

STATEMENT FROM THE SECRETARY



I am pleased to present the Department of Commerce's FY 2007 Performance and Accountability Report (PAR). The report describes the Department's goals and our progress in meeting them. It also provides program data and information about financial management and performance.

The data and details in this report provide an account of the Department's accomplishments in maximizing U.S. competitiveness, enabling economic growth, fostering U.S. leadership in science and technology, and promoting environmental stewardship.

Trade, Competitiveness, and Economic Growth

The Department has made strong progress toward improving trade for U.S. industries and workers, particularly in the area of broadening and deepening the U.S. exporter base, where we achieved the most new-to-export successes since fiscal year FY 2003. However, we remain focused on making greater progress on improving U.S. competitiveness and removing industry-specific trade barriers.

The bureau most heavily focused on trade is the International Trade Administration (ITA). ITA improves the global business environment and helps U.S. firms compete and win both at home and abroad. The bureau is involved in strengthening U.S. industry competitiveness, establishing an open trading environment, promoting trade and investment, and resolving unfair trade practices. In FY 2007, ITA saved industry \$413 million through its analysis and recommendations on major rulemakings by the Environmental Protection Agency (EPA), the Occupational Safety and Health Administration (OSHA), the Department of Transportation (DOT), and the Department of Justice.

In FY 2007, the Economics and Statistics Administration's (ESA) Bureau of Economic Analysis (BEA) and Census Bureau continued to increase and improve the quality and availability of economic and demographic information used as a basis for important decisions by business leaders, policymakers, and the U.S. public. The Census Bureau completed critical preparations for the 2007 Economic Census data collection and processing, which began in October 2007 and will continue throughout FY 2008. The Economic Census provides detailed facts about the structure of the U.S. economy, ranging from the national to the local level. It covers 26 million business locations and 84 percent of the Nation's economic activity, with the data helping to build the foundation for the gross domestic product (GDP) estimates and other indicators of economic performance. The Census Bureau also provides current indicators of economic activity on topics including employment, household income, wholesale and retail trade, foreign trade, construction, and services.

Another key focus for the Census Bureau in FY 2008 will be preparations for the 2010 Decennial Census, including a critical test of automating field procedures. Over \$300 billion in federal funds is allocated each year on the basis of the decennial census. Furthermore, the census will be used to reapportion all congressional districts as well as state and local legislative districts.

The Department also assists U.S. industries, communities, and workers through investments in public infrastructure and technology which, in turn, attract private capital investment and new jobs. The Economic Development Administration's (EDA) FY 1998 investments of \$272 million have realized nearly \$2 billion in private investments and over 73,000 jobs as of FY 2007. One example involved regional agribusiness—diversifying the local economy of rural southwest Georgia. Part of the project supported a partnership between Moultrie and Valdosta Technical Colleges and a local poultry processing plant to train plant workers and contract growers



to handle state-of-the-art technology. Similarly, the Minority Business Development Agency (MBDA) helped obtain over \$1.7 billion in transactions for minority firms and created over 3,500 jobs during FY 2007, largely through MBDA's Strategic Growth Initiative to attract firms capable of competing for larger contracts.

The Bureau of Industry and Security (BIS) issued regulations that adapted export controls to the current national security and economic climate. Also during FY 2007, BIS continued conducting outreach and enforcement activities, focusing its investigative case load on weapons of mass destruction, terrorism, and military diversion.

Innovation and Intellectual Property Protection

The domestic and foreign economies benefit from economic growth fueled by innovation. Continual development of a vigorous, flexible, and efficient intellectual property (IP) system protects individual rights, encourages investment in innovation, and fosters entrepreneurial spirit. The Department is committed to maintaining and improving IP protection through the efficient and effective implementation of patent, trademark, and copyright laws as well as supporting domestic and international enforcement activities.

The U.S. Patent and Trademark Office (USPTO) had the highest production, highest hiring, highest usage of electronic filing and electronic processing, and highest number of examiners on-board and working from home in its history. Patents maintained its best examination compliance rate in a quarter of a century, while Trademarks continued to maintain its high quality compliance rate. Despite these significant efforts and successes, reducing the length of time for action on patent applications has continued to be a key challenge, particularly for completing first actions. The number of patent applications filed increased by 73 percent between 1995 and 2005, and this trend is expected to continue, reflecting the Nation's strong participation in global business growth and innovation. The Department is committed to achieving long-term reductions in pendency through a combination of hiring, retention, training, and process optimization.

With innovation essential to the Nation's economic future, the Department continued to play a key role in the American Competitiveness Initiative (ACI) to maintain U.S. leadership in science and technology. The National Institute of Standards and Technology (NIST) is one of three primary federal agencies in the ACI that support basic research programs in the physical sciences and engineering. NIST's measurement science and standards form a key part of the foundation for innovation. NIST research laboratories provide standards, verified data, measurement science, and test methods to support development of new technologies and to promote the competitive standing of the United States in the global economy. NIST research has impacted innovation in a number of key fields. NIST researchers developed a "lab-on-a-chip separation technique" that has the potential to transform the conduct of biochemical analysis, bringing the biotech community a step closer to revolutionary new approaches to drug development and diagnostic technology. NIST researchers have also built a prototype high-speed quantum key distribution (QKD) that has the potential to enable more secure communications for banking, Internet transactions, and national security.

Additionally, recommendations stemming from NIST's three-year investigation of the World Trade Center disaster have stimulated fundamental and substantial changes in U.S. building codes and standards that represent a significant improvement in public safety over current practice. The International Code Council approved a comprehensive set of building code changes that were incorporated into the International Building Code, which is used as the basis for building regulations promulgated and enforced by U.S., state, and local jurisdictions.



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The Technology Administration (TA) and one of its components, the Office of Technology Policy (OTP), were de-authorized by the America COMPETES Act, which also abolished the positions of the Under Secretary for Technology and the Assistant Secretary for Technology Policy. TA's other former operating units, NIST and the National Technical Information Service (NTIS), continue to perform their important missions.

The National Telecommunications and Information Administration (NTIA) continued its key activities in radio spectrum management and in implementing programs under the Digital Television Transition and Public Safety Fund. These included the successful coordination of the Spectrum Reform Initiative implementation plan, as well as the issuance of regulations and the award of a contract to administer the Digital Television Transition Coupon Program.

Environmental Stewardship

The National Oceanic and Atmospheric Administration (NOAA) achieved a noteworthy performance record for FY 2007, meeting 29 of its 30 performance targets. However, reducing the error in sea surface temperature measurement continued to be a key challenge. Sea surface temperature is one of the most important variables for understanding and predicting global climate change, and is a key input to weather and climate forecast models. NOAA is working to significantly improve the accuracy of sea surface temperature measurements over the next five years by filling in gaps of the current ocean surface observing system of buoys and ships.

Recognizing the dangers of excessive heat conditions, in May 2007, NOAA implemented two Heat Health Watch/Warning Systems (HHWS) in San Francisco/San Jose, California and Houston, Texas. National Weather Service (NWS) forecasters will use these systems to help predict severe heat conditions that adversely affect human health and endanger life.

NOAA funded and conducted a number of activities aimed at helping Gulf Coast fisheries recover from the devastating impacts of Hurricanes Katrina, Rita, and Wilma, which struck the Gulf Coast in 2005. Through two cooperative agreements with the Gulf States Marine Fisheries Commission (GSMFC), NOAA awarded the Gulf Coast states \$85 million in emergency supplemental funds for fishery-related hurricane recovery activities in FY 2007 and \$128 million in FY 2006. The states are using these funds to restore and rehabilitate oyster, shrimp, and other marine fishery habitats damaged or destroyed by hurricane events, and to conduct cooperative research and monitoring and other activities designed to recover and rebuild Gulf of Mexico fisheries and fishing communities. The Census Bureau supported these efforts by providing the first official set of population estimates that reflected the impacts of Hurricanes Katrina and Rita.

Despite delays caused by Hurricane Katrina, NOAA is on schedule to complete the first phase of an 800-acre barrier island project in Louisiana's Plaquemines Parish. In the largest island restoration project ever done by NOAA, workers are dredging and performing major earth-moving activities on Chaland Island to create beach and marsh habitat. Over the years, the shoreline has eroded severely due to human and natural factors, and recent storms breached the shoreline and segmented the 2.6-mile island into three smaller fragments. Left unaddressed, these breaches threaten the integrity of several major natural gas pipelines. Rebuilding and maintaining the extensive system of wetlands historically nourished by the Mississippi Delta are essential for the future health of estuarine-dependent fish populations. Maintaining the region's barrier islands is critical, as they are the first line of defense for marshes against coastal storms. The Chaland Island project was recently named one of America's "Top Restored Beaches" by the American Shore and Beach Preservation Association. The restored habitat will help protect Louisiana's coastal communities from the devastating effects of wind, waves, and flooding associated with these types of storms.



Program Data, Department-wide Management, and Financial Performance

The financial data and performance results described in this report enable us to administer our programs, gauge their success, and make adjustments necessary to improve program quality and service to the public. Bureaus continue to take specific steps to eliminate ineffective or ambiguous performance measures. Performance measures are a key element of Office of Management and Budget (OMB) program reviews using the Program Assessment Rating Tool (PART). I am very pleased that six Department programs underwent successful PART reviews during FY 2007: Decennial Census, ITA's Market Access and Compliance (MAC) and Import Administration programs, MBDA, and NOAA's National Marine Fisheries and Hydrology programs.

In response to the Reports Consolidation Act of 2000, we are reporting that the financial and performance data presented are substantially complete and reliable, in accordance with OMB Circulars A-136 and A-11. Details, including any specific data limitations, are discussed in the body of the report. Our financial management systems are in substantial compliance with the requirements of the Federal Financial Management Improvement Act of 1996 (FFMIA). For the ninth year in a row, our financial statements have received an unqualified ("clean") opinion by independent auditors.

The Department reviews its performance validation and verification processes to ensure that the performance data are accurate. The Department maintains a quarterly monitoring process that reviews performance measurement data as well as the measures themselves. This process includes selecting specific performance measures for review each quarter, requiring that the bureaus provide all of the data used for determining results, reviewing the measures for validity, and then developing recommendations for improving them.

We must also comply with the management control standards established by the Federal Managers' Financial Integrity Act of 1982 (FMFIA) and OMB Circular A-123. Continual evaluation of our operations through a variety of internal and external studies enables us to determine whether our systems and management controls comply with the FMFIA. Based on these reviews for the programs, organizations, and functions covered by the FMFIA, the Department's systems of management controls, taken as a whole, provide reasonable assurance that the objectives of the FMFIA have been achieved with the exception of one material weakness. Although we made significant progress on information technology security during FY 2007, some aspects of this material weakness have not been fully resolved. Further information can be found in the Management Discussion and Analysis section of this report.

In our efforts to make our programs more efficient, effective, and results-oriented, we continue to be guided by the President's Management Agenda (PMA). We have made significant progress in implementing the core government-wide initiatives: strategic management of human capital, competitive sourcing, improved financial performance, electronic government, and improved program performance. The Department remains engaged in activities that support effective research and development investments as well as faith-based and community initiatives, two of the PMA initiatives for selected departments. Additionally, we are committed to ensuring the cost-effective use of public resources by increasing the Department's percentage of performance-based contracts.

In Conclusion

Again, I am proud to submit this report on FY 2007 performance results for the Department of Commerce. I hope the report will provide a useful look at the activities of the Department and its 39,000 employees, whose work continues to result in improvements in the Nation's economic situation, and in scientific progress and environmental stewardship that benefit people around the globe. I look forward in the year ahead to strengthening our focus on these critical activities and furthering our mission and management objectives.

Carlos M. Gutierrez
Secretary of Commerce
November 15, 2007