FISCAL YEAR 2002 FINANCIAL REPORT


DEPARTMENT OF COMMERCE
UNITED STATES OF AMERICA

Financial Management and Analysis


DEPARTMENT OF COMMERCE
UNITED STATES OF AMERICA

Financial Management and Analysis

Introduction

The Office of Financial Management (OFM), within the Department of Commerce formulates and prescribes Department-wide financial management and accounting policies, procedures, and controls. OFM also provides assistance in the implementation of these measures.

OFM Mission

To provide financial information, services, and systems of a quality unparalleled in Government to meet the needs of the Department of Commerce's program managers and administrators.

OFM Vision

- Program managers must also be knowledgeable, responsible, and accountable fiscal managers;
- Accurate and timely financial data must be readily available to management and stakeholders; and
- Financial management must be conducted through a Department-wide financial management system that directly supports work and resource planning and program performance measurement.

Initiatives and Priorities

We are creating a financial management environment that complies with federal laws and regulations and that will provide our executives with timely, accurate financial and performance information. As part of this process, we are pursuing the following major initiatives:

- Improve financial accountability;
- Improve financial management systems;
- Improve administration of federal grant programs; and
- Develop human resources in the financial management community.

Improve Financial Accountability

Under the Secretary's leadership, we are continuing to give the highest priority to providing accurate financial data to our internal and external customers, and to our accountability for all assets. This is evidenced in part, by the Department's receipt of unqualified audit opinions for several years and the decrease in internal control weaknesses cited in our audits.

The Department received a "red" rating on the financial management section of the Executive Branch Management Scorecard. The rating was mainly due to the Department's lack of a single integrated financial management system and a repeat material internal control weakness. However, during FY 2002, the Department received a "green" rating from the Office of Management and Budget (OMB) for its planning and progress in this area.

In FY 2002, we aggressively moved toward improving the Department's overall financial management. This was evidenced by the following:

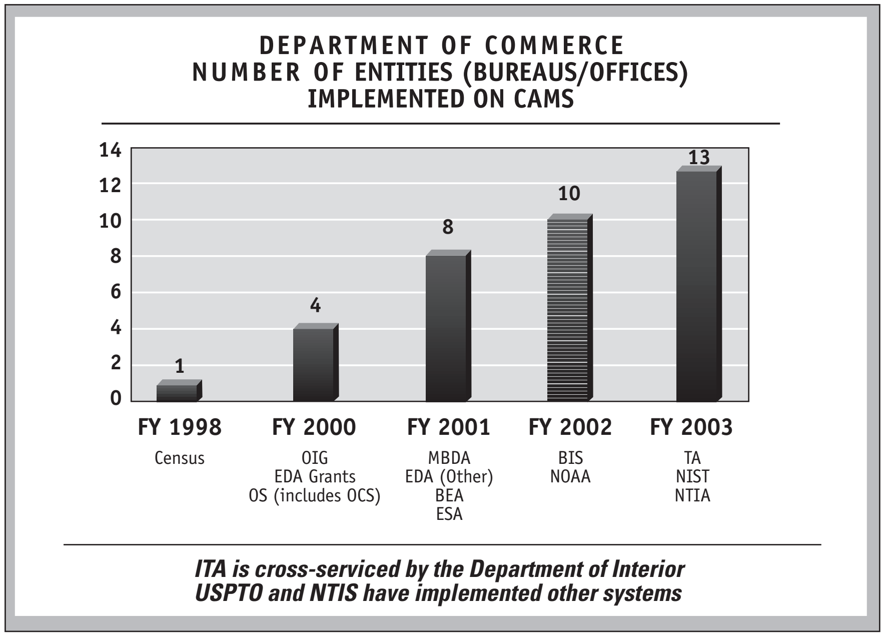
- The Department received an unqualified opinion on the FY 2002 consolidated financial statements.
- The Department submitted accelerated semi-annual financial statements to OMB by the prescribed deadlines.
- The Commerce Administrative Management System (CAMS) was implemented at our largest bureau, National Oceanic and Atmospheric Administration (NOAA) in October 2002. NOAA closed out of FY 2002 using CAMS.
- The Department was able to improve financial management controls and eliminate a long-standing reportable condition in overall financial management.
- Although still identified as a material weakness, the Department made progress in resolving IT control weaknesses previously identified during self-assessments and in audit reports.

For FY 2003 and beyond, we will continue our efforts to ensure the integrity of our financial information and explore new ways to enhance our current processes. We will submit accelerated quarterly financial statement information to OMB and prepare for the submission of the FY 2004 Combined Performance and Accountability Report by the mandated November 15, 2004 deadline. Monitoring the progress of correcting internal control weaknesses and identifying other areas for improvement will remain a high priority. With the accomplishment of all these goals and plans, we anticipate moving toward a "green" rating for meeting the standards for improved financial performance.

Improve Financial Management Systems

The lack of an integrated financial system was reported as a material weakness in the Department's Fiscal Year 2001 Federal Managers' Financial Integrity Act letter and in the Independent Auditors' Report on Internal Controls. The Department prepared a detailed Federal Financial Management Improvement Act (FFMIA) Remediation Plan and audit action plans to address this weakness. The implementation of CAMS is a key factor in meeting the needs of a single integrated system. CAMS has replaced most financial systems within the Department. Bureaus that were previously on compliant systems continue to use those systems with some entities planning on converting to CAMS at a future point in time. The financial information from these systems and CAMS is integrated in the Corporate Database (as discussed further below) for consolidated financial reporting.

We continue our progress in the implementation of CAMS. At the end of FY 2002, CAMS was implemented at ten departmental entities, including NOAA, Commerce's largest bureau. The implementation of CAMS at the National Institute of Standards and Technology, which provides cross-services to the National Telecommunications and Information Administration, and Technology Administration, is on target to be successfully completed by October 2003. The graph below depicts our implementation, successes, and future plans for CAMS, by bureau.



The Department evaluated and implemented a Corporate Database to produce consolidated financial reports. The Corporate Database provides an integrated solution to financial statements and Federal Agency Centralized Trial Balance System I (FACTS I) Adjusted Trial Balance reporting at the Department, bureau, and Treasury Appropriation/Fund Group level, and also provides the ability to perform data analysis.

During FY 2002, the Corporate Database was utilized to produce the interim financial statements that were submitted to OMB by the mandated deadline. Also, the database was updated to produce the Department's footnotes, financial analysis reports, and other additional information required for the government-wide financial statements.

Although the Department will have an integrated financial system with the implementation of CAMS and the Corporate Database, there is a need to look forward to ensure that we continue to provide reliable, timely and accurate financial data to management.

With the assistance of an independent contractor, the Department has examined the organization, staffing and funding necessary to ensure CAMS can achieve and maintain full Joint Financial Management Improvement Program (JFMIP) compliance during its useful life.

Improve Administration of Federal Grant Programs

The Department ensures policy consistency across grant programs through its Office of Executive Assistance Management (OEAM) under the Department's Chief Financial Officer and Assistant Secretary for Administration (CFO/ASA). OEAM is charged with developing, issuing, and overseeing implementation of policies and procedures for the administration of the Department financial assistance programs, including grants, cooperative agreements, loans, and loan guarantees. OEAM also works closely with the Office of the General Counsel (OGC), Office of the Inspector General (OIG), and the Grants Officers to develop, implement, and coordinate policies relating to financial assistance matters.

The Department's Grants and Cooperative Agreements Manual, issued in February 2002, provides agency-wide guidance on grants administration and provides a uniform set of minimum procedures for soliciting, reviewing, awarding, managing, and closing out grants.

The Department is in the final stages of implementing the Automated Standard Application for Payments (ASAP), which is an all-electronic payment and information system developed jointly by the Financial Management Service at the Department of Treasury and the Federal Reserve Bank of Richmond. ASAP is a system through which grantee organizations receiving federal funds can draw from accounts preauthorized by federal agencies. The bureaus have signed Memorandum of Understandings with Treasury and are at various stages of enrolling grant recipients to the ASAP system. Additionally, the CAMS and ASAP interface has been completed and certified by Treasury and the Federal Reserve Bank system.

In addition, OMB has designated the Department of Commerce as a partner E-Grants agency. E-Grants is a government-wide electronic portal that will include grant opportunity announcement (E-FIND) and electronic application (E-APPLY) capabilities. The Department's grants administration and program officials are working with information technology staff to review and prepare existing grants systems for successful integration with E-Grants solutions.

Develop Human Resources

All of the Department's bureaus have established Chief Financial Officer (CFO) positions or similar positions of financial leadership. The Department has both a CFO Council and Finance Officer's Council that meet monthly to discuss common financial management issues and problems, including human resources, budget, procurement, and information technology systems, as well as financial accountability issues. Conferences of bureau finance officials are held as necessary, to ensure complete understanding and agreement with Departmental financial management objectives and approaches. OFM also participates in meetings of the government-wide CFO Council and of the Federal Financial Managers Council to address issues that cut across agencies. OFM works closely with bureau finance officers to assist in the proper implementation of Departmental standards and guidance. When specific issues arise, OFM conducts thorough studies and consults with the central agencies, the Federal Accounting Standards Advisory Board, the OIG, and similar organizations to develop the best possible financial management standards.

The Department's continuing professional education program enhances workforce development. This program requires a minimum of forty hours of training and development activities per year for each financial management professional. In addition, the Department provides internships through a variety of sources to give finance and accounting majors an opportunity to gain hands-on accounting experience, while introducing potential future employees to the opportunities that exist at the Department. In FY 2002, the Department continued its partnership with the National Academy Foundation (NAF), and employed finance and technology interns from the NAF Internship Program.

Financial Management Indicators

OMB prescribes the use of quantitative indicators to monitor improvements in financial management. The table below shows our performance during FY 2002 against the target performance established by OMB and Treasury.

Financial Performance Measures

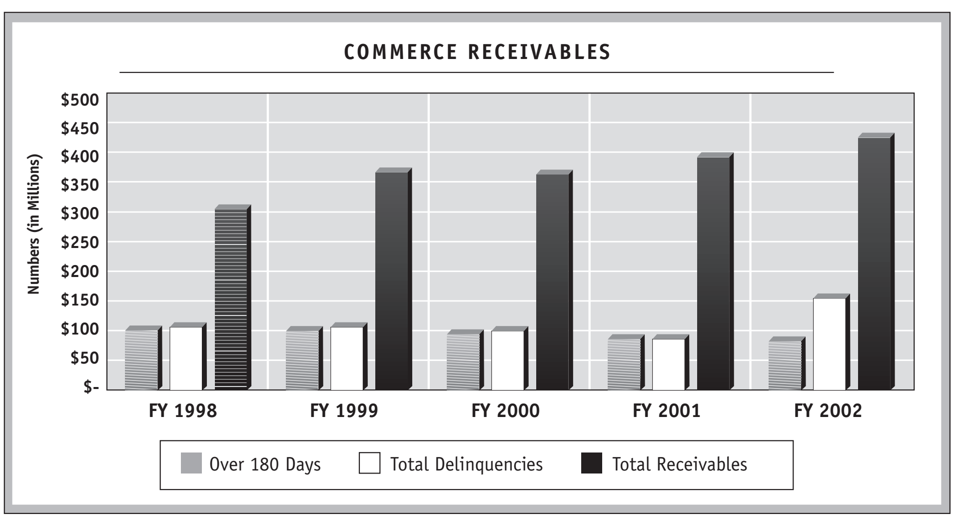
Financial Performance Measure	FY 2002 Performance	FY 2002 Target
Percentage of timely vendor payments	99%	95%
Percentage of payroll by electronic transfer	98%	75%
Percentage of Treasury agency location codes fully reconciled	100%	100%
Timely reports to central agencies	100%	95%
Audit opinion on FY 2002 financial statements	Unqualified	Unqualified
Material weaknesses as reported by OIG	1	0

Debt Management

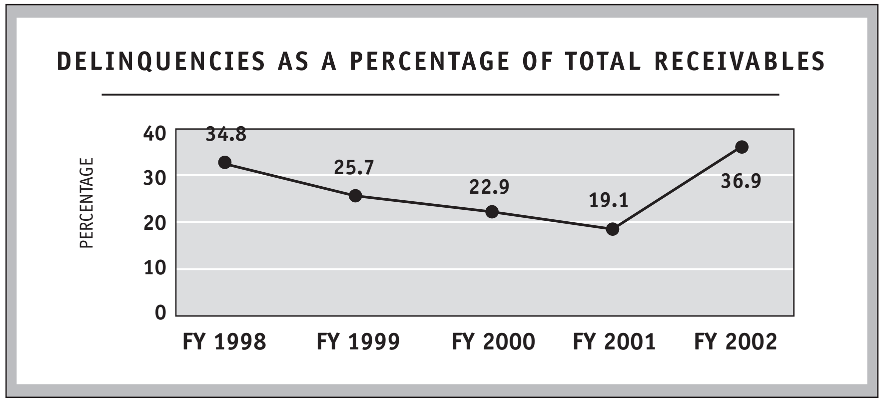
Receivables and Debt Management

The Department has incorporated the principles of the Credit Reform Act of 1990 into the operations of its credit and debt programs. Prescreening procedures, account-servicing standards, determined collection of delinquent debt, inventory management, and asset disposition standards have helped to greatly diminish the amount of risk inherent in credit programs. These procedures were established to ensure that credit costs are properly identified and controlled, that borrowers' needs are met, and that costs to the taxpayers are minimized.

Total Department receivables increased from $411 million in FY 2001 to $455 million in FY 2002, as reported on the Department's Treasury Report on Receivables (TROR). The TROR is the primary means for the Department to provide comprehensive information on the gross value of receivables and delinquent debt due from the public. The increase in receivables is primarily due to a receivable related to a loan guarantee that defaulted in FY 2002. Receivables over ten years old, as a percentage of total delinquent receivables, decreased 18.2 percent, from 33.2 percent in FY 2001 to 15.0 percent in FY 2002. Total delinquencies, as a percentage of total receivables for the Department, increased 17.8 percent, from 19.1 percent in FY 2001 to 36.9 percent in FY 2002. If the receivable related to the defaulted loan guarantee is excluded, then total delinquencies, as a percentage of total receivables would have increased only 1.7 percent, to 20.8 percent in FY 2002.



The Debt Collection Improvement Act of 1996 (DCIA) established the Treasury Department as the collection agency for federal agency debts that are more than 180 days delinquent. It also established Treasury's Financial Management Service as the federal government's debt collection center. In FY 1998, we signed a letter of agreement with Treasury for cross-servicing of debt more than 180 days old. Almost $15.5 million in delinquent debt has since been referred to Treasury for cross-servicing.



During FY 2001, the issuance of the revised, "Federal Claims Collection Standards" and the revised OMB Circular No. A-129, "Policies for Federal Credit Programs and Non-Tax Receivables," provided agencies greater latitude to maximize the effectiveness of federal debt collection procedures. Since then, the Department has utilized all the tools available to improve the management of our debt.

Payment Practices

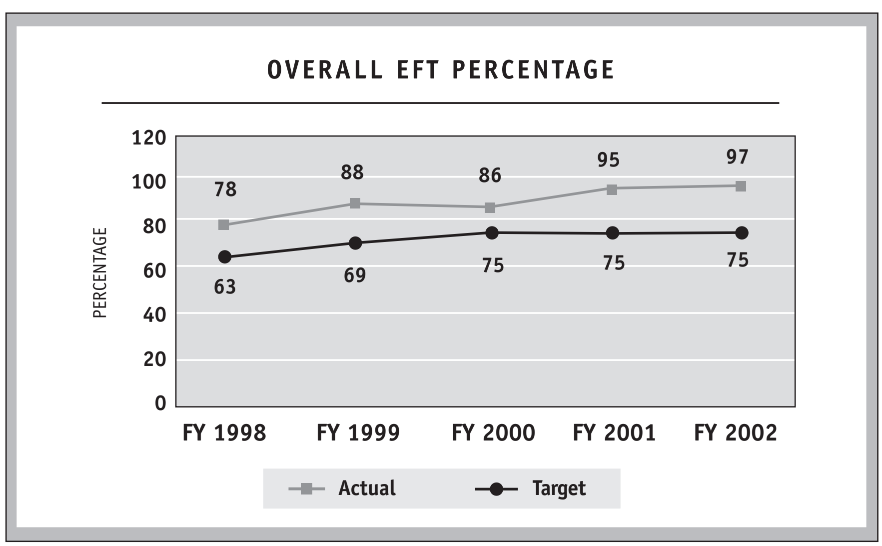
Electronic Funds Transfer (EFT)

During FY 2002, we continued our efforts to maximize the use of payment mechanisms compliant with Electronic Funds Transfer (EFT) as required by the Debt Collection Improvement Act of 1996. Our achievements in this area are illustrated in the table below:

Payment Category	FY 2002 EFT Percentage	FY 2001 EFT Percentage	FY 2002 Total Volume	FY 2001 Total Volume
Retirement Benefits	99%	99%	4,343	4,293
Salary	98%	98%	1,182,666	1,073,922
Salary (Census)[1]	86%	87%	4,456	48,701
Vendor & Misc.[2]	93%	91%	664,280	773,314
TOTAL	**97%**	**95%**	**1,855,745**	**1,900,230**

[1] *Discontinued after December 2001 due to the end of the Decennial Census field operations.*
[2] *Includes purchase card transactions.*

The Department's overall EFT percentage for FY 2002, 97 percent, demonstrates a notable improvement over FY 2001. We substantially exceeded the National Partnership for Reinventing Government's goal of 75 percent for FY 2002. The Department made progress with a 2 percent increase in the EFT percentage for vendor and miscellaneous payments, and maintained close to 100 percent for salary benefit payments. The significant

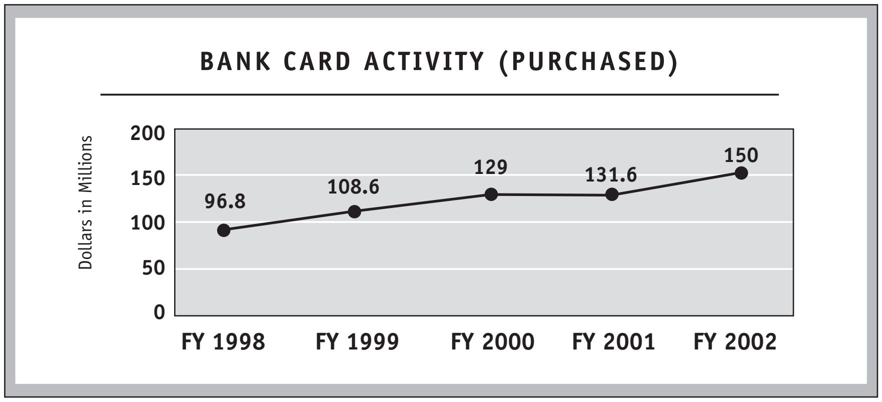


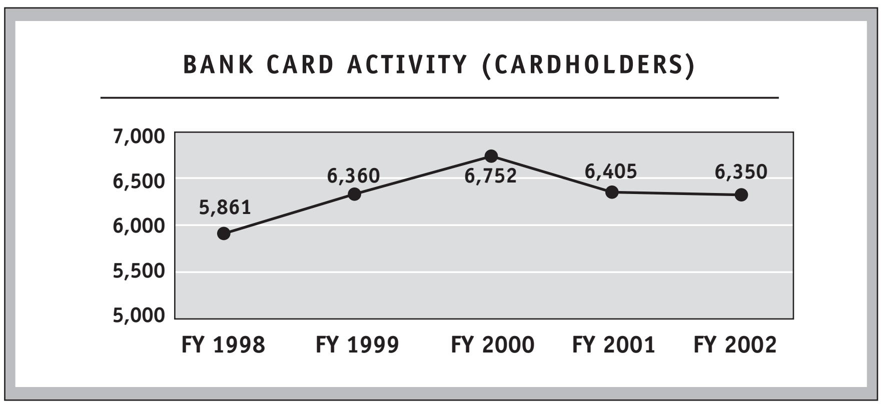
reduction in total payments volume for Census Bureau salary and vendor/miscellaneous payments reflects the winding-down of Decennial Census field operations during the early part of FY 2002.

Also, in accordance with Treasury's policy directive, imprest funds were closed throughout the Department, where feasible. Certain bureaus continue to maintain imprest funds for operational necessity for law enforcement activities and other environments that do not permit use of electronic payment methods.

Bankcards

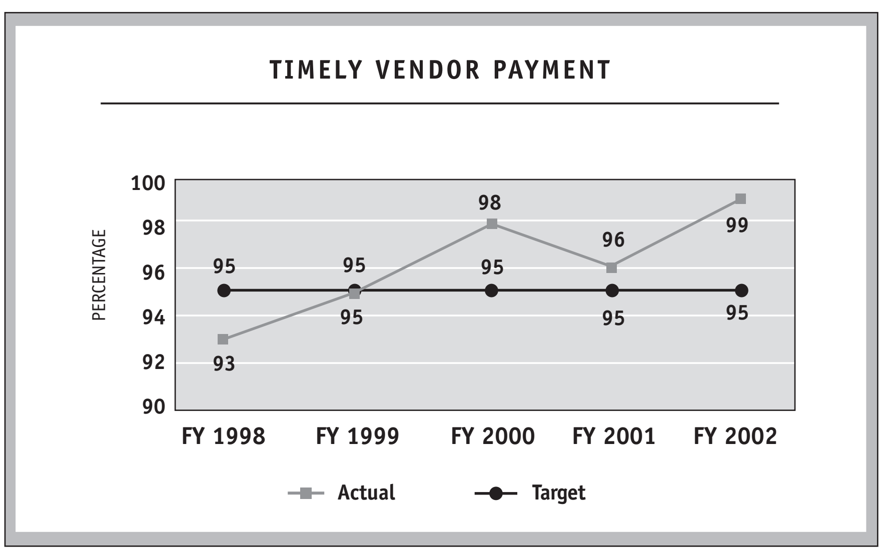
We are committed to the use of bankcards as a means of streamlining Departmental procurements. The use of bankcards continues to grow as more are issued and as the card becomes the preferred method of procurement for small purchases. Departmental usage of the card has grown from 5,861 cardholders in FY 1998 to 6,350 at the end of FY 2002. The value of purchases made using bankcards increased during the same period from $96.8 million to $150 million. Although there was a small decrease (55) in the number of cardholders compared to FY 2001, the value of purchases increased by $18 million, and the number of purchases increased by 25,000. The Department has paid significant attention to the internal controls surrounding these purchases to ensure that all such purchases are legal and proper.





Prompt Payment

We made approximately 99 percent of all payments on time in FY 2002, compared to 96 percent in FY 2001. The Department's performance remains above the government-wide goal of 95 percent. In addition, the number of invoices with late-payment interest penalties decreased from 20,640 to 9,020 in FY 2002. We will continue to monitor our bureaus' payment performances to maintain our timely vendor payment percentage.



Financial Review

This is the seventh annual submission of the Department's financial statements made in accordance with the requirements of the Chief Financial Officers Act as amended by the Government Management Reform Act of 1994. These statements have been compiled according to the guidance issued by the Office of Management and Budget (OMB). In order to comply with OMB Bulletin No. 01-09, and to fully disclose the Department's financial position and results, we have prepared consolidated financial statements. The independent auditor, contracted by the Office of the Inspector General, is responsible for auditing the Department's consolidated financial statements.

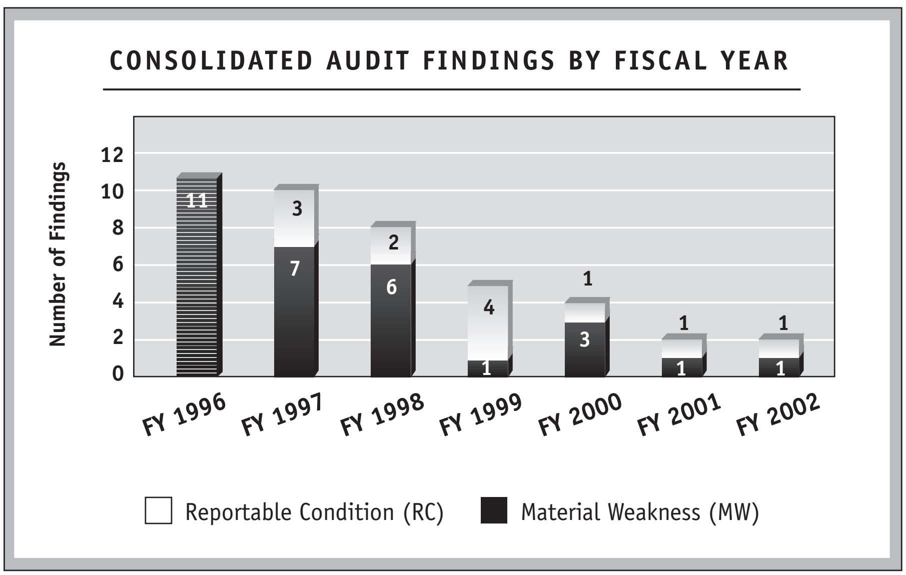
Unqualified Financial Statement Audits

The Department is committed to strong financial management, and has made much progress in this area. We have received unqualified opinions on our consolidated financial statements since FY 1999. This achievement results from our commitment to strong management control and accountability of our financial resources, a commitment that we are extending into the future as we seek to further improve management of our financial resources. Significant progress was also made in reducing internal control weaknesses. The Department currently has one material weakness remaining related to information technology security and financial management systems, and a reportable condition related to accounting for its property. The table and chart illustrate the Department's progression toward full attainment of unqualified audit opinions and its progress in correcting the material weaknesses and reportable conditions identified at the Department level and in bureau audits.

Summary of Audit Opinions

Type of Opinion	FY 1998 Number of Reporting Entities	FY 1999 Number of Reporting Entities	FY 2000 Number of Reporting Entities	FY 2001 Number of Reporting Entities	FY 2002 Number of Financial Audits
Unqualified	11	14	9[2]	4[2]	3[2]
Unqualified/BS only[1]	2	0	0	0	0
Disclaimer	1	0	0	0	0
Not Audited	1	1	0	0	0

[1] Disclaimer on other statements.
[2] Decrease in number of reporting entities due to entities being combined for audit.



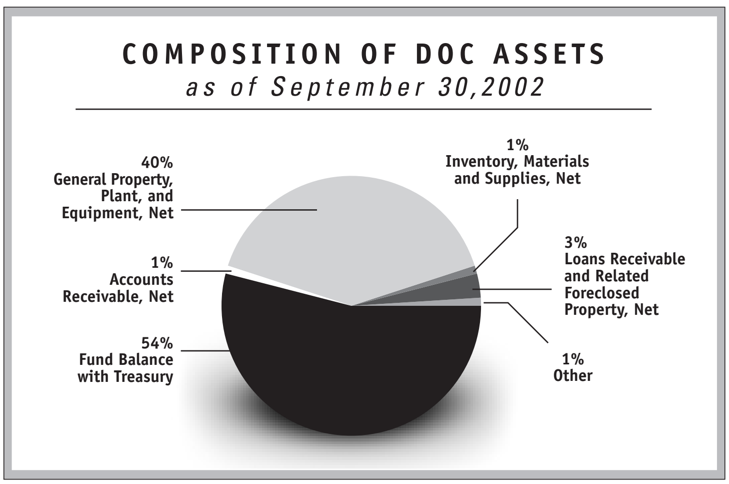
Analysis of FY 2002 Financial Conditions and Results

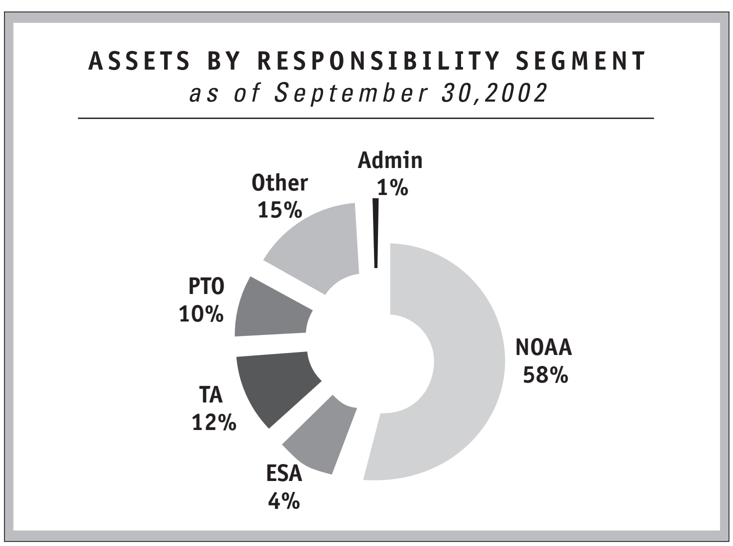
(Dollars in Thousands)

Composition of Department of Commerce Assets and Assets by Responsibility Segment

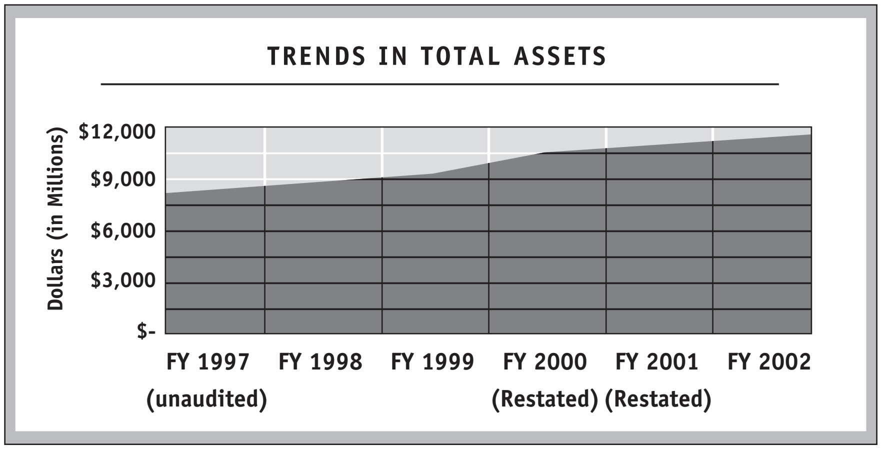
The composition and distribution of the Department's assets remained generally consistent from FY 2001 to FY 2002.

At September 30, 2002, Fund Balance with Treasury of $6,313,884 is the aggregate amount of funds available to make authorized expenditures and pay liabilities. General Property, Plant, and Equipment (PP&E), Net of $4,543,733 includes $1,354,359 of satellites and weather measuring and monitoring systems and $2,350,731 of Construction-In-Progress, primarily of satellites and weather systems, and other property and equipment totaling $838,643. Loans Receivable and Related Foreclosed Property, Net of $292,113 primarily results from the National Oceanic and Atmospheric Administration's (NOAA's) direct loan and loan guarantee programs.

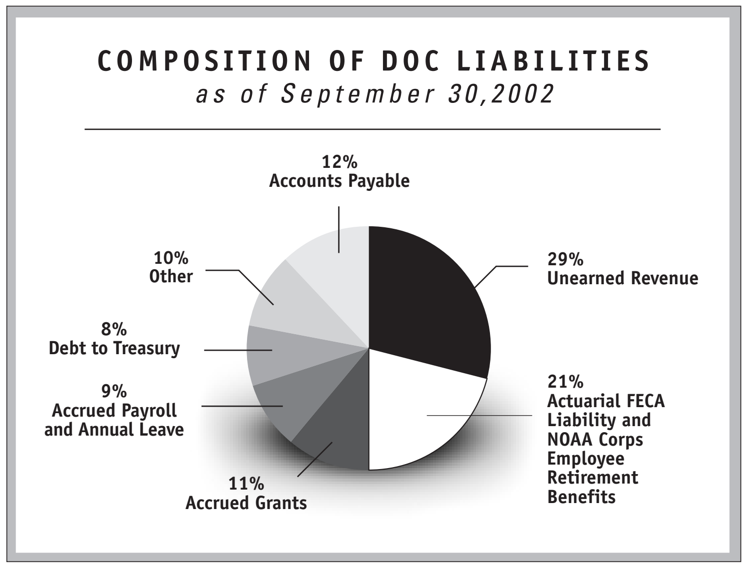




Trends in Assets

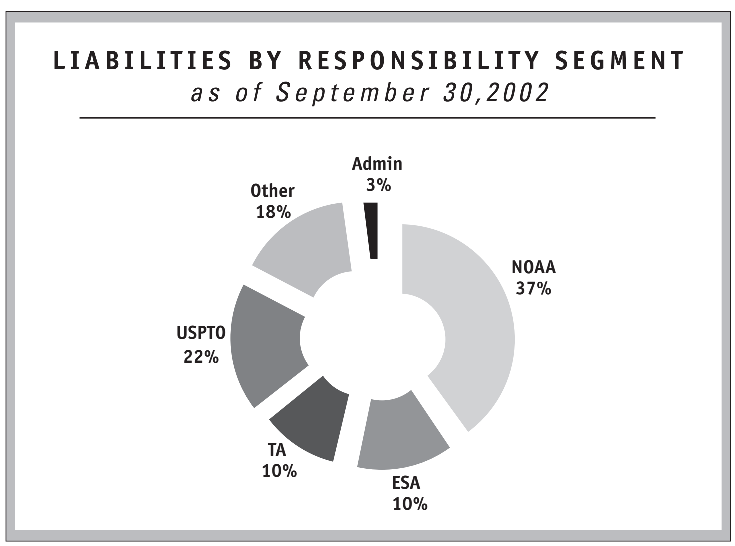


Total Assets increased $441,962 or 4 percent, from $10,993,776 at September 30, 2001 to $11,435,738 at September 30, 2002. Fund Balance with Treasury increased $252,118 or 4.2 percent from $6,061,766 to $6,313,884 due to higher unexpended appropriations. PP&E, Net increased $231,733 or 5.4 percent, from $4,312,000 to $4,543,733, primarily due to the National Institute of Standards and Technology's (NIST) construction of the Advanced Measurement Laboratory building, NOAA's construction of new satellite systems, and Bureau of the Census computer upgrades. Accounts Receivable decreased $44,348 or 28.7 percent from $154,433 to $110,085, primarily due to decreases in intragovernmental reimbursable activity. Advances and Prepayments increased $17,942 or 50.7 percent from $35,367 to $53,309, primarily due to the U.S. Patent and Trademark Office's (USPTO) increased payments to the General Services Administration (GSA) for their consolidated site in Alexandria, Virginia and NOAA's decreased advances to grantees.



Composition of Department of Commerce Liabilities and Liabilities by Responsibility Segment

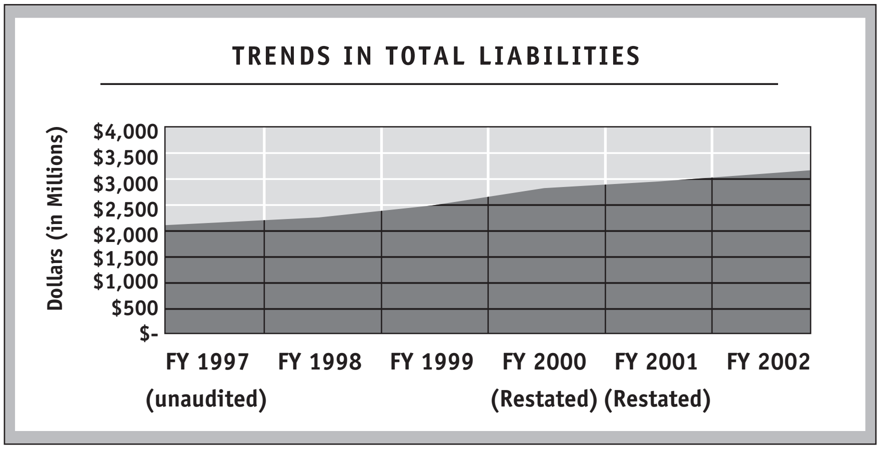
The composition and distribution of the Department's liabilities remained generally consistent from FY 2001 to FY 2002.



Accounts Payable of $364,300 consists of amounts owed for goods and services received, progress in contract performance by others, and other expenses due. Unearned Revenue of $938,016 represents monies received from customers for which goods and services have not yet been provided or rendered by the Department. Actuarial FECA Liability and NOAA Corps Employee Retirement Benefits

Liabilities of $643,459 is composed of NOAA Corps Retirement System of $316,195; NOAA Corps Post-Retirement Health Benefits of $136,577; and Actuarial FECA Liability of $190,687. Debt to Treasury of $262,513 results from monies borrowed for the Fisheries Finance Fund direct loan program, the Fishing Vessel Obligation Guarantee Program, and the Emergency Loan Guaranteed Program - Steel. Accrued Grants of $350,309, which relate to a diverse array of financial assistance programs and projects, include Economic Development Administration grants of $243,856, related to its economic development activity.

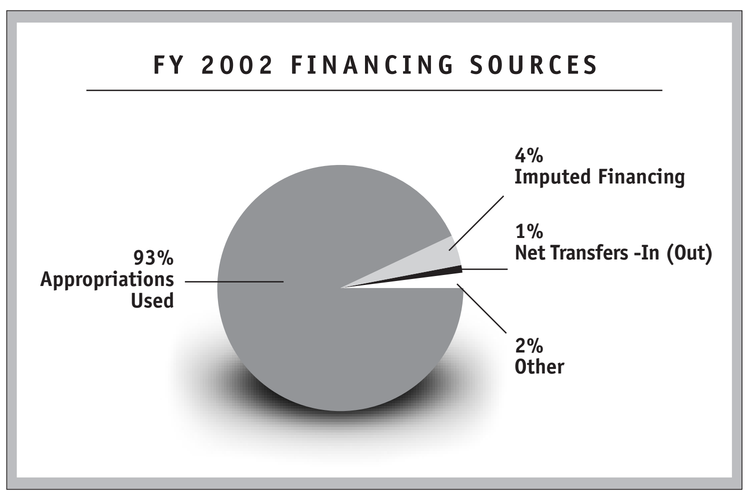
Trends in Liabilities



Total Liabilities increased $136,995 or 4.6 percent, from $2,997,188 at September 30, 2001 to $3,134,183 at September 30, 2002. Unearned Revenue increased $159,862 or 20.5 percent, from $778,154 to $938,016, primarily due to an increase in deferred revenue from Patent filings and Trademarks, resulting from the addition of more than two hundrend new customer deposit accounts in FY 2002. Debt to Treasury increased $66,580 or 34 percent, from $195,933 to $262,513, primarily due to ELGP's Treasury borrowing for a loan guarantee outstanding that defaulted during FY 2002. Environmental and Disposal Liabilities increased $41,879 or 52.8 percent, from $79,310 to $121,189, due to an increase in the estimated costs for both NOAA's Pribilof Island cleanup liability and NIST's decommissioning of a nuclear reactor. Accounts Payable decreased $24,001 or 6.2 percent, from $388,301 to $364,300, due to the timelier processing of vendor payments.

Trends in Financing Sources

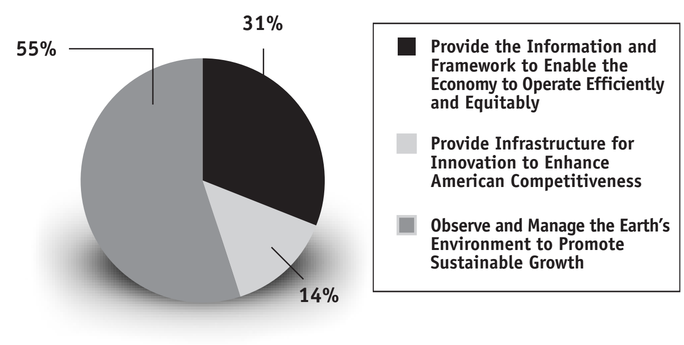
Most of the Department's Financing Sources are obtained from appropriations. Total Financing Sources, shown in the Consolidated Statement of Changes in Net Position, increased $389,873 or 7.2 percent, from 5,404,285 for the year ended September 30, 2001, to 5,794,158 at September 30, 2002, due to increases in Appropriations.



Net Cost of Operations by Strategic Goal

In FY 2002, Net Cost of Operations totaled approximately $5.5 billion. In terms of Net Cost of Operations supporting its three strategic goals, the Department spent 55 percent of the total to achieve its strategic goal to Observe and Manage the Earth's Environment to Promote Sustainable Growth, which includes NOAA's "Advance Short Term Warning Forecast Service" program; 31 percent to Provide the Information and the Framework to Enable the Economy to Operate Efficiently and Equitably; and 14 percent to Provide Infrastructure for Innovation to Enhance American Competitiveness.

FY 2002 NET COST OF OPERATIONS BY STRATEGIC GOALS



Limitations of the Financial Statements

These financial statements have been prepared to report the financial position and results of operations of the Department of Commerce, pursuant to the requirements of 31 U.S.C. 3515(b). While the statements have been prepared from the books and records of the Department in accordance with the formats prescribed by OMB, the statements are in addition to the financial reports used to monitor and control budgetary resources that are prepared from the same books and records.

These statements should be read with the realization that they are for a component of the U.S. government, a sovereign entity. One implication of this is that liabilities cannot be liquidated without legislation that provides the resources to do so.