALUATIONS

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

**Systems Evaluations** review system development, acquisitions, operations, and policy, focusing on computer systems and other technologies.

## INVESTIGATIONS

**Investigations** are conducted based on alleged or suspected wrongdoing by Department employees, contractors, recipients of financial assistance, and others responsible for handling federal resources. Investigations that expose violations of Department rules and regulations or acts of fraud committed against the U.S. government can result in administrative sanctions and/or criminal or civil prosecution.