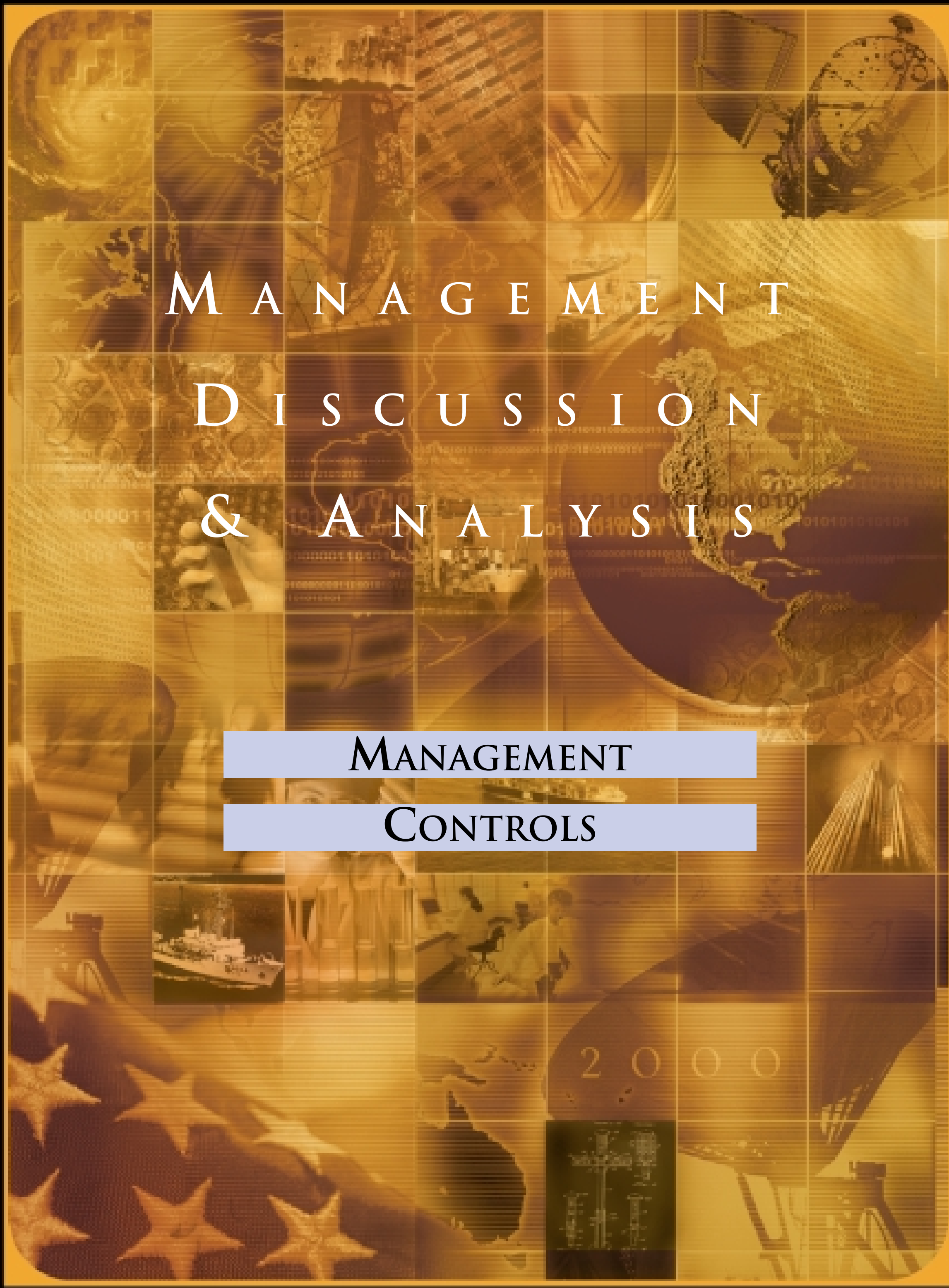
Management Discussion & Analysis



Management Controls

Management Controls

The Department of Commerce is dedicated to maintaining integrity and accountability in all programs and operations. Management, administrative, and financial system controls have been developed to ensure that:

- all programs and operations achieve their intended results efficiently and effectively;
- resources are used in accordance with the Department's mission;
- all programs and resources are protected from waste, fraud, and mismanagement;
- laws and regulations are followed;
- reliable, complete, and timely data are maintained and used for decision-making at all levels.

We believe that the rapid implementation of the audit recommendations made by the Office of the Inspector General (OIG) is essential to improving the efficiency and effectiveness of our programs and operations and to achieving our integrity and accountability goals. We have accordingly instituted a comprehensive follow-up program to ensure that the recommendations are implemented in a timely and cost-effective manner.

Federal Managers' Financial Integrity Act of 1982

Statement on Management and Financial Controls

For the programs, organizations, and functions covered by the Federal Managers' Financial Integrity Act (FMFIA), I am pleased to report that, with the exception of the one material weakness [identified below], the Department of Commerce's systems of management controls, taken as a whole, provide reasonable assurance that the objectives of the FMFIA have been achieved. Full compliance of financial systems will depend on the completion of the Department's systems modernization efforts.

Donald L. Evans
Secretary of the Department of Commerce

During FY 2000, as required by FMFIA the Department completed an evaluation of its management control system in accordance with OMB and Departmental guidelines. The objectives of our management control system are to provide reasonable assurance that:

- our obligations and costs are in compliance with applicable laws;
- our assets are safeguarded against waste, loss, unauthorized use, or misappropriation;

- the revenues and expenditures applicable to agency operations are properly recorded and accounted for to permit the preparation of accounts and reliable financial reports and to maintain accountability over assets;
- all programs are efficiently and effectively carried out in accordance with applicable laws and management policy.

The efficiency of the Department's operation is continually evaluated by using information obtained from reviews conducted by the General Accounting Office (GAO), OIG, and/or specifically requested studies. These reviews ensure that our systems and controls comply with the standards established by the FMFIA. This year, the Bureau of the Census and the Bureau of Export Administration were the focus of major reviews by GAO and OIG. GAO and OIG have also initiated major reviews of information technology (IT) and IT security.

In FY 2000, the Department successfully eliminated two material weaknesses by:

- implementing the Advanced Weather Interactive Processing System (AWIPS)
- completing the 2000 Decennial Census.

The implementation of the Advanced Weather Interactive Processing System (AWIPS) marked the completion of the National Weather Service's modernization program. This program, originally scheduled for completion in 1994, encountered major problems in the form of cost overruns, technical problems in key systems, and delays, and had since 1988 been recognized by the Department as a material weakness. It was additionally identified in1995 by GAO as a high-risk initiative. The AWIPS program was restructured by Departmental management as we sought to overcome these problems, and was closely monitored by GAO and OIG.

AWIPS became fully operational in 121 weather forecasting offices in March 2000, immediately improving the accuracy and timeliness of weather forecasts: the lead time for tornado warnings, for example, increased by 20 percent from FY 1997 to FY 1999. In FY 2000, AWIPS was removed from the GAO high-risk list and from OIG's top 10 management challenges list.

In 1996, the Department reported the completion of the 2000 Decennial Census as a material weakness, and in 1997 the census was designated by the GAO as a high-risk area. The Decennial Census is now nearing completion, consistent with its operational plans. It has been removed from both the GAO high-risk list and the OIG top 10 management challenges list.

Though the Decennial Census is nearly completed, oversight of data accuracy and census processes, costs, and systems will remain a high priority for Departmental management. Areas that still need to be addressed include planning for the 2010 Census, improving the physical facilities at the Suitland site, and correcting problems found during the 2000 Census. The latter include problems with the Master Address File and telephone questionnaire assistance program, finalization of the census kits, office leasing costs, and training of enumerators.

With the elimination of these two material weaknesses, the Department's only outstanding material weakness is lack of compliance with central agency requirements for a single, integrated financial system.

The Department is not in Compliance with Central Agency Requirements for a Single, Integrated Financial System. Many of the Department's financial systems are seriously outdated and fragmented; they are unable to provide timely, complete, and reliable financial information; they are inadequately controlled; and they are costly and difficult to maintain. Taken as a whole, the systems are not compliant with GAO principles and standards, nor with the requirements of the CFO Act, the Joint Financial Management Improvement Program (JFMIP), nor the Office of Management and Budget (OMB). A modern, Department-wide financial management system is urgently needed to enable us to improve dramatically our overall financial management performance. Until we implement the planned Core Financial System, the Department will continue to be exposed to those risks attendant upon the operation of multiple, outdated accounting systems.

We have made much progress in addressing this material weakness, and specifically in implementing a Department-wide financial management system. The Commerce Administrative Management System (CAMS) has been fully implemented at Census and the Office of the Secretary. In addition, CAMS is the grants accounting system of record at the Economic Development Administration (EDA) and is being implemented at the National Oceanic and Atmospheric Administration (NOAA). NOAA's implementation schedule has been restructured such that a line office will be fully operational in October 2001, with all NOAA offices to be operational by October 2002. In addition, BXA implementation will be completed in October 2002. Implementation by the Minority Business Development Agency, the Economics and Statistics Administration, Bureau of Economic Analysis, and Salaries and Expenses for EDA (accounting services provided by NIST) is scheduled to be completed by September 2001; and by the National Institute of Standards and Technology, the Technology Administration, and the National Telecommunications and Information Administration by October 2003. Full implementation of CAMS within the Department is thus anticipated by October 2003. Additionally, we have developed a corporate database that will integrate financial data from each of our reporting units to permit the preparation of consolidated statements and reports. Efforts are underway to pilot the corporate database by using it to generate the FY 2000 consolidated financial statements this spring, and subsequently to generate the FY 2001 statements for audit.

The Department as a whole has met many of its management challenges and now has resolved all but one of its major material weaknesses. As we seek to further improve our overall management, we will continue to review our operations to ensure that the Department serves the American people as an effective and efficient steward and that we continue to enhance our Nation's global competitiveness.

Federal Financial Management Improvement Act of 1996

Under the Federal Financial Management Improvement Act (FFMIA) of 1996, the Department of Commerce is required to have financial management systems that comply with Federal financial management systems requirements, Federal accounting standards, and the U.S. Government Standard General Ledger (SGL) at the transaction level. In FY 1998, the Office of the Inspector General found the Department did not substantially comply with these three requirements, mainly due to the inadequacy of its financial systems. In FY 1999, we developed a remediation plan to resolve these material deficiencies and subsequently made significant progress with implementation of the plan. At the end of FY 1999 one financial system, used by a single bureau, did not comply with the SGL at the transaction level, but this problem has been resolved and is not expected to be reported in future years.

In FY 2000, the only outstanding FFMIA issue is compliance with Federal financial management systems. As described in the preceding section (Federal Managers Financial Integrity Act, FMFIA), Department financial systems are insufficiently integrated, lack security controls, are improperly documented, and do not provide reliable and timely performance information. As with our FMFIA noncompliance problems, the Department's nonconformance under FFMIA will be corrected with the implementation of the Core Financial System, the Commerce Administrative Management System (CAMS), and the corporate database that we have developed. CAMS has been designed to meet the cost accounting system criteria of SFFAS No. 4 as well as to be compliant with the financial system requirements of the JFMIP and the SGL. As detailed in the FMFIA section, full implementation of CAMS will be completed by October 2003. An updated remediation plan was forwarded to the Office of Management and Budget in December 2000, and the plan will be closely monitored until the Department has achieved full compliance.

Report on Audit Follow-Up

The Inspector General Act, as amended, requires that the Secretary report to Congress on the final action taken for Inspector General audits. With this Accountability Report, the Department of Commerce is reporting on audit follow-up activities for the period October 1, 1999, through September 30, 2000.

Audit Follow-Up Activities within the Department

Efforts are underway to update the automated tracking system that has been used to follow the implementation progress of recommendations from the time an audit is resolved with the Office of the Inspector General until it is closed or reported as completed by the bureau. We have also in the past used this system to generate the information used to prepare the Secretary's semiannual reports.

When developed, the new system will allow all bureaus to transmit electronically the information that is used to review and close recommendations and to prepare the audit follow-up portion of this Accountability Report. The new system will reduce the time necessary for inputting data and report preparation. The new system was expected to be finalized during FY 2000, but has been delayed.

Report Summary and Highlights

At the start of this reporting period, the balance for reports with disallowed costs totaled 71, representing $15.3 million. (Disallowed costs are questioned costs that management has sustained or agreed should not be charged to the Government.) A total of 19 new reports were issued during the period, with costs of $1.8 million, and final action was taken on 32 reports with disallowed costs of $3.7 million. The balance at the end of the period was 58 reports, representing $13.4 million.

In the summary table that follows, "funds to be put to better use" refers to any actions made by management to implement recommendations that funds be applied to a more efficient use. Actions of this sort taken on these reports are shown in the summary chart, which has a beginning balance of 31 reports and funds of $44.9 million. Two new reports with funds totaling $13.8 million were added during the reporting period and final actions were taken to implement 11 reports with funds of $7.4 million. The closing balance was 22 reports, representing $51.2 million in funds to be put to better use.

Performance, contract, grant, and loan and financial statement audit reports with nonmonetary recommendations are also indicated in the chart. The start of the period shows a balance of 57 audit reports with management decisions on which final action had not been taken. Sixty-six new audits were added where management decisions were made, and final action was taken to close 60 audits, for an ending balance of 63 audit reports needing final action.

Summary of Activity on Audit Reports
October 1, 1999 - September 30, 2000

	Disallowed Costs		Funds to be Put to Better Use		Nonmonetary Reports	Total
	Reports	Dollars	Reports	Dollars	Number of Reports	Reports
Beginning Balance	71	$15,301,992	31	$44,865,461	57	159
New Reports	19	1,764,278	2	13,750,000	66	87
Total Reports	90	17,066,270	33	58,615,461	123	246
Reports Closed	(32)	(3,672,683)	(11)	(7,382,991)	(60)	(103)
Ending Balance	58	$13,393,587	22	$51,232,470	63	143

The bureaus are continuing their efforts to implement audits that are more than one year old. At the end of the reporting period, a total of 80 audits are reported as being unimplemented for more than one year. Although some audits share associated reasons for not having been implemented, the reasons for final actions not being taken vary with each audit. For example, if collections for payments are annualized over several years, the audit will remain open until the final collection is made or a debt is paid. Some performance audits have recommendations that mandate construction projects, the completion of which can take several years.

In addition, because audits involve the reporting of funds to be put to better use, these audits will remain open until all work has been completed and the savings can be calculated. This is to ensure accurate reporting of the funds to be put to better use. Program development, implementation of new financial management systems, appeal of audit determinations, and technological enhancements of existing systems can all cause audits to remain open beyond one year after resolution. Management will continue to monitor these audits and assist, as much as possible, in the implementation process.

Biennial Review of Fees

The Chief Financial Officers Act of 1990 requires the biennial review of agency fees, rents, charges imposed for services, and other things of value provided to specific beneficiaries as opposed to the American public in general. The objective of these reviews is to identify such activities and, where permitted by law, to begin charging fees. The reviews also support the periodic adjustment of existing fees to reflect current costs or market value, in order to minimize the general taxpayer subsidy of specialized services or things of value, such as rights or privileges, provided directly to identifiable non-Federal beneficiaries. The Department conducts a review of its fee programs annually. In the current review, we noted that all bureaus in most cases adjust their fees to be consistent with the program and with the legislative requirement to recover the full cost of the goods or services provided to the public. The Office of the Inspector General found that one bureau's program is not in full compliance with the full costing requirements of OMB Circular A-25, however. The bureau concerned hopes to resolve this issue in FY 2001 by obtaining an exemption for this program from the Office of Management and Budget.

Reports Consolidation Act of 2000

This Accountability Report is prepared under the authority of the Reports Consolidation Act of 2000. The purposes of the Act are (1) to authorize and encourage the consolidation of financial and performance management reports; (2) to provide financial and performance management information in a more meaningful and useful format for Congress, the President, and the public; (3) to improve the quality of agency financial and performance management information; and (4) to enhance coordination and efficiency on the part of agencies in reporting financial and performance management information. Among other things, the Act also requires a statement prepared by our Inspector General that summarizes what the Inspector General considers to be the most serious management and performance challenges facing the Department. The following four pages were prepared by the Inspector General. We generally concur with the OIG and include most of them in our "Looking Ahead" section of this Accountability Report where we specifically discuss what we deem the Department's major issues, challenges and concerns.

Inspector General's Statement Summarizing the Major Management Challenges Facing the Department of Commerce

The Honorable Donald L. Evans
Secretary of Commerce
Washington, D.C.

Pursuant to the Reports Consolidation Act of 2000, this is our statement summarizing the most serious management and performance challenges facing the Department of Commerce for inclusion in the Department's Performance and Accountability Report for FY 2000.

In pursuing its programs and missions, the Department is faced with a number of problems, concerns, and difficult issues, including some that the Office of Inspector General views as major management challenges. We have identified the following issues as the "Top 10 Management Challenges" facing Commerce because they meet one or more of the following criteria: importance to the Department's mission or the nation's well-being, complexity, sizable expenditures, or need for significant management improvements. We believe that, by addressing these challenges, the Department can enhance program effectiveness, eliminate serious operational problems, decrease vulnerability to fraud and waste, and achieve substantial savings.

A detailed description of the current status of the Department's efforts, as well as our review and monitoring of those efforts, can be found in the September 2000 edition of the *Inspector General's Semiannual Report to the Congress.*

Increase the Accuracy and Control the Cost of the 2000 Decennial Census

The Decennial Census is an enormous and complex undertaking-one of the most difficult that the Federal Government has to undertake. The accuracy of decennial census data is critical because it is the basis for apportioning seats in the House of Representatives and is used to support a host of other activities, including Federal and state redistricting and the distribution of billions of dollars of Federal and state funds. In the 2000 Decennial Census, the bureau faces a particular challenge in attempting to enumerate increasing numbers of hard-to-count people at an acceptable cost. Also, the bureau is considering the feasibility of adjusting the census counts for any undercounts and overcounts that may have occurred in the census enumerations. For these reasons, oversight of the decennial census has remained one of our top priorities. Since 1997 we have issued nearly 30 audit and inspection reports on various aspects of the bureau's decennial efforts and have made numerous recommendations aimed at helping to improve the accuracy of the decennial and control its cost, some of which also have implications for improving other bureau operations. We also plan to examine the body of evaluative work produced on the 2000 decennial and identify and report on "lessons learned" that may be helpful to the Census Bureau in planning for the 2010 decennial.

Successfully Implement a Department-Wide Financial Management System

For more than 10 years, the lack of a single, integrated financial system has been reported as a material internal control weakness in the Secretary's annual reports to the President under the Federal Managers' Financial Integrity Act. In response, Commerce began planning for a new Department-wide financial system in 1992, but implementation of the Commerce Administrative Management System (CAMS) progressed slowly. In the past two years, however, the Department has made considerable progress at the Census Bureau, EDA, NIST, NOAA, and the Office of the Secretary. By October 2003, it plans for all 14 reporting entities to employ compliant financial management systems integrated with a Commerce-wide financial database to produce the consolidated financial statements. Because of the system's importance, historical difficulties, logistical challenges, and high cost, we will continue to monitor and review the Department's progress in implementing CAMS.

Strengthen Department-wide Information Security

A large number of interconnected, widely distributed computer systems support vital Commerce operations and provide essential services to the public. Effective computer security measures are critical for protecting the secrecy and privacy of information, the integrity of computer systems and their networks, and the availability of services to users. We recently completed a review of the

Department's efforts to protect its information systems under the Presidentially directed critical infrastructure protection program. We also reviewed the security of Commerce financial management systems and their related networks as part of our audits of the Department's FY 1999 financial statements. These reviews found that information security needs additional management attention and improvements. We plan to continue and expand our reviews in fulfilling our oversight responsibilities under the Government Information Security Reform Act.

Successfully Implement USPTO's Transition to a Performance-Oriented Organization

The American Inventors Protection Act of 1999 established the U.S. Patent and Trademark Office as a performance-oriented organization and provided increased authority and control of its budget, expenditures, personnel processes, and procurement operations. USPTO must formulate policies governing these processes and develop a performance-based process with standards for evaluating cost-effectiveness, while meeting its performance goals under GPRA. USPTO management and others recognize the significant challenges associated with USPTO operating as a performance-oriented organization. First, the agency has experienced a substantial increase in patent and trademark filings and appeals, leading to the hiring of hundreds of examiners and administrative judges. USPTO's new status should allow it to more efficiently manage its human capital and other resources and to rapidly change filing and appeal processes as needed. Second, USPTO is engaged in a massive real estate venture–the construction of a new five–building headquarters complex in northern Virginia, to be completed in 2004. This project is expected to be one of the largest real estate ventures that the federal government will undertake in the next decade. Third, USPTO, which has experienced problems in applying information technology to the examination process, will see the demands on automated systems intensify as a result of the act's increased focus on operational efficiency and its provisions requiring information technology solutions. Successful transition to a performance-oriented organization will enable USPTO to better address these challenges.

Address the Issues Related to NTIS's Mission and Financial Viability

In recent years, the OIG and others have raised questions about (1) what NTIS's role and mission should be in the 21st century and (2) whether it will be able to support itself as currently authorized and, if not, what should be done. The Department has proposed closing NTIS by the end of FY 2000 and transferring its collection of scientific, technical, business, and engineering publications to the Library of Congress. Due to congressional concerns, the closure has been delayed pending the outcome of a General Accounting Office (GAO) review of NTIS's functions and a study by the National Commission on Libraries and Information Science of overall government public information dissemination. In the Commission study, released on January 26, 2001, most of its members concluded that the fundamental reason for NTIS remains valid, but that the organization needs a new vision and business model. GAO has not yet issued its report. The challenge for the Department is to work closely with the Congress and other stakeholders to reach agreement on the future of NTIS.

Enhance Export Controls for Dual-Use Commodities

Given the importance of export licensing controls to national security, we have devoted considerable attention to the challenges facing the Bureau of Export Administration in issuing licenses for the export of certain goods and technologies with both civilian and military uses. As a result, we believe that new comprehensive legislative authority is needed to replace the Export Administration Act of 1979, which was passed during the Cold War to help block the export of critical goods and technologies to the Communist bloc countries.

A new framework for export controls is needed to enhance both our national security and our international trade in the 21st century. Today, export controls must address new threats to national security and foreign policy goals posed by rogue countries and terrorist groups who seek to acquire weapons of mass destruction and weapon delivery systems. New legislation is also needed to strengthen BXA's regulatory authority and penalties, and to demonstrate a firm U.S. commitment to maintaining strong export controls. In conjunction with our annual reporting requirement under the National Defense Authorization Act for FY 2000, we hope to play a useful role in congressional and public debates on the reauthorization of the Export Administration Act and the revamping of the nation's export controls.

Increase the Effectiveness of Fishery Management

Ensuring healthy stocks of fish and other marine animals in the coastal waters beyond each state's jurisdiction is a federal responsibility led by NOAA's National Marine Fisheries Service (NMFS) and eight regional fishery management councils under the Magnuson-Stevens Fishery Conservation and Management Act of 1976, as amended. NMFS and the councils track the condition of fish and marine species, determine the levels of catch that will provide the greatest benefit to the nation, and measure the economic impacts of fishery regulations and policies.

GAO recently concluded that NMFS appears to be using the best available science to determine the condition of these species, appropriately considers the economic impacts of conservation and management measures on fishing communities, and has technically met the act's requirements by identifying fish habitats and developing a consultative process for addressing potential adverse impacts to those habitats. However, GAO recommended strengthening NMFS's data collection efforts, improving economic analysis and communications between the government and the fishing industry, and identifying the costs of complying with the act's habitat provisions.

Continue to Improve the Department's Strategic Planning and Performance Measurement in Accordance with GPRA

The Department has continued to make progress in meeting the challenge of how to best plan and measure its performance in accordance with GPRA. The submission of the Department's FY 1999 Annual Program Performance Report, its first, in March 2000 brought to a close the first full cycle of GPRA activity that began in 1996. The Department has also issued its first accountability report and its strategic plan for FY 2000-05.

While its initial program performance report and most recent annual performance plan (for FY 2001) reflect continued efforts to strengthen strategic planning, there is room for additional improvement. Specifically, efforts are needed to ensure that reported data is credible, modify the system for scoring and communicating performance results, and provide a more complete discussion of performance targets not met and efforts to improve performance. A major challenge for the Department is to ensure that concerns raised about its initial annual performance report and its prior annual performance plans are addressed in its combined FY 2000 performance report and FY 2002 performance plan.

Strengthen Financial Management Controls in Order to Maintain a "Clean" Opinion on the Department's Consolidated Financial Statements

The Department received its first-ever unqualified (clean) opinion on its FY 1999 consolidated financial statements despite many obstacles, including the absence of a single, integrated financial management system and internal control deficiencies. Maintaining clean audit opinions on the consolidated statements, as well as all reporting entity statements, is essential and, as such, remains a major challenge.

Although substantial improvements have been made in financial management, the Department needs to create a financial management environment that provides timely, accurate financial and performance information and complies with federal laws and regulations. The Department has undertaken three major financial management initiatives: (1) improving financial accountability by strengthening the integrity of financial operations and providing guidance to reporting entities; (2) improving financial management systems through the CAMS development project; and (3) developing human resources by establishing financial leadership positions at all bureaus and developing a professional education program.

Successfully Implement Acquisition Reform Initiatives

The Department spends more than $1 billion each year, about one-quarter of its annual appropriation, through contracts. Several laws enacted during the 1990s sought to streamline the way in which the government purchases goods and services by promoting efficiency and uniformity in the federal acquisition process and by relying on goods available in the competitive marketplace. Concerns about the effect of these new laws on the federal procurement process have been raised by various government oversight agencies, including GAO and the Office of Federal Procurement Policy. We have identified problems at Commerce with improper use of task order contracts, inadequate documentation of market surveys, insufficient planning for contract administration and monitoring, and inadequate administration of the purchase card program. Given these concerns, we believe that the Department's implementation of acquisition reform initiatives warrants extra scrutiny.

Johnnie E. Frazier
Inspector General

January 31, 2001