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

November 9, 2006

MEMORANDUM FOR: Carlos M. Gutierrez
Secretary of Commerce

FROM: Johnnie E. Frazier

SUBJECT: *Department of Commerce's FY 2006 Consolidated Financial Statements*, Audit Report No. FSD-18004-7-0002

I am pleased to provide you with the attached audit report, which presents an unqualified opinion on the Department of Commerce's FY2006 consolidated financial statements. The audit results indicate that the Department has established an internal control structure that facilitates the preparation of reliable financial and performance information. We commend the Department for the noteworthy accomplishment of once again attaining an unqualified opinion—the eighth consecutive year—and for meeting the fiscal year 2006 accelerated reporting deadline.

My office contracted with the independent public accounting firm of KPMG LLP (KPMG) to perform the audit of the Department's financial statements for the year ended September 30, 2006. The contract required that the audit be done in accordance with U.S. generally accepted government auditing standards and OMB Bulletin 06-03, *Audit Requirements for Federal Financial Statements.*

In its audit of the Department, KPMG found that

- the financial statements were fairly presented, in all material respects and in conformity with U.S. generally accepted accounting principles;
- there was one reportable condition related to weaknesses in controls over the Department's financial management systems (but not considered a material weakness in internal control as defined on page 3 of the audit report);
- there were no instances in which the Department's financial management systems did not substantially comply with the requirements of the Federal Financial Management Improvement Act of 1996; and
- there was one instance in which the Department did not comply with other laws and regulations (the Anti-Deficiency Act).

My office defined the audit's scope and oversaw its performance and delivery. We reviewed KPMG's report and related documentation and made inquiries of its representatives. Our review disclosed no instances where KPMG did not comply, in all material respects, with U.S. generally

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accepted government auditing standards. However, our review cannot be construed as an audit in accordance with U.S. generally accepted government auditing standards. It was not intended to enable us to express, and we do not express, any opinion on the Department's consolidated financial statements, conclusions about the effectiveness of internal controls, or conclusions on compliance with laws and regulations. KPMG is solely responsible for the attached audit report dated November 8, 2006, and the conclusions expressed in the report.

We are pleased that the Department made some improvements in general information technology controls during FY 2006. These successes are evidence of the Department's continued commitment to sound financial management and reliable financial/performance information. This also demonstrates the efforts of the Department's financial managers and staff to improve internal controls and eliminate specific deficiencies previously identified in audits by KPMG and our office.

In accordance with Department Administrative Order (DAO) 213-5, we ask that an audit action plan be submitted for our review and concurrence within 60 days of the date of this memorandum. To streamline the process, we suggest that you provide an action plan as part of the response to the separate, limited-distribution IT general controls report (FSD-18004-7-0001). The plan should address each of the report's recommendations and be formatted as specified in exhibit 7 of the DAO or as agreed upon with my office. It should give specific details and dates for how and when each recommendation will be implemented; and if there are any that you choose not to implement, it must provide the rationale and/or legal basis behind the decision.

If you wish to discuss the contents of this report, please call me on (202) 482-4661, or Elizabeth Barlow, Deputy Inspector General, on (202) 482-3516. We appreciate the cooperation and courtesies the Department extended to both KPMG and my staff during the audit.

Attachment

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

Barry C. West
Chief Information Officer

KPMG LLP
2001 M Street, NW
Washington, DC 20036

INDEPENDENT AUDITORS' REPORT

Inspector General, U.S. Department of Commerce and
Secretary, U.S. Department of Commerce:

We have audited the accompanying consolidated balance sheets of the U.S. Department of Commerce (Department) as of September 30, 2006 and 2005, and the related consolidated statements of net cost, changes in net position, and financing, and the combined statements of budgetary resources (hereinafter referred to as consolidated financial statements) for the years then ended. The objective of our audits was to express an opinion on the fair presentation of these consolidated financial statements. In connection with our fiscal year 2006 audit, we also considered the Department's internal controls over financial reporting, Required Supplementary Stewardship Information (RSSI), and performance measures, and tested the Department's compliance with certain provisions of applicable laws, regulations, contracts, and grant agreements that could have a direct and material effect on these consolidated financial statements.

Summary

As stated in our opinion on the consolidated financial statements, we concluded that the Department's consolidated financial statements as of and for the years ended September 30, 2006 and 2005, are presented fairly, in all material respects, in conformity with U.S. generally accepted accounting principles.

As discussed in our opinion, in fiscal year 2006, the Department adopted new reporting requirements for earmarked funds.

Our consideration of internal controls over financial reporting, RSSI, and performance measures resulted in the identification of one reportable condition related to the weaknesses in the Department's general information technology controls. However, we do not consider this reportable condition to be a material weakness.

The results of our tests of compliance with certain provisions of laws, regulations, contracts, and grant agreements disclosed one matter of noncompliance that is required to be reported under *Government Auditing Standards*, issued by the Comptroller General of the United States, and Office of Management and Budget (OMB) Bulletin No. 06-03, *Audit Requirements for Federal Financial Statements*.

The following sections discuss our opinion on the Department's consolidated financial statements; our consideration of the Department's internal controls over financial

reporting, RSSI, and performance measures; our tests of the Department's compliance with certain provisions of applicable laws, regulations, contracts, and grant agreements; and management's and our responsibilities.

Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated balance sheets of the U.S. Department of Commerce as of September 30, 2006 and 2005, and the related consolidated statements of net cost, changes in net position, and financing, and the combined statements of budgetary resources for the years then ended.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Department as of September 30, 2006 and 2005, and its net costs, changes in net position, budgetary resources, and reconciliation of net costs to budgetary obligations for the years then ended, in conformity with U.S. generally accepted accounting principles.

As discussed in Note 1 to the consolidated financial statements, the Department changed its method of reporting earmarked funds in fiscal year 2006 to adopt the provisions of the Federal Accounting Standards Advisory Board's Statement of Federal Financial Accounting Standards No. 27, *Identifying and Reporting Earmarked Funds*.

The information in the Management Discussion and Analysis, RSSI, and Required Supplementary Information sections is not a required part of the consolidated financial statements, but is supplementary information required by U.S. generally accepted accounting principles and OMB Circular No. A-136, *Financial Reporting Requirements*. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of this information. However, we did not audit this information and, accordingly, we express no opinion on it.

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The September 30, 2006 consolidating balance sheet is presented for purposes of additional analysis of the consolidated balance sheet rather than to present the financial position of the Department's bureaus individually. The September 30, 2006 consolidating balance sheet has been subjected to the auditing procedures applied in the audits of the consolidated financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the September 30, 2006 consolidated balance sheet taken as a whole. The information in the FY 2006 Performance Section, Appendices, and the information on pages IV through VIII are presented for purposes of additional analysis and are not required as part of the consolidated financial statements. This information has not been subjected to auditing procedures and, accordingly, we express no opinion on it.

Internal Control over Financial Reporting

Our consideration of internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be reportable conditions. Under standards issued by the American Institute of Certified Public Accountants, reportable conditions are matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Department's ability to record, process, summarize, and report financial data consistent with the assertions by management in the consolidated financial statements.

Material weaknesses are reportable conditions in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud, in amounts that would be material in relation to the consolidated financial statements being audited, may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Because of inherent limitations in internal control, misstatements due to error or fraud may nevertheless occur and not be detected.

In our fiscal year 2006 audit, we noted one matter relating to the Department's financial management systems, summarized below and in more detail in Exhibit I that we consider to be a reportable condition. However, this reportable condition is not believed to be a material weakness.

> **General information technology controls**. We found that although the Department has taken corrective actions to address certain information technology (IT) control weaknesses, general IT weaknesses still exist. Despite the positive efforts made by the Department, the Department needs to make continued improvement in its IT general control environment to fully ensure that financial data being processed on the Department's systems has integrity, is confidentially maintained, and is available when needed.

A summary of the status of the Department's prior year reportable conditions is included as Exhibit II.

We also noted certain additional matters that we reported to the management of the Department in two separate documents addressing information technology and other matters, respectively.

Internal Controls over Required Supplementary Stewardship Information and Performance Measures

Under OMB Bulletin No. 06-03, the definition of material weaknesses is extended to other controls as follows. Material weaknesses are reportable conditions in which the design or operation of one or more of the internal control components does not reduce to

a relatively low level the risk that misstatements caused by error or fraud, in amounts that would be material in relation to the RSSI or material to a performance measure or aggregation of related performance measures, may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Because of inherent limitations in internal control, misstatements due to error or fraud may nevertheless occur and not be detected.

Our consideration of the internal control over the RSSI and the design and operation of internal control over the existence and completeness assertions related to key performance measures would not necessarily disclose all matters involving the internal control and its operation related to RSSI or the design and operation of the internal control over the existence and completeness assertions related to key performance measures that might be reportable conditions.

In our fiscal year 2006 audit, we noted no matters involving the internal control and its operation related to RSSI that we considered to be material weaknesses as defined above.

In our fiscal year 2006 audit, we noted no matters involving the design and operation of the internal control over the existence and completeness assertions related to key performance measures that we considered to be material weaknesses as defined above.

Compliance and Other Matters

Our tests of compliance with certain provisions of laws, regulations, contracts, and grant agreements, as described in the Responsibilities section of this report, exclusive of those referred to in the *Federal Financial Management Improvement Act of 1996* (FFMIA), disclosed instances of noncompliance with the Anti-Deficiency Act (ADA) that are required to be reported under *Government Auditing Standards* or OMB Bulletin No. 06-03, and are described below.

> **Anti-Deficiency Act.** As reported in the prior year, we were informed by the National Oceanic and Atmospheric Administration (NOAA) that during fiscal year 2005, the Department's Office of General Counsel (OGC) identified a license that contained an indemnification clause. NOAA reviewed other real property arrangements (such as leases and licenses), to ensure that those agreements did not contain indemnification clauses. NOAA found that 80 of 2,130 real property agreements, with the earliest signed in 1923, included indemnification clauses or provisions involving an indeterminate liability, or both. The OGC determined that these clauses or provisions were *prima facie* violations of the ADA, because those clauses constituted open-ended obligations of the U.S. Government, even though no liability claims were filed against the agreements. Each individual who signed those agreements and who is still a NOAA employee has been given administrative discipline under the Department of Commerce *Table of Offenses and Penalties*. The Secretary reported these violations to the President, the President of the Senate, the

Speaker of the House of Representatives, and the Comptroller General as required by 31 U.S.C. section 1351 on October 14, 2005. One additional lease was subsequently identified, bringing the total of licenses and lease agreements with this issue to 82. As of November 8, 2006, the date of our fiscal year 2006 Independent Auditors' Report, 75 agreements have been amended, terminated or expired, thereby eliminating future ADA concerns, and corrective actions are underway on the remaining 7 agreements. Six of the remaining agreements are being renegotiated to remove the clauses, and plans are being made to relocate the equipment covered by the remaining lease to another site in fiscal year 2007, because the lessor did not agree to make the necessary amendment.

As reported in the prior year, OGC informed us that during fiscal year 2005, Economic and Statistics Administration (ESA) identified a one-year agreement between ESA and a foreign government that contained an indemnification clause. As a result of this discovery, ESA conducted an investigation and located six previously executed one-year agreements for subscription services with the same party containing the same indemnification clause, bringing the total number of agreements with these clauses to 7. ESA concluded its investigation in fiscal year 2005 and issued the final report on October 21, 2005. Subsequently, OGC determined that the indemnification clauses were *prima facie* violations of the ADA because those clauses constituted open-ended obligations of the Government. All of these agreements have now expired and no liability claims were filed under the agreements. The Secretary reported these violations to the President, the President of the Senate, the Speaker of the House of Representatives, and the Comptroller General as required by 31 U.S.C. section 1351 on June 9, 2006.

The results of our tests of compliance with certain provisions of other laws and regulations, exclusive of those referred to in FFMIA, disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* or OMB Bulletin No. 06-03.

The results of our tests of FFMIA disclosed no instances in which the Department's financial management systems did not substantially comply with the three requirements discussed in the Responsibilities section of this report.

* * * * *

Responsibilities

Management's Responsibilities. The United States Code, Title 31, Sections 3515 and 9106 require agencies to report annually to Congress on their financial status and any other information needed to fairly present their financial position and results of

operations. To meet these reporting requirements, the Department prepares and submits financial statements in accordance with OMB Circular No. A-136.

Management is responsible for the consolidated financial statements, including:

- Preparing the consolidated financial statements in conformity with U.S. generally accepted accounting principles;

- Preparing the Management Discussion and Analysis (including the performance measures), Required Supplementary Information, and RSSI;

- Establishing and maintaining effective internal control; and

- Complying with laws, regulations, contracts, and grant agreements applicable to the Department, including FFMIA.

In fulfilling this responsibility, management is required to make estimates and judgments to assess the expected benefits and related costs of internal control policies.

Auditors' Responsibilities. Our responsibility is to express an opinion on the fiscal year 2006 and 2005 consolidated financial statements of the Department based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Bulletin No. 06-03. Those standards and OMB Bulletin No. 06-03 require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Department's internal control over financial reporting. Accordingly, we express no such opinion.

An audit also includes:

- Examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements;
- Assessing the accounting principles used and significant estimates made by management; and
- Evaluating the overall consolidated financial statement presentation.

We believe that our audits provide a reasonable basis for our opinion.

In planning and performing our fiscal year 2006 audit, we considered the Department's internal control over financial reporting by obtaining an understanding of the Department's internal control, determining whether internal controls had been placed in

operation, assessing control risk, and performing tests of controls in order to determine our auditing procedures for the purpose of expressing our opinion on the consolidated financial statements. We limited our internal control testing to those controls necessary to achieve the objectives described in *Government Auditing Standards* and OMB Bulletin No. 06-03. We did not test all internal controls relevant to operating objectives as broadly defined by the *Federal Managers' Financial Integrity Act of 1982*. The objective of our audit was not to provide an opinion on the Department's internal control over financial reporting. Consequently, we do not provide an opinion thereon.

As required by OMB Bulletin No. 06-03, in our fiscal year 2006 audit, we considered the Department's internal control over the RSSI by obtaining an understanding of the Department's internal control, determining whether these internal controls had been placed in operation, assessing control risk, and performing tests of controls. We limited our testing to those controls necessary to test and report on the internal control over RSSI in accordance with OMB Bulletin No. 06-03. However, our procedures were not designed to provide an opinion on internal control over the RSSI and, accordingly, we do not provide an opinion thereon.

As further required by OMB Bulletin No. 06-03, in our fiscal year 2006 audit, with respect to internal control related to performance measures determined by management to be key and reported in the Management Discussion and Analysis and Performance sections, we obtained an understanding of the design of internal controls relating to the existence and completeness assertions and determined whether these internal controls had been placed in operation. We limited our testing to those controls necessary to test and report on the internal control over key performance measures in accordance with OMB Bulletin No. 06-03. However, our procedures were not designed to provide an opinion on internal control over reported performance measures and, accordingly, we do not provide an opinion thereon.

As part of obtaining reasonable assurance about whether the Department's fiscal year 2006 consolidated financial statements are free of material misstatement, we performed tests of the Department's compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of the consolidated financial statement amounts, and certain provisions of other laws and regulations specified in OMB Bulletin No. 06-03, including certain provisions referred to in FFMIA. We limited our tests of compliance to the provisions described in the preceding sentence, and we did not test compliance with all laws, regulations, contracts, and grant agreements applicable to the Department. However, providing an opinion on compliance with laws, regulations, contracts, and grant agreements was not an objective of our audit and, accordingly, we do not express such an opinion.

Under OMB Bulletin No. 06-03 and FFMIA, we are required to report whether the Department's financial management systems substantially comply with (1) Federal financial management systems requirements, (2) applicable Federal accounting standards, and (3) the United States Government Standard General Ledger at the transaction level.

To meet this requirement, we performed tests of compliance with FFMIA Section 803(a) requirements.

Restricted Use

This report is intended solely for the information and use of the Department's management, the Department's Office of Inspector General, OMB, the U.S. Government Accountability Office, and the U.S. Congress and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

November 8, 2006

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Independent Auditors' Report
Exhibit I – Reportable Condition

Financial Management Systems Need Improvement ***(Repeat Condition Since 1998)***

For many years, the U.S. Department of Commerce (Department) Office of Inspector General (OIG), U.S. Government Accountability Office (GAO), and departmental self-assessments have identified weaknesses in the Department's information technology (IT) and financial systems controls. Our fiscal year 2006 assessment of the Department's general IT and financial systems controls, performed in support of the fiscal year 2006 consolidated financial statement audit, found that although the Department needs to make further progress with its general IT control environment, progress has been made in addressing many prior weaknesses. For example, during FY 2006 Commerce took several positive steps with its IT control processes, not only to improve controls and processes, but also to help address previously reported IT control weaknesses, including an IT security material weakness reported under the *Federal Managers' Financial Integrity Act* (FMFIA).

As in FY 2005, Commerce continued to focus on improving the Department's information security certification and accreditation program, which is a key information security management and technical control process. Additionally, in June 2006, operating units were required to comply with the requirements of the Department's revised *DOC IT Security Policy and Minimum Implementation Standards*. The guidance significantly updated DOC mandatory minimally acceptable implementation standards for the implementation of effective IT security programs at all bureaus and operating units. The policy incorporates, by reference, the most current Public Laws, Federal and Departmental regulations affecting security of Federal information systems. It also includes recommended management practices of the Federal government and private industry.

Despite these improvements, we continued to identify weaknesses in general IT controls that we consider to be a reportable condition as defined by the American Institute of Certified Public Accountants. As part of the Department's fiscal year 2006 FMFIA evaluation, the Department also determined (and the OIG also confirmed) that a material weakness, related to IT information security, exists.

Effective general IT controls add assurance that data used to prepare and report financial information and statements is complete, reliable, and has integrity. Our fiscal year 2006 IT assessment was focused on the general IT controls over the Department's major financial management systems and supporting network infrastructure, using GAO's *Federal Information System Controls Audit Manual* (FISCAM) as a guide. The six FISCAM general IT control review elements, and our related findings, are as follows:

- **Entity-wide security program.** An entity-wide security program for security planning and management is the foundation of an organization's information security control structure. The program should provide a framework and continuing cycle of

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Exhibit I – Reportable Condition, Continued

activity for managing risk, developing security policies, assigning responsibilities, and monitoring the adequacy of computer-related security controls.

Although the Department has made improvements in this area, our audit identified that entity-wide security can still be improved at three bureaus, primarily in the areas of: (1) updating risk assessments, (2) establishing security controls for interconnected systems, and (3) updating system security plans.

Office of Management and Budget (OMB) Circular A-130, *Management of Federal Information Resources*, provides key guidance for establishing and maintaining an entity-wide information security program. Collectively, the identified entity-wide security planning and management issues, coupled with the access control issues described below, reduce the overall effectiveness of the entity-wide security programs for the individual bureaus and operating units, and the overall Department. The *Department of Commerce IT Security Program Policy and Minimum Implementation Standards*, reiterates OMB Circular A-130 guidance, and implements key elements of such guidance as Department-wide policy.

- **Security access controls.** In close concert with an organization's entity-wide information security program, access controls for general support systems and financial systems should provide reasonable assurance that computer resources such as data files, application programs, and computer-related facilities and equipment are protected against unauthorized modification, disclosure, loss, or impairment. Access controls are facilitated by an organization's entity-wide security program. Such controls include physical controls and logical controls.

  The objectives of limiting access are to ensure that users have only the access needed to perform their duties; that access to very sensitive resources, such as security software programs, is limited to very few individuals; and that employees are restricted from performing incompatible functions or functions beyond their responsibility. This is reiterated by Federal guidelines. For example, OMB Circular A-130 and supporting National Institute of Standards and Technology (NIST) security publications provide guidance related to the maintenance of technical access controls. In addition, the *Department of Commerce IT Security Program Policy and Minimum Implementation Standards* contain many requirements for operating Department IT devices in a secure manner.

  During fiscal year 2006, we noted that access controls should be improved at six of the Department's bureaus, primarily in the areas of: (1) management of user accounts, (2) logical controls for network access, (3) requirements for obtaining signed user Rules of Behavior, (4) data center access, (4) monitoring of user actions through the use of audit trails, and (5) technical controls for system devices to protect against vulnerabilities associated with malicious threats and attacks. We recognize that the Department and its bureaus have some compensating controls in place to help reduce

the risk of the identified vulnerabilities, and we have considered such compensating controls as part of our overall consolidated financial statement audit.

- **Application software development and change control**. The primary focus of application software development and change control is on controlling the changes that are made to software systems in operation. Establishing controls over the modification of application software programs ensures that only authorized programs and authorized modifications are implemented. This is accomplished by instituting policies, procedures, and techniques to determine that all programs and program modifications are properly authorized, tested, and approved, and that access to and distribution of programs is carefully controlled. Without proper controls, there is a risk that security features could be inadvertently or deliberately omitted or turned off, or that processing irregularities or malicious code could be introduced into the IT environment.

  During fiscal year 2006, we noted that application software development and change controls should be improved at two bureaus, primarily in the areas: (1) user access to test and production environments, and (2) segregation of system modification responsibilities and duties.

- **System software.** System software is a set of programs designed to operate and control the processing activities of computer equipment. System software helps control the input, processing, output, and data storage associated with all of the applications that run on a system. Controls over access to and modification of system software are essential in providing reasonable assurance that operating system-based security controls are not compromised and that the system will not be impaired.

  During fiscal year 2006, we noted that system software controls should be improved at two bureaus in the area of testing and approving system patches prior to implementation.

- **Segregation of duties.** Work responsibilities should be segregated so that an individual does not control more than one critical function within a process. Inadequately segregated duties increase the risk that erroneous or fraudulent transactions could be processed, improper program changes could be implemented, and computer resources could be damaged or destroyed. Key areas of concern for segregation of duties involves duties among major operating and programming activities, including duties performed by users, application programmers, and data center staff. Policies outlining individual responsibilities should be documented, communicated, and enforced. The prevention and/or detection of unauthorized or erroneous actions by personnel require effective supervision and review by management, as well as formal operating procedures.

  During fiscal year 2006, we noted a weakness related to segregation of duties that affected the implementation of system software modifications at one bureau.

However, this weakness has been reported in the FISCAM review area of application software development and change control.

- **Service continuity**. Losing the capability to process, retrieve, and protect information maintained electronically can significantly affect an agency's ability to accomplish its mission. For this reason, an agency should have: (1) procedures in place to protect information resources and minimize the risk of unplanned interruptions, and (2) a plan to recover critical operations should interruptions occur.

  During fiscal year 2006, we noted that service continuity controls should be improved at five bureaus, primarily in the areas of: (1) contingency plan updates to include appropriate controls and reflect current processing environments, (2) testing disaster recovery and continuity plans, and (3) procuring an alternate processing site.

<u>Recommendations</u>

Specific recommendations are included in a separate limited distribution IT general controls report, issued as part of the fiscal year 2006 consolidated financial statement audit. The Department should monitor bureau actions to ensure effective implementation of our recommendations.

<u>Management's Response</u>

Management agreed with our findings, conclusions, and recommendations related to improving the Department's financial management systems controls. The Department is in the process of developing corrective action plans to address the recommendations presented in the separate limited distribution IT general controls report.

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Exhibit II – Status of Prior Year Reportable Conditions

Reported Issue	Prior Year Recommendation	Fiscal Year 2006 Status
Financial Management Systems Need Improvement		
Weaknesses in general controls were identified in five of the six FISCAM review areas.	The Department should monitor bureau actions to ensure effective implementation of our recommendations.	Reportable Condition (see comments in Exhibit I).
Accounting for NIST Construction-In-Progress Needs Improvement		
Weaknesses in accounting for construction-in-progress (CIP) at the National Institute of Standards and Technology (NIST).	NIST Chief Financial Officer (CFO) should establish and enforce routine controls to ensure that completed construction projects are removed timely from CIP and only capitalizable costs are added to NIST's CIP balance.	Completed.