

THE INSPECTOR GENERAL'S STATEMENT OF MANAGEMENT CHALLENGES

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*Inspector General
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Challenge: Strengthen Department-Wide Information Security

The Department continues to face considerable challenges in adequately safeguarding its numerous systems that contain data of national significance. Notwithstanding some important progress, OIG's FY 2003 and 2004 Federal Information Security Management Act (FISMA) evaluations have identified problems in several critical areas including assessing risk and determining appropriate security controls, testing and evaluating security controls, and certifying and accrediting systems. Of particular concern have been our 2004 FISMA findings of significant problems with certification and accreditation packages for some of Commerce's national and mission-critical systems. In addition, our evaluation of the Department's computer incident response capability found that improvements are needed to provide a Commerce-wide view of the reported IT vulnerabilities throughout the Department and its bureaus as well as identification and awareness of threats needed to ensure effective incident response.

The Department continues to focus on improving its information security and, as noted, has made progress in developing an effective information security program. The Department's CIO and other cognizant officials have indicated that they are working to address our concerns, including developing a plan to address computer incident response issues.

Challenge: Effectively Manage Departmental and Bureau Acquisition Processes

Effective management of the acquisition processes is a challenge for the Department and its bureaus. In particular, the Department must work to ensure that taxpayer dollars are spent wisely and that applicable laws and regulations are followed when executing and operating under the new streamlined acquisition processes. OIG has identified problems with improper use of purchase cards, poor COTR oversight, and problems with service contracting including failure to use performance-based task orders and insufficient planning for contract administration and monitoring.

The Departmental and bureaus' procurement officials have acknowledged the need for greater emphasis on acquisition planning and management and the Department has informed OIG that its Office of Acquisition Management is pursuing improvements including the establishment of a review board to oversee all major acquisitions. We are currently monitoring certain Commerce major acquisitions, such as several related to the 2010 decennial census, and plan to review the acquisition management process at selected bureaus. In response to increased concern from OIG, Congress, and OMB, the Department's Office of Acquisition Management and some bureaus are (1) taking specific actions to improve their acquisition processes such as new policies, improved procedures, increased oversight, and increased training, and (2) implementing a purchase card improvement plan.

Challenge: Successfully Operate the U.S. Patent and Trademark Office as a Performance-Based Organization

The successful implementation and ultimate operation of the PTO as a performance-based organization is, by its very nature, a challenge filled with both risk and opportunity. PTO's ability to issue patents efficiently has an enormous impact on the pace of technological advancement worldwide, and it is essential that PTO use its expanded performance-based organization authority over budget, personnel, procurement, and information technology operations to process patents and trademarks in an effective, efficient, and timely manner. Recent OIG reviews have identified issues that warrant management's attention including problems with performance appraisal plans and awards, and PTO's human resource policies and issues surrounding patent examiner production goals.

For its part, PTO has been responsive to our concerns and has, for example, informed us that it has taken action to address human resource issues. Moreover, our examination of PTO's progress on construction of its new headquarters complex found that PTO and GSA provided adequate project management and financial oversight of the project.

Challenge: Control the Cost and Improve the Accuracy of Census 2010

In many respects, the Department faces the same primary challenges for the 2010 census that it has faced for the last three decennial censuses: the need for earlier planning and lack of upfront funding for such a monumental undertaking. As we have identified in our close monitoring during the 1980, 1990, and 2000 decennials, the inherent nature of the decennial censuses require long-term vision, effective planning and development, as well as critical testing at key milestones. Our recent assessment of Census's progress in modernizing its address and mapping processing system revealed that its 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.

Likewise, OIG's recent assessments of Census's 2004 tests of new approaches to conducting census operations and improving data quality and coverage identified a number of concerns and hence, opportunities for addressing problems with (1) data transmissions, (2) technical support to the field, (3) the bureau's system and software engineering practices, and (4) enumerator training.

On a positive note, Census officials have generally been responsive to our observations and recommendations, and are also taking steps to improve the accuracy and control costs for the 2010 census. For example, Census has adopted a strategy for conducting the decennial that includes eliminating the long form, improving map and address files, and using hand-held computers in place of paper for key field operators.

Challenge: Increase the Effectiveness of Marine Resource Management

Balancing its competing mission goals of promoting commercial and recreational fishing as a vital part of the national economy and preserving fish and marine life population is a challenge for the National Marine Fisheries Service, NOAA, and the Department. Prior OIG work has identified concerns with NMFS' national observer, fishery enforcement, and salmon recovery programs. OIG has initiated a review of the Pacific Coast Salmon Recovery Fund; the purpose of this fund is to aid in the recovery of endangered and threatened Pacific coast salmon. OIG's preliminary review focusing on the recovery funds granted by NOAA to the Pacific Coastal Tribes' Northwest Indian Fisheries Commission found that the Commission may need to strengthen program management to ensure that tribes follow grant terms and conditions related to allowable costs.

On September 20, 2004, the U.S. Commission on Ocean Policy issued a final report to Congress and the President on findings and recommendations for a coordinated and comprehensive ocean policy which reportedly will guide development of national ocean policy for the future. We plan to conduct work in a number of areas identified in the Commission's report.

Challenge: Promote Fair Competition in International Trade

The growing number and complexity of trade agreements the Department is responsible for monitoring and enforcing presents a management challenge. The Department must ensure that its export promotion assistance, trade compliance, and market access efforts adequately serve U.S. exporters and that its enforcement of U.S. trade laws helps eliminate unfair competition. OIG's review of U.S. Export Assistance Centers found that the Centers were doing a good job of providing export assistance to U.S. companies and collaborating well with trade partners. However, our work has also disclosed inconsistencies in critical reporting and oversight that, in turn has led to overstated accomplishments. Likewise our reviews of overseas operations in India, Greece, and Turkey found that these posts also overstated the value of their export successes. OIG's analysis of issues identified at three USEAC networks (28 individual USEAC offices) also found that full costs for certain fee-based products and services were not being recovered as required by OMB Circular A-25.

The International Trade Administration (ITA) has reported that it is taking steps to address these problems.

Challenge: Enhance Export Controls for Dual-Use Commodities

Advancing U.S. national and economic security interests through export controls is a challenge for the Department's Bureau of Industry and Security, particularly as hostile nations and terrorist groups pose a threat to global security. OIG has completed five reviews of export controls with other Inspectors General. Our most recent review focused on controls on deemed exports, or the transfer of controlled technology to foreign nationals in the U.S. and identified some problems that impede efforts to effectively prevent the transfer of sensitive technology to such persons. OIG found that certain aspects of BIS' deemed export outreach program are working well. We are currently conducting a review of the dual use export licensing process for chemical and biological commodities.

Our March 2004 Semiannual Report to Congress reveals that BIS has successfully addressed many outstanding issues from 2000 although numerous recommendations from other years remain open.

Challenge: Enhance Emergency Preparedness, Safety, and Security of Commerce Facilities and Personnel

The Department faces a continuing challenge to ensure that it adequately provides for the safety and security of employees and operations, particularly with the increasing demands of heightened security. The size of its workforce and the geographic spread of its hundreds of facilities nationwide and at more than 150 overseas locations present a major challenge for the Department in its effort to comply with security-related guidance.

The Department is making progress on many emergency preparedness, safety, and security fronts. The Department has reported a number of actions to enhance security including conducting numerous compliance reviews of security containers and classified documents to help ensure the safety of national security information and updating continuity of operations and emergency operations plans.

Challenge: Strengthen Financial Management Controls and Systems

Financial management controls and systems remain a management challenge for the Department. The Department improved its financial management as evidenced by achieving and maintaining unqualified opinions on its consolidated financial statements, implementing the Commerce Administrative Management System, and achieving substantial compliance with the Federal Financial Management Improvement Act. This progress resulted from both significant management commitment and attention to the efforts of financial management personnel to address recommendations related to specific deficiencies in internal controls and financial management systems identified by OIG work.

A great deal of effort, time, and money has been invested to get the Department to this point—far too much for it *not* to continue to aggressively deal with the issues that remain. These issues include the maintenance and operations of its systems, strengthening internal controls, the use of effective change management for updates to software supporting the Department's systems, and the use of consistent policies and procedures throughout the Department.

Challenge: Continue to Improve the Department's Strategic Planning and Performance Measurement in Accordance with the Government Performance and Results Act (GPRA)

The collection and reporting of accurate, valid performance data for the GPRA is a challenge for the Department. Specifically, OIG audits have repeatedly identified the need for stronger internal controls to ensure accuracy of reported data, clear performance measures, and improved explanations of results. Our most recent audits of performance measures at NOAA and Census found that reporting for many of their performance goals needed improvement.

The Department and its bureaus have been responsive to OIG's recommendations and has generally developed corrective action plans to address shortcomings we identified.

MANAGEMENT CHALLENGES AND ACTIONS

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

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

The following is the Department's description of its actions to address the management challenges identified by the Inspector General (IG).

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

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

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

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

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

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MANAGEMENT CHALLENGES *(continued)*

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