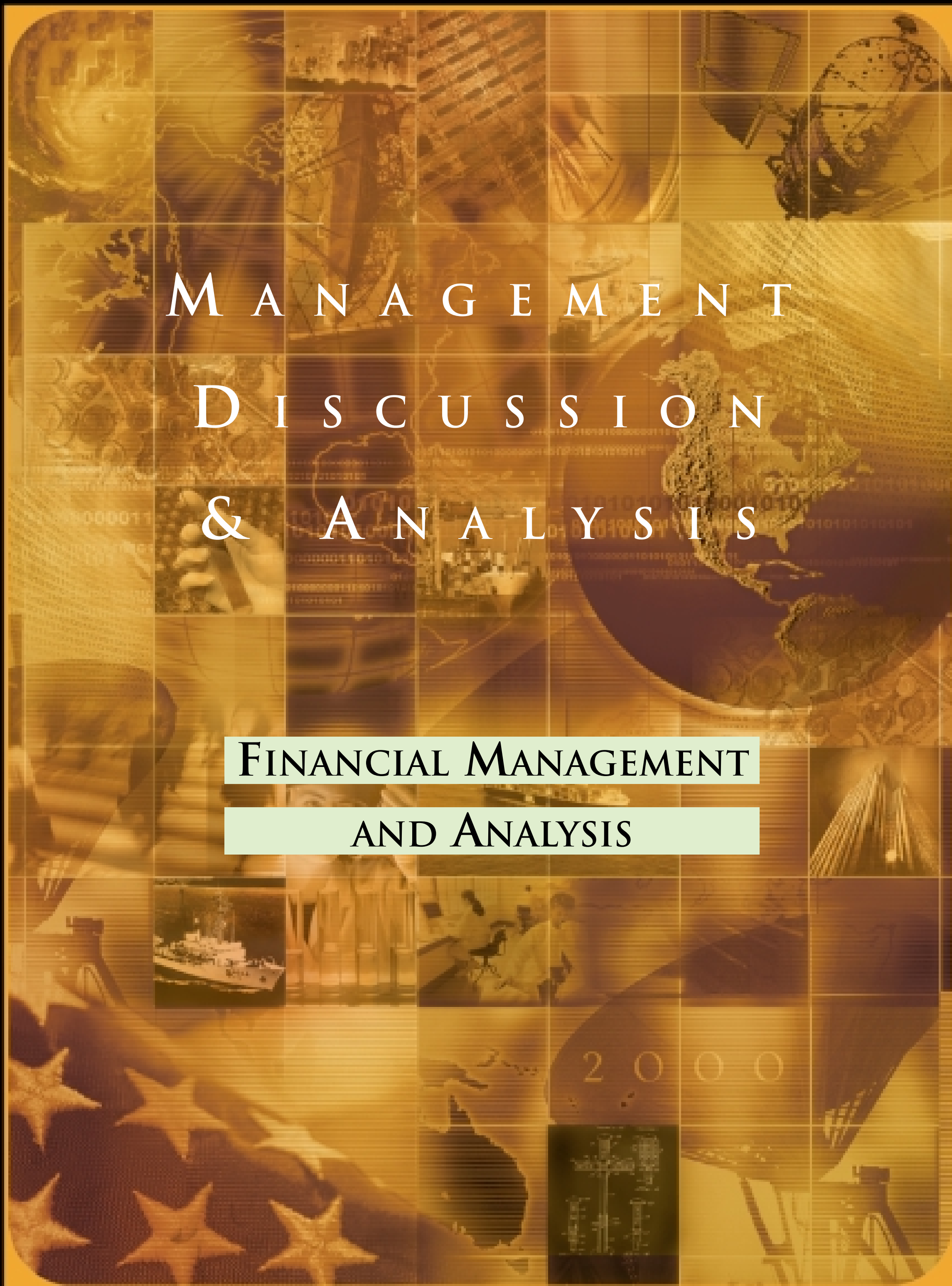
MANAGEMENT DISCUSSION & ANALYSIS

FINANCIAL MANAGEMENT AND ANALYSIS



Financial Management and Analysis

Introduction

The Office of Financial Management (OFM) within the Department of Commerce formulates and prescribes Department-wide financial management, accounting, and fiscal 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 financial data must be readily available to all authorized personnel.
- Financial management must be conducted through a Department-wide system that directly supports integrated work and resource planning and financial and program performance measurement.
- Financial management specialists and systems should be recognized for excellence within the Government.

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
- Develop Human Resources in Financial Management

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. Our goal is to strengthen the integrity of our financial operations to ensure the accuracy of our financial data and to continue to earn an unqualified opinion for all future consolidated financial statements. We are also continuing to correct certain long-standing audit and financial management issues. All Departmental bureaus are required to prepare corrective action plans for any material weaknesses or reportable conditions identified by auditors. Our objectives are to reduce the number of internal control deficiencies and to provide managers with timely, accurate financial data.

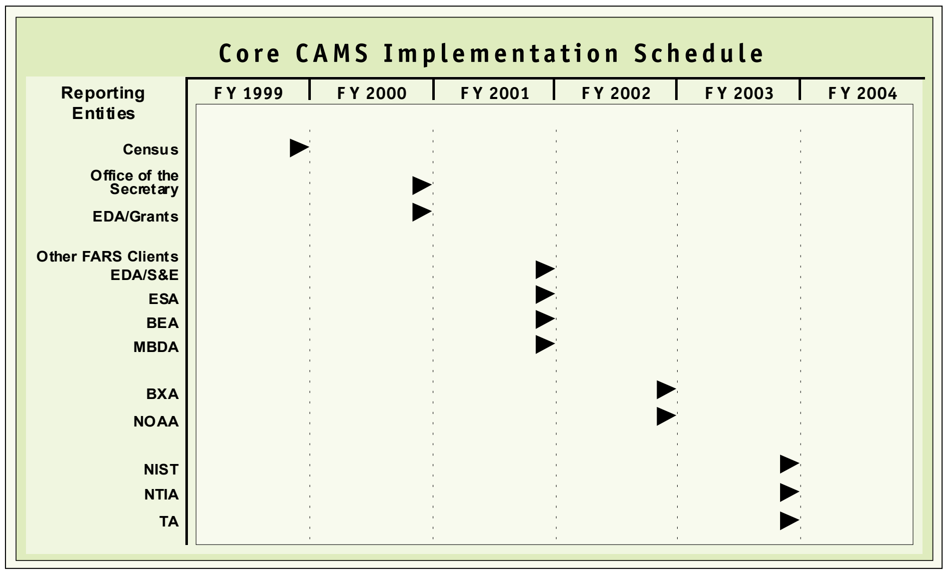
As demonstrated by the preparation of this Accountability Report and the recent publication of our FY 2000–FY 2005 Strategic Plan, we are also seeking to improve our performance in meeting our reporting requirements and to thereby provide a comprehensive picture of the Department's performance. The goal of the Department is to integrate all Government Performance and Results Act (GPRA) requirements with our existing planning, budgeting, program evaluation, and financial accountability processes. The Department's GPRA Task Force, which comprises Departmental and bureau representatives and which is assisted by OFM, meets on a regular basis to coordinate and guide the GPRA activities of the Department and its bureaus.

Improve Financial Management Systems. The Commerce Administrative Management System (CAMS) project is a Department-wide effort to develop and implement a set of standardized systems that will support the common financial activities of the Department. The objectives of the CAMS project are to replace or integrate existing financial and administrative management systems with systems that use modern technologies and operational strategies, and to provide for the maintenance of those systems once CAMS is deployed. CAMS includes a Core Financial System interfaced with administrative systems for small purchases, bankcards, and time reporting/labor cost distribution, collectively called Core CAMS.

During FY 1998, Core CAMS was successfully deployed at the Bureau of the Census; other Census administrative functional systems that give rise to financial transactions were also successfully integrated or interfaced with the system. CAMS was also implemented at the Office of the Secretary and is the grants accounting system of record at the Economic Development Administration (EDA). Implementation has also begun at the National Oceanic and Atmospheric Administration (NOAA). NOAA's implementation schedule was restructured so that a line office will be fully operational in October 2001 and all of NOAA by October 2002. It should also be noted that during FY 1999, the International Trade Administration (ITA) decided to outsource its systems to the Department of the Interior, and that was in effect at the beginning of FY 2000.

The CAMS initiative addresses our objectives of improving our major financial and administrative systems. Our goals include upgrading Department systems to fully comply with Federal laws and regulations and to provide our executives with the financial and performance information that will enable them to make more informed decisions. The CAMS project includes a data warehouse that will provide more flexible and useful reports for managers. The Department also developed a corporate financial database during FY 1999 and FY 2000 that will deliver auditable consolidated financial statements and Federal Agency Centralized Trial Balance System (FACTS) reporting to Treasury. Efforts are underway to pilot the corporate database by using it to generate the FY 2000 consolidated financial statements this spring; we then plan to use it to produce the FY 2001 statements for audit.

Implementation at the Minority Business Development Agency, Economics and Statistics Administration, Bureau of Economic Analysis, and Salaries and Expenses for EDA is scheduled to begin in April 2001 and be completed by September 2001. Deployment at BXA is anticipated by October 2002. Deployment at the National Institute of Standards and Technology, the Technology Administration, and the National Telecommunications and Information Administration is scheduled to begin in October 2001 and be completed by October 2003. The graph below details the CAMS implementation schedule:



Improve Administration of Federal Grant Programs. The Department of Commerce administers more than 60 financial assistance programs, including grants, cooperative agreements, and loans, and provides more than $1 billion in financial assistance awards annually.

During the past year, the Department has been an active participant in the Government-wide effort to implement the provisions of Public Law 106-107, the Federal Financial Assistance Management Improvement Act of 1999, which was enacted on November 20, 1999. The Department has joined workgroups with other Federal agencies to improve the effectiveness and performance of Federal financial assistance programs, simplify Federal financial assistance application and reporting requirements, improve the delivery of services to the public, and facilitate greater coordination among those responsible for delivering such services. Arrangements have begun to implement the Automated Standard Applications for Payments (ASAP), an electronic payment and information system that will simplify payments to grantees. ASAP will enable grantee organizations receiving Federal funds to draw from accounts preauthorized by Federal agencies.

Within the Department, the grants community has also begun work on important Department-wide initiatives. Grants management officials from the Economic Development Administration, the National Institute of Standards and Technology, and the National Oceanic and Atmospheric Administration proposed a project to combine two profile systems that are currently being separately developed for grant applications and the ASAP system. This project, which has been approved for funding, is expected to establish a Departmental database and a Department-wide system for applicants and grantees. One goal of this project will be to create an effective and efficient way of streamlining two separate requirements for similar information.

In addition, grants management offices throughout the Department continue to develop or improve existing grants automation. Department officials are looking at ways to encourage the use of e-commerce in the financial assistance programs.

Develop Human Resources in Financial Management. In an effort to improve communication and increase open dialogue, all of the Department's bureaus have reorganized to establish Chief Financial Officer (CFO) or similar positions of financial leadership. We have formed a CFO Council and Finance Officers Council that meets monthly to discuss common financial management issues and problems, including human resources, budget, procurement, and information technology systems, as well as financial accountability issues. Additionally, we maintain an Internet site to provide Department-wide access to reports, procedures, policies, and other related information. Conferences of bureau finance officials are held as necessary to ensure complete understanding and agreement with Departmental financial management objectives and approaches. We also participate in meetings of the Government-wide CFO council and of the Federal financial managers council to address issues that cut across agencies.

The Office of Financial Management 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 Office of the Inspector General, and similar organizations to develop the best possible financial management standards.

Our continuing professional education program further enhances workforce development. This program requires a minimum of 40 hours of training and development activities per year for each financial management professional.

Financial Management Indicators

The Office of Management and Budget (OMB) prescribes the use of quantitative indicators to monitor improvements in financial management. The table below shows our performance during FY 2000 against the target performance established by the OMB:

Financial Performance Measures

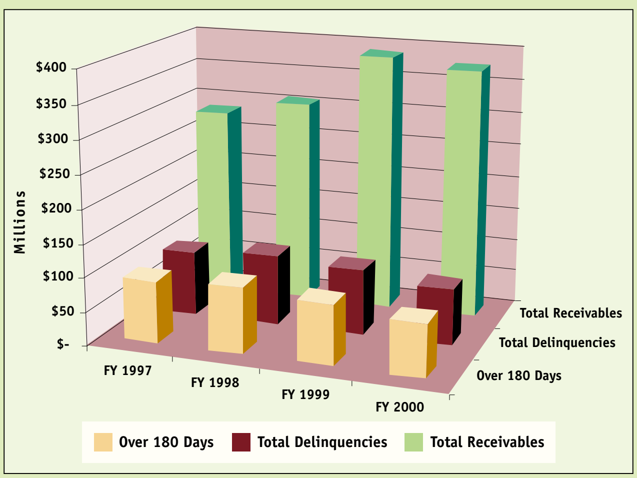
Financial Performance Measure	FY 2000 Performance	FY 2000 Target
Percentage of timely vendor payments	98%	95%
Percentage of payroll by electronic transfer	97%	90%
Percentage of Treasury agency locations fully reconciled	100%	95%
Timely reports to central agencies	92%	95%
Audit opinion on FY 2000 financial statements	Unqualified	Unqualified
Material weaknesses as reported by OIG	3	0

Debt Management

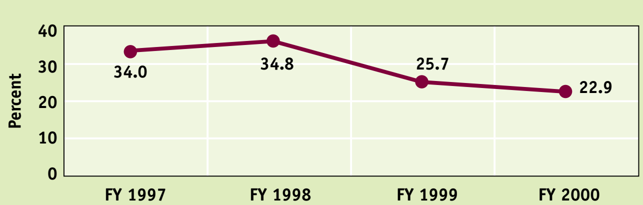
Receivables and Debt Collection

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 taxpayer are minimized.

Commerce Receivables



Delinquencies as A Percentage of Total Receivables



Total Department receivables decreased from $386 million in FY 1999 to $374 million in FY 2000. This decrease is primarily due to collections on asset sales by the National Oceanic and Atmospheric Administration. Total delinquencies, as a percentage of total receivables for the Department, decreased 2.8 percent, from 25.7 percent in FY 1999 to 22.9 percent in FY 2000.

The Debt Collection Improvement Act of 1996 (DCIA) established Treasury 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. All Departmental bureaus completed and forwarded agency profile forms to initiate cross-servicing. Almost $13 million in delinquent debt has since been referred to Treasury for cross-servicing.

Payment Practices

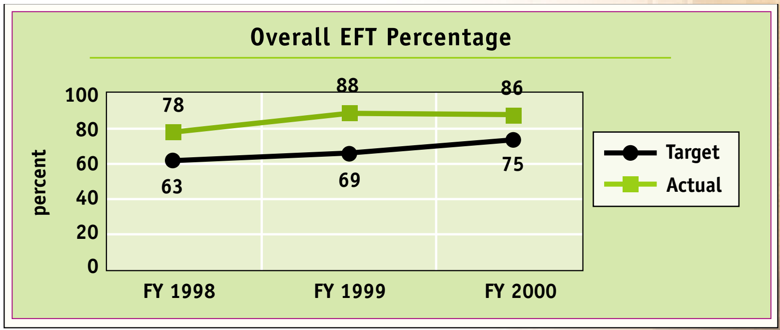
Electronic Funds Transfer

During FY 2000, we continued our efforts to convert paper check payments to Electronic Funds Transfer (EFT)-compliant methods as required by the Debt Collection Improvement Act of 1996. Our progress in this area is illustrated in the table below:

Payment Category	FY 2000 EFT Percentage	FY 1999 EFT Percentage	FY 2000 Total Volume	FY 1999 Total Volume
Retirement benefits	99	96	4,122	3,924
Salary	97	97	1,121,814	1,126,121
Salary (Census Field)	83	80	5,757,684	723,352
Vendor* & Misc.	86	72	1,096,401	814,470
TOTAL	86	88	7,980,021	2,667,867

** Includes purchase card transactions*

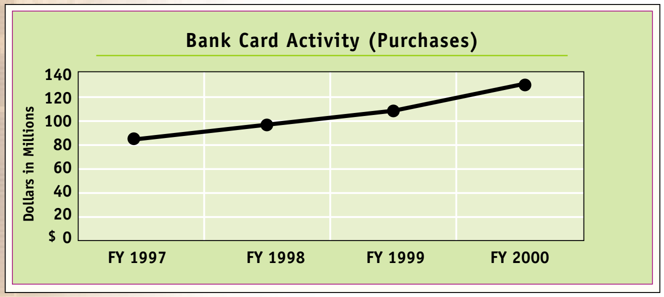
The Department exceeded the National Partnership for Reinventing of Government (NPR) goal of 75 percent for FY 2000, and we anticipate again meeting our goal in FY 2001. We made 97 percent of permanent employee salary payments by EFT in FY 2000; the use of temporary employees hired in support of the Decennial Census necessitated the delivery of an additional 5.7 million payroll payments, however, for which we had an EFT compliance rate of 83 percent. This extremely high volume skewed the Department's overall EFT rate for FY 2000, producing an overall 2 percent decrease in our EFT rate.

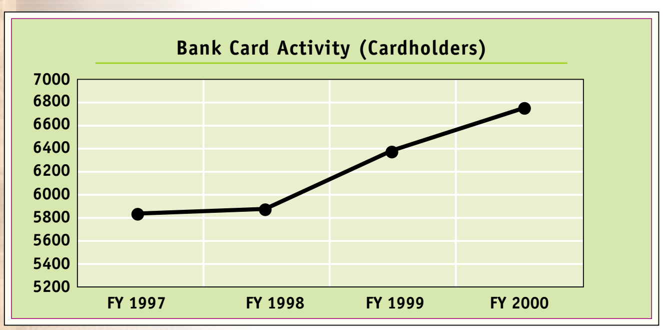


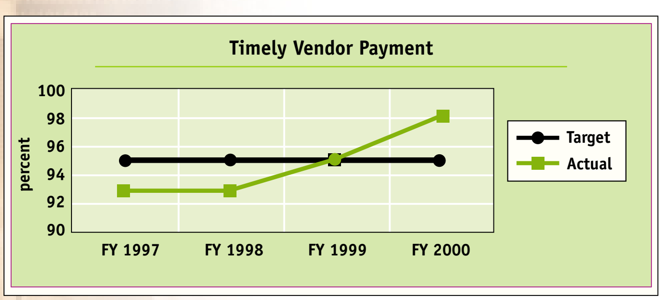
The Department continued to expand the use of the SmartPay Purchase Card system, which allows invoices to be received electronically, completing more than 339,000 purchase transactions in FY 2000. This represents an increase of 18 percent over the number of transactions completed in FY 1999. We also continued our efforts to increase use of the Automated Clearing House (ACH) system for EFT payments by working with vendors to secure the banking information necessary to make ACH payments. In FY 2001, we will strive, where operationally feasible, to reduce or eliminate Imprest Funds through the use of convenience checks. Other payment strategies for FY 2001 include the pilot use of debit cards and other advanced SmartPay payment mechanisms.

Bank Card

We are committed to the use of bank cards as a means of streamlining Departmental procurements. In FY 1998, we selected Citibank as our bank card provider, and the use of bank cards continues to grow as more cards are issued and as the card becomes the preferred method of procurement for small purchases. Departmental usage of the card has grown from 5,821 cardholders in FY 1997 to 6,752 at the end of FY 2000. The value of purchases made using charge cards increased during the same period from $88.2 million to $129 million. As the number of purchases increases, we are paying close attention to the internal controls that assure that all such purchases are legal and proper.







Prompt Payment

We made approximately 98 percent of all payments on time in FY 2000, compared to 95 percent in FY 1999. The Department nonetheless incurred a total of $730,172 in interest penalty costs on late payments. We will continue to monitor our finance offices' payment performance to maintain our timely vendor payment percentage.

Financial Review

This is the fifth 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 97-01, as amended, and to fully disclose the Department's financial position and results, we have prepared the following financial statements: Consolidated Balance Sheet; Consolidating Statement of Net Cost; Consolidating Statement of Changes in Net Position; Combined Statement of Budgetary Resources; and Combined Statement of Financing. The Office of the Inspector General is responsible for auditing the Department's financial statements.

Clean Financial Audits

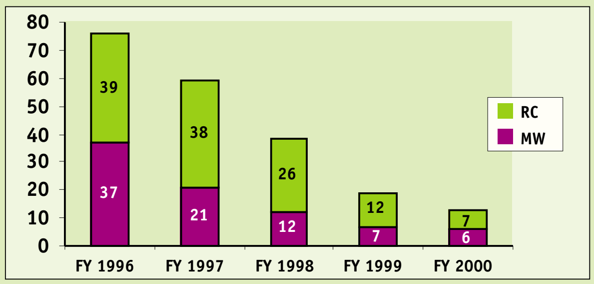
The Department is committed to strong financial management and has made much progress in this area. The audit opinion on our Consolidated Financial Statement is directly attributable to the opinion received on our bureau financial statements. We received a disclaimer in FY 1996 and FY 1997 and an unqualified opinion on the balance sheet in FY 1998 (disclaimer on other statements). FY 1999 was a landmark year for the Department of Commerce, as we received for the first time an unqualified opinion on all five of our consolidated financial statements. All Departmental bureaus similarly received unqualified opinions on their financial statements. This achievement resulted 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. In FY 2000, the Department again received an unqualified opinion on all five of our statements and on our bureau statements. The following table and chart illustrate our progression toward full attainment of unqualified audit opinions and our 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 1996** Number of Reporting Entities	FY 1997 Number of Reporting Entities	FY 1998 Number of Reporting Entities	FY 1999 Number of Reporting Entities	FY 2000 Number of Reporting Entities
Unqualified	7	8	11	14	9***
Unqualified/BS only*	0	3	2	0	0
Qualified/BS only*	3	2	0	0	0
Disclaimer	4	2	1	0	0
Not Audited	0	0	1	1	0

*Disclaimer on other statements.
**FY 1996 had 14 reporting entities only. The Franchise Fund was added in FY 1997.
***Decrease in number of reporting entities due to entities being combined for audit in FY 2000.

Audit Findings by Fiscal Year



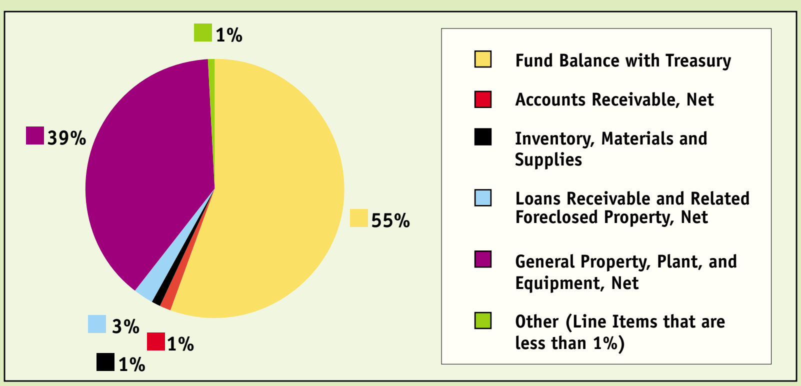
Analysis of FY 2000 Financial Condition and Results

(Dollar in Thousands)

Composition of DOC Assets

Fund Balance with Treasury of $5,894,185 is the aggregate amount of funds available to make authorized expenditures and pay liabilities. PP&E of $4,103,710 includes $1,548,778 of satellites and weather measuring and monitoring systems and $1,806,972 of Construction-In-Progress, primarily of satellites

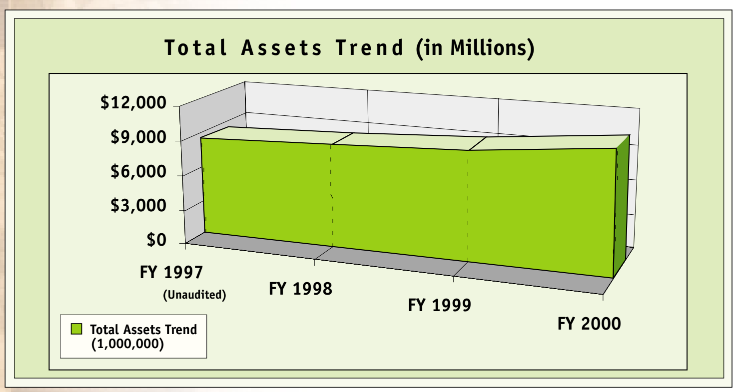
Composition of DOC Assets



and weather systems. Loans Receivable and Related Foreclosed Property, Net of $272,786 results from the Department's five direct loan programs and two loan guarantee programs.

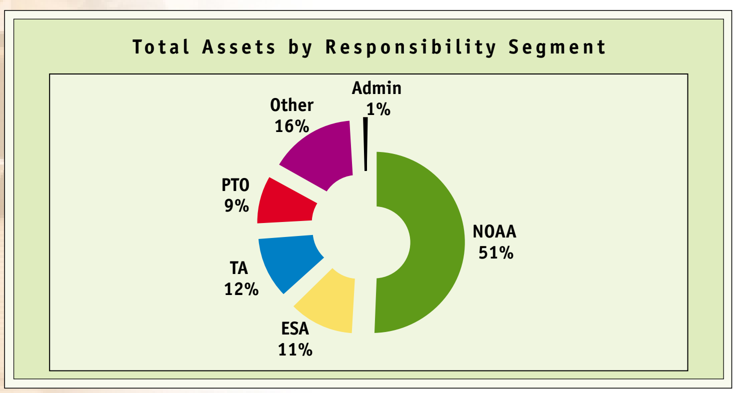
Trends in Assets

Total Assets increased $1,193,043 or 13 percent, from $9,398,585 at September 30, 1999 to $10,591,628 at September 30, 2000. Fund Balance with Treasury increased $1,194,000 or 25 percent to $5,894,185, primarily due to increased available funds for the Decennial Census and the Emergency Steel, Oil & Gas Loan Guarantee Programs. Loans Receivable and Related Foreclosed Property, Net decreased 6 percent, from $290,744 to $272,786. General Property, Plant, and Equipment, Net (PP&E) rose $21,261 or 1 percent, from $4,082,449 to $4,103,710, largely due to increased Construction-In-Progress for satellites and weather systems and equipment acquired to support the Decennial Census.



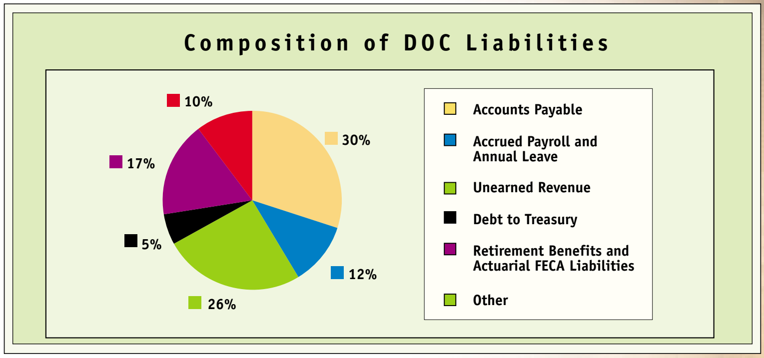
Assets by Responsibility Segment

NOAA significant asset is Fund Balance with Treasury of $1,419,358 which reflects an increase due in unexpended appropriation and investments liquidated from FY 1999. The Bureau of the Census significant asset, Fund Balance with Treasury increased from $577,778 to $1,127,674 or 95% due to 2000 Decennial Census activities. The Patent and Trademark Office Fund Balance with Treasury increased to $810,381 or 20 percent was due to an increase of fees collected for patents and trademark applications. In addition, the PTO cash increased to $19,968 or 101 percent was due to undeposited checks related to collections in the filing, maintenance fees, and FY 2001 fee increases. The Fund Balance with Treasury for the Departmental Management Salaries and Expenses increased to $20,397 to fund the COMMITS program.



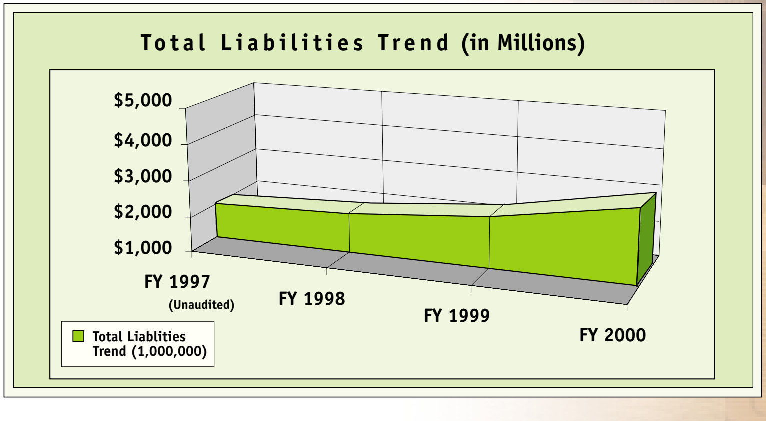
Composition of DOC Liabilities

Accounts Payable of $856,073 consists of amounts owed for goods and services received, progress in contract performance by others, grants awarded, and other expenses primarily decennial activities. Unearned Revenue of $734,472 represents monies received from customers for which goods and services have not yet been provided or rendered by Commerce. Retirement Benefits and Actuarial FECA Liabilities of $489,745 is comprised of a) NOAA Corps Retirement System - $291,400; b) NOAA Corps Post-Retirement Health Benefits - $42,700; and c) Actuarial FECA Liability - $155,645. Debt to Treasury of $155,584 results from monies borrowed for the Fisheries Finance Fund direct loan program and Fishing Vessel Obligation Guarantee Program.



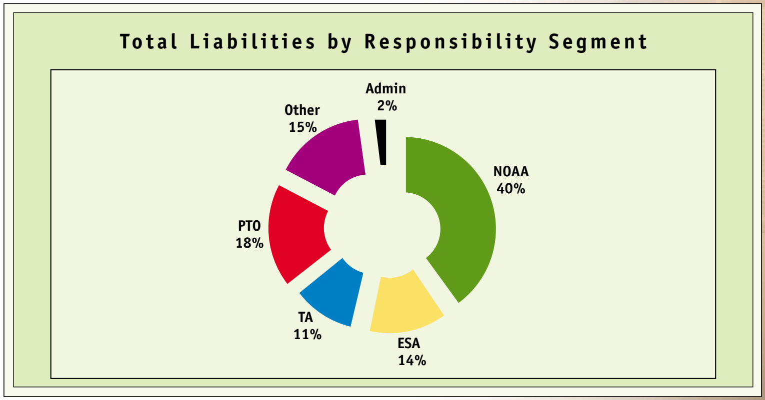
Trends in Liabilities

Total Liabilities increased $365,714 or 14.6 percent, from $2,498,611 at September 30, 1999 to $2,864,325 at September 30, 2000. Accounts Payable increased from $731,720 to $856,073 or 17 percent, primarily due to increased costs for the Decennial Census.



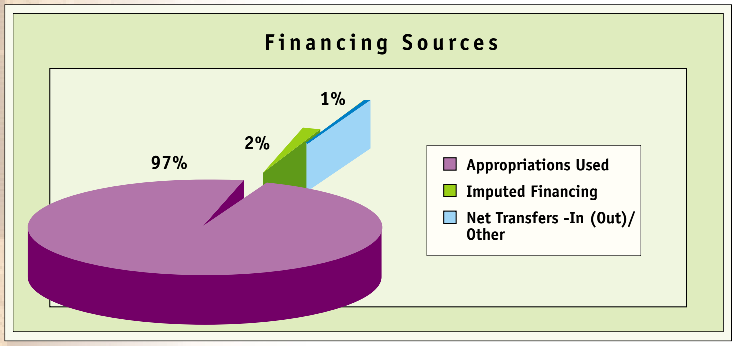
Liabilities by Responsibility Segment

NOAA's significant liabilities include Accounts Payable - $235,263; Debt to Treasury - $155,584, which results from its loan programs; and Retirement Benefits and Actuarial FECA Liability - $393,976, which includes retirement system and post-retirement health benefits for the NOAA Corps. PTO has $393,927 of Unearned Revenue related to its patent and trademark processing. ESA/BEA's liabilities include $88,090 of Census' Unearned Revenue related to reimbursable agreements with other Federal agencies, and Accounts Payable



and Accrued Payroll And Annual Leave for Census totaling $203,986, which reflects liabilities related to the Decennial Census.

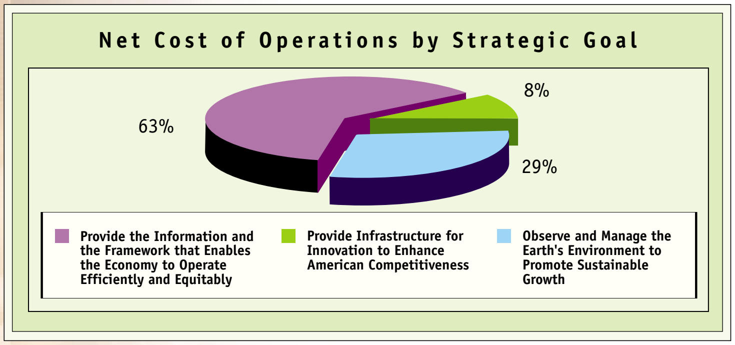
Trends in Financing Sources



Total Financing Sources, shown on the Consolidating Statement of Changes in Net Position, increased $3,031,922 or 56.8 percent, from $5,334,885 at September 30, 1999 to $8,366,807 at September 30, 2000. This reflects the significant increase in Appropriations Used of $3,020,682 or 58.08 percent, from $5,200,889 to $8,221,571, primarily due to the increased expenditures for the 2000 Census program.

Net Cost of Operations by Strategic Goal

In FY 2000, Net Cost of Operations totaled $8.4 billion. We spent 63 percent of the total to achieve the Department's strategic goal to Provide the Information and the Framework that Enables the Economy to Operate Efficiently and Equitably which includes the "Census 2000" program, 29 percent to Observe and Manage the Earth's Environment to Promote Sustainable Growth which includes NOAA's "Advance Short Term Warning Forecast Service" program and 8 percent to Provide Infrastructure for Innovation to Enhance American Competitiveness.



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 United States Code 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.