KPMG
2001 M Street, NW
Washington, DC 20036

Independent Auditors' Report on Consolidated Financial Statements

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

We have audited the accompanying consolidated balance sheet of the U.S. Department of Commerce (Department) as of September 30, 2001, and the related consolidated statements of net cost, changes in net position, and financing, and the combined statement of budgetary resources (hereinafter collectively referred to as "consolidated financial statements"), for the year then ended. These consolidated financial statements are the responsibility of the Department's management. Our responsibility is to express an opinion on the consolidated financial statements based on our audit.

We did not audit the financial statements of the Bureau of Census, National Technical Information Service, and U.S. Patent and Trademark Office, bureaus within the Department, which combined, represent 16.2 percent and 19.4 percent of the total consolidated assets and net cost of operations of the Department, respectively. Those statements were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for Bureau of Census, National Technical Information Service, and U.S. Patent and Trademark Office is based solely on the reports of the other auditors.

The accompanying consolidated balance sheet and consolidated statement of net cost of the Department as of and for the year ended September 30, 2000, were audited by other auditors whose report dated February 23, 2001, expressed an unqualified opinion on those statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 01-02, *Audit Requirements for Federal Financial Statements*. Those standards and OMB Bulletin No. 01-02 require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the

accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, based on our audit and the reports of the other auditors, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the U.S. Department of Commerce, as of September 30, 2001, and its net costs, changes in net position, budgetary resources, and reconciliation of net costs to budgetary obligations, for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The information in the Management Discussion and Analysis, Required Supplementary Information, and Required Supplementary Stewardship Information sections is not a required part of the consolidated financial statements but is supplementary information required by the Federal Accounting Standards Advisory Board or OMB Bulletin No. 01-09, *Form and Content of Agency Financial Statements*. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of this information. However, we did not audit this information, and, accordingly, we express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements taken as a whole. The consolidating information on pages 191 to 194 is presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position, net costs and changes in net position, of the Department's bureaus individually. The combining information on pages 189 to 190 is presented for the purposes of additional analysis of the combined statement of budgetary resources. The consolidating and combining information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and, in our opinion, based on our audit and the reports of the other auditors, is fairly stated in all material respects in relation to the consolidated financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued reports dated January 31, 2002, on our consideration of the Department's internal control over financial reporting and its compliance with certain provisions of laws and regulations. Those reports are an integral part of an audit performed in accordance with *Government Auditing Standards*, and should be read in conjunction with this report in considering the results of our audit.

KPMG LLP

January 31, 2002

KPMG
2001 M Street, NW
Washington, DC 20036

Independent Auditors' Report on Internal Control over Financial Reporting

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

We have audited the accompanying consolidated balance sheet of the Department of Commerce (Department) as of September 30, 2001, and the related consolidated statements of net cost, changes in net position, and financing, and the combined statement budgetary resources (hereinafter collectively referred to as "consolidated financial statements"), for the year then ended, and have issued our report thereon dated January 31, 2002.

We did not audit the financial statements of the Bureau of Census, National Technical Information Service, and U.S. Patent and Trademark Office, bureaus within the Department, which combined, represent 16.2 percent and 19.4 percent of the total consolidated assets and net cost of operations of the Department, respectively. Those statements were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for Bureau of Census, National Technical Information Service, and U.S. Patent and Trademark Office is based solely on the reports of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 01-02, *Audit Requirements for Federal Financial Statements*.

In planning and performing our audit, we considered the Department's internal control over financial reporting by obtaining an understanding of the Department's internal control, determining whether internal controls had been placed in operation, assessing control risk, and performing tests of controls in order to determine our auditing procedures for the purpose of expressing our opinion on the consolidated financial statements. We limited our internal control testing to those controls necessary to achieve the objectives described in OMB Bulletin No. 01-02 and *Government Auditing Standards*. We did not test all internal controls relevant to operating objectives as broadly defined by the Federal Managers' Financial Integrity Act of 1982. The objective of our audit was not to provide assurance on the Department's internal control. Consequently, we do not provide an opinion on internal control over financial reporting.

Our consideration of internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be reportable conditions. Under standards issued by the American Institute of Certified Public Accountants, reportable conditions are matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Department's ability to record, process, summarize, and report financial data consistent with the assertions by management in the financial statements. Material weaknesses are reportable conditions in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements, in amounts that would be material in relation to the consolidated financial statements being audited, may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Because of inherent limitations in any internal control, misstatements due to error or fraud may occur and not be detected.

We noted certain matters, discussed in Exhibit I, involving the internal control over financial reporting and its operation that we consider to be reportable conditions. We believe that the first matter is a material weakness. Both of these matters were presented as material weaknesses in prior year audits. Exhibit II presents the status of prior year reportable conditions. With regard to conditions noted at Census, this information is summarized from the other auditors' reports.

Additional Required Procedures

As required by OMB Bulletin No. 01-02, we considered the Department's internal control over Required Supplementary Stewardship Information by obtaining an understanding of the Department's internal control, determining whether these internal controls had been placed in operation, assessing control risk, and performing tests of controls. Our procedures were not designed to provide assurance on internal control over Required Supplementary Stewardship Information, and, accordingly, we do not provide an opinion on such controls.

As further required by OMB Bulletin No. 01-02, with respect to internal control related to performance measures determined by management to be key and reported in the Management Discussion and Analysis section of the Department's fiscal year 2001 Accountability Report, we obtained an understanding of the design of significant internal controls relating to the existence and completeness assertions. Our procedures were not designed to provide assurance on internal control over reported performance measures, and, accordingly, we do not provide an opinion on such controls.

****

We also noted other matters involving internal control and its operation that we have reported to the Department's management in two separate letters, addressing information technology and other matters, respectively.

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

KPMG LLP

January 31, 2002

Exhibit I

U.S. DEPARTMENT OF COMMERCE

Reportable Condition – Material Weakness

Financial Management Systems Need Improvement (Repeat Condition)

Integrated Financial Management Systems

The Department has not fully complied with OMB Circular A-127, *Financial Management Systems*. The Circular requires each agency to establish and maintain a single, integrated financial management system. The circular defines this to mean a unified set of financial systems and the financial portions of mixed systems encompassing the software, hardware, personnel, processes (manual and automated), procedures, controls, and data necessary to:

- Carry out financial management functions;
- Manage financial operations of the agency; and
- Report on the agency's financial status to central agencies, the Congress, and the public.

A unified set means that the systems are planned for and managed together. They also are operated in an integrated fashion, and linked electronically in an efficient and effective manner to provide agencywide financial system support necessary to carry out the agency's mission and support its financial management needs.

The Department has reported that the Commerce Administrative Management System (CAMS), in conjunction with the corporate database, will allow the Department to be in substantial compliance with federal systems requirements, including the requirement for a single integrated financial management system. At the end of FY 2001, CAMS was implemented at Census, the Office of the Secretary, the Economic Development Administration (for grants and salaries and expense), Minority Business Development Agency, and the Economics Statistics Administration/Bureau of Economic analysis. Implementation is currently in process at the National Oceanic Atmospheric Administration. Full implementation of CAMS within the Department is projected for October 2003.

Two of the Department's bureaus operate on non-integrated legacy systems. The National Oceanic and Atmospheric Administration's accounting system is Financial Management System (FIMA). This system is not integrated, and weak information technology general controls have been identified. The National Institute for Standards and Technology's accounting system is also a non-integrated system, and is used to provide accounting services for the National Institute for Standards and Technology, National Telecommunications and Information Administration, and Technology Administration. These systems are ineffective tools for preparing and reporting the financial results of the Department and its reporting entities.

Exhibit I, Continued

U.S. DEPARTMENT OF COMMERCE

Recommendation

We recommend that the Department continue its efforts to integrate its financial management systems, reduce the number of legacy systems in use and in doing so, monitor planned actions to ensure that progress remains timely.

General Information Technology Controls

The audit of the Department's fiscal year 2001 financial statements included reviews of the general information technology controls over its major financial management systems. Effective general controls provide assurance that data used to prepare financial statements is reliable. In reviewing information technology general controls, we used the General Accounting Office's *Federal Information System Controls Audit Manual (FISCAM)* as a guide. FISCAM outlines six major review areas: These areas are shown below, along with a brief discussion with examples of related findings.

1. Entity-wide security program planning and management provides a framework and continuing cycle of activity for managing risk, developing security policies, assigning responsibilities, and monitoring the adequacy of computer-related controls. Weaknesses related to risk assessments were identified at the Office of Financial Management/CAMS Support Center, Census, and National Institute of Standards and Technology. The weaknesses cited risk assessments that were not conducted or findings from a risk assessment have not been resolved. Security plan weaknesses were also identified at the locations cited above as well as the National Oceanic and Atmospheric Administration.

2. Access controls limit and/or monitor access to computer resources (data, programs, equipment, and facilities) to protect against unauthorized modification, loss, and disclosure. Weaknesses in password control or logical access controls were identified at the Office of Financial Management/CAMS Support Center, the National Oceanic and Atmospheric Administration, Census and the National Institute for Standards and Technology. Physical access control weaknesses were also identified for these bureaus.

3. Application software development and change control helps to prevent the implementation of unauthorized programs or modifications to existing programs. Improvements in Systems Development Life Cycle (SDLC) methodology or change controls management are needed at the Office of Financial Management/CAMS Support Center and the National Oceanic and Atmospheric Administration. Also, the National Institute for Standards and Technology's SDLC methodology needs to be finalized.

4. System software limits and monitors access to powerful programs that operate computer hardware. At the Office of Financial Management/CAMS Support Center an upgrade in systems software needs to be documented and appropriately authorized. Also, at the National Institute for Standards and Technology a version of system software in use is no longer supported by the vendor and the upgraded version has not been implemented.

Exhibit I, Continued

U.S. DEPARTMENT OF COMMERCE

5. Segregation of duties constitutes policies, procedures, and an organizational structure to prevent one individual from controlling key aspects of computer-related operations, thus deterring unauthorized actions or access to assets or records. The following weaknesses were identified at the National Institute for Standards and Technology:

   - Policies and procedures need to be documented for review of security logs;
   - Programmers access to production programs and data needs to be restricted;
   - Application programmers' ability to move code into production needs to be restricted.

6. Service continuity involves procedures for continuing critical operations, without interruption and with prompt resumption of these operations, when unexpected events occur. Weaknesses identified included the lack of a finalized entity wide continuity plan at the National Oceanic and Atmospheric Administration. Also, the National Institute for Standards and Technology needs to finalize development of its Continuity of Operations Plan (COOP) and its Disaster Recovery Plan. Improvements were also identified as needed in the service continuity/disaster recovery documentation for Office of Financial Management/CAMS Support Center.

These matters, if not resolved, could adversely affect the ability of the Department and its reporting entities to produce accurate financial statement data. The aggregate of these weaknesses is considered to be a material weaknesses.

Recommendation

Specific recommendations are included in separate information technology reports prepared for the bureaus audited. However, we recommend that the Department monitor the implementation of recommendations made to the bureaus to ensure that they are implemented effectively.

Other Reportable Condition

Financial Management and Reporting Needs Improvement (Repeat Condition)

The Chief Financial Officers Act of 1990, the Government Performance and Results Act of 1993, the Government Management Reform Act of 1994, and the Federal Financial Management Improvement Act of 1996 are designed to improve the overall financial management practices of the federal government. These laws require federal agencies to report financial program results so that each agency's management, the Congress, and the public may assess the agency's performance stewardship.

Further improvements in financial management are necessary at the reporting bureau level to correct the internal control weaknesses identified for the consolidated Department audit and the separate audits of certain bureaus in fiscal year 2001. Consequently, it is essential that the reporting bureau level remain focused on sound financial management.

Exhibit I, Continued

U.S. DEPARTMENT OF COMMERCE

Existing weaknesses in the reporting process or the data available for reporting should be resolved. These weaknesses impact the Department's financial reporting process and resulting accuracy and timeliness of its reports.

Since OFM maintains overall responsibility for financial management and reporting at the Department, we recommend that OFM monitor the bureaus efforts to resolve the conditions cited and the recommendations made to the bureaus to ensure timely and effective implementation.

Financial Reporting

Weaknesses were identified in financial reporting at Census, the Economic Development Administration and the National Institute for Standards and Technology. These weaknesses impacted the bureaus as well as the efforts made by the Department to report on a timely basis because bureau information needed at the Department level was late or required extensive adjustments. Below is a discussion of the financial reporting weaknesses identified at the bureau level.

- Census compiled its fiscal year 2001 financial statements manually. Additionally, a significant amount of adjustments were posted manually; after which each adjustment was crosswalked to the financial statements by account balance, program fund, project number, and intragovernmental or public classification. This financial statement preparation process is an impediment to the Census management in conducting thorough financial analyses at a detailed level, and it impedes the production of interim financial statements. Also, Census did not conduct a sufficient detailed level of supervisory review of the financial statements to detect errors and omissions and to ensure the statements and related footnotes were prepared in accordance with OMB guidance.

- Discrepancies were found between Economic Development Administration's financial reports and the general ledger. The Economic Development Administration continued to adjust its general ledger trial balance after submitting Federal Agencies Centralized Trial Balance System (FACTS II) information to Department of the Treasury. These adjustments created discrepancies between Economic Development Administration's general ledger and its SF-2108, *Year End Closing Statement*. Also, the Economic Development Administration did not track all its adjustments. As a result, the reason for some differences between the financial reports and the general ledger could not be explained.

- The Economic Development Administration uses an outdated Standard General Ledger (SGL) account grouping crosswalk to prepare its SF-133, *Report on Budget Execution and Resources*. The Economic Development Administration is not using the most recent SGL crosswalk established by Department of the Treasury's Financial Management Service which is based on the standard posting logic promulgated by the SGL Board.

- The National Institute for Standards and Technology could not provide trial balances by appropriation and budget fiscal year that reconciled to the Consolidating Statement of Budgetary Resources on a timely basis. While trial balances did exist, the delay in receipt

Exhibit I, Continued

U.S. DEPARTMENT OF COMMERCE

was caused by adjustments made to a summary trial balance that were not timely recorded in the individual trial balances supporting the summary. The use of the manual adjustments to the trial balance increases risk of error. The National Institute for Standards and Technology provides accounting services for Departmental Management, Bureau of Economic Analysis, Minority Business Development Agency, and Economic Development Administration.

Recommendations

Recommendations made to Census are included in audit reports issued specifically to Census.

We recommend that the Economic Development Administration ensure that all adjustments to the general ledger are adequately documented and appropriately captured in FACTS II.

We also recommend that the Economic Development Administration use the most recent SF-133 crosswalk in order to accurately comply with Treasury and the Department's requirements.

We recommend that National Institute for Standards and Technology consider the system functionality requirements to provide financial information at the appropriation and budget fiscal year level throughout the year. This will eliminate the task of having to research and post adjustments to the budget fiscal year funds at a later date.

Reconciliations of Financial Data

Reconciliation of financial data is a key internal control designed to help ensure the accuracy of data being reported. However, extensive reconciliations were needed to resolve errors in data produced by bureaus systems or provided manually for inclusion in the Departmental financial statements.

- Census specific feeder systems were not fully integrated or electronically interfaced with CAMS, causing extensive manual account reconcilations to be performed and creating the potential for error in financial reports.
  - Census did not properly reconcile its deferred revenue and accounts receivable. Errors in the manually-prepared adjusting journal entries for these accounts contributed to a material understatement in the Census's original draft financial statements. Also, since accounts receivable was not being reconciled throughout the fiscal year, the Census had a large amount of unbilled accounts receivable recorded at year end.
  - At fiscal year end, the subsidiary ledgers for undelivered orders and accounts payable contained a significant number of unmatched transactions. For example, summary level undelivered orders "debit" balances were offset by "credit" balances maintained at the detailed transaction level. Accounts payable testing identified difficulties in determining the intragovernmental accounts payable balances. Significant reconciliation efforts by Census are needed to ensure that intragovernmental obligations with General Services Administration (GSA) are not understated.

Exhibit I, Continued

U.S. DEPARTMENT OF COMMERCE

- Certain deficiencies in fiscal year 2001 regarding the National Oceanic and Atmospheric Administration's monitoring and accounting for construction work in process (CWIP) were noted. Specifically, the National Oceanic and Atmospheric Administration did not receive detailed spreadsheets from certain task managers to complete the year-end reconciliation of costs, and many of the spreadsheets that were received were received late and required extensive investigation by the National Oceanic and Atmospheric Administration Finance Office and the auditors, and resulted in numerous financial statement adjustments. In addition, there is an overall lack of oversight over accounting for CWIP, including thorough review of the CWIP Task Status Report (15 C Report), which serves as the CWIP subsidiary ledger, for unusual balances on a task by task basis at year-end.

Recommendations

Recommendations made to Census and the National Oceanic and Atmospheric Administration are included in audit reports issued specifically to those bureaus.

Vulnerability in Financial Data Supporting Financial Reporting

In addition to the weaknesses discussed above, another vulnerability in financial data was identified that requires resolution. This weakness impacts budgetary reporting.

- The National Oceanic and Atmospheric Administration's Financial management System Financial management System (FIMA) does not contain automated procedures or system controls to prevent the over-obligation of apportioned funds. The National Oceanic and Atmospheric Administration relies on budget officers and program managers to monitor and control the obligational activity against their financial operating plans, a manual process. Quarterly, the National Oceanic and Atmospheric Administration's Execution and Operations Division compares obligations to the financial operating plans and makes inquiries if a variance occurs. The National Oceanic and Atmospheric Administration's automated accounting processes should include a system of checks, balances, and edit functions to alert the Budget Officer that a given entry or request would exceed current available funds. Although the National Oceanic and Atmospheric Administration has implemented certain manual procedures to detect such entries, these controls function only after the over-obligation has been entered into the FIMA system. Therefore, the manual process does not prevent an over-obligation of funds. The Department believes that this condition will be corrected with the implementation of CAMS.

Recommendations

Recommendations made to the National Oceanic and Atmospheric Administration are included in audit reports issued specifically to the National Oceanic and Atmospheric Administration.

Exhibit II

U.S. DEPARTMENT OF COMMERCE

Prior Year Finding	Prior Year Status	Fiscal Year 2001 Status
• *Financial Management Systems Need Improvement* 1. The Department has not fully complied with OMB Circular A-127, *Financial Management Systems*. The Circular requires each agency to establish and maintain a single, integrated financial management system. 2.Weaknesses in general controls were identified in all six FISCAM review areas.	Material Weakness	Material Weakness
• *Financial Management and Reporting Needs Improvement* Further improvements in financial management are necessary at the reporting bureau level to correct the internal control weaknesses identified for the consolidated Department audit and the separate audits of certain bureaus in fiscal year 2001. Consequently, it is essential that the reporting bureau level remain focused on sound financial management.	Material Weakness	Reportable Condition
• *Prompt Recognition and Recording of Appropriations* Appropriations for two programs established in fiscal year 1999 were not recorded in the general ledger until March 22, 2000. The appropriations that should have been recognized earlier totaled $270 million and were related to the *Emergency Steel Loan Guarantee and the Emergency Oil and Gas Guarantee Loan Program Act of 1999*.	Material Weakness	Closed

Exhibit II, Continued

U.S. DEPARTMENT OF COMMERCE

Prior Year Finding	Prior Year Status	Fiscal Year 2001 Status
• *Reconciliations Should be Improved*	Reportable Condition	
1. Internal control deficiencies were identified in some reporting entities' reconciliation processes. Either the entities do not perform timely reconciliations or the reconciliations contain numerous errors, and unreconciled differences are not investigated and properly adjusted.		Combined with reportable condition on Financial Management and Reporting
2. The Department did not send confirmation requests to its trading partners in a timely manner. Detailed listings of intragovernmental transactions were not sent to the Department's trading partners until January 8, 2001. Also, the Department did not respond to two reconciliation inquiries made by its trading partners or verify the responses received from its trading partners.		Reported as a management letter comment

KPMG
2001 M Street, NW
Washington, DC 20036

Independent Auditors' Report on Compliance with Laws and Regulations

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

We have audited the consolidated balance sheet of the Department of Commerce (the Department) as of September 30, 2001, and the related consolidated statements of net cost, changes in net position, and financing, and the combined statement of budgetary resources (hereinafter collectively referred to as "consolidated financial statements"), for the year then ended, and have issued our report thereon dated January 31, 2002.

We did not audit the financial statements of the Bureau of Census, National Technical Information Service, and U.S. Patent and Trademark Office, bureaus within the Department, which combined, represent 16.2 percent, and 19.4 percent of the total consolidated assets and net cost of operations of the Department, respectively. Those statements were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for Bureau of Census, National Technical Information Service, and U.S. Patent and Trademark Office is based solely on the reports of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 01-02, *Audit Requirements for Federal Financial Statements.*

The management of the Department is responsible for complying with laws and regulations applicable to the Department. As part of obtaining reasonable assurance about whether the Department's financial statements are free of material misstatement, we performed tests of the Department's compliance with certain provisions of laws and regulations, noncompliance with which could have a direct and material effect on the determination of the consolidated financial statement amounts, and certain provisions of other laws and regulations specified in OMB Bulletin No. 01-02, including certain requirements referred to in the Federal Financial Management Improvement Act (FFMIA) of 1996. We limited our tests of compliance to the provisions described in the preceding sentence, and we did not test compliance with all laws and regulations applicable to the Department. However, providing an opinion on compliance with

laws and regulations was not an objective of our audit, and accordingly, we do not express such an opinion.

The results of our tests of compliance with the other laws and regulations described in the preceding paragraph, exclusive of FFMIA, disclosed two instances of noncompliance that are required to be reported herein under *Government Auditing Standards* and OMB Bulletin No. 01-02, as described below:

- National Oceanic and Atmospheric Administration Capital Leases Are Not Fully Funded

  The National Oceanic and Atmospheric Administration did not fully fund its capital leases. In fiscal year 1999 and again on September 8, 2000, the Chief Financial Officer issued a memo instructing that "all future capital leases exceeding $200,000 have sufficient budgetary resources at the inception of the lease to cover the present value of the lease payments discounted using Treasury interest rates." This memo addressed leases with inception dates after fiscal year 1999. However, the National Oceanic and Atmospheric Administration did not fully fund capital leases with inception dates after October 1, 1999 and these leases were also not fully funded in fiscal year 2000 or 2001. OMB Circular A-11, *Preparation and Submission of Budget Estimates*, states that "for all lease purchases and leases of capital assets, agencies must have sufficient budgetary resources up front to cover the present value of the lease payments discounted using Treasury interest rates."

- International Trade Administration is not in compliance with OMB Circular A-25, *User Charges*

  As previously reported, the International Trade Administration does not have adequate policies to ensure compliance with OMB Circular A-25, *User Charges*. Circular A-25 requires federal agencies to recover the full cost of providing goods or services. As a result, there is a significant risk that the International Trade Administration trade events are not self-sustaining, and the International Trade Administration and federal resources are not efficiently allocated to ensure that revenues meet or exceed costs. The International Trade Administration has requested a waiver from OMB with regard to A-25, but has not yet received a response from OMB granting or denying the waiver.

The results of our tests of compliance disclosed no instances of noncompliance with other laws and regulations discussed in the fourth paragraph of this report, exclusive of FFMIA, that are required to be reported herein under *Government Auditing Standards* or OMB Bulletin No. 01-02.

FFMIA. Under FFMIA, we are required to report whether the Department's financial management systems substantially comply with (1) federal financial management systems requirements, (2) applicable federal accounting standards, and (3) the United States Government Standard General Ledger at the transaction level. To meet this requirement, we performed tests of compliance with FFMIA section 803(a) requirements.

The results of our tests disclosed instances, described below, where the Department's financial management systems did not substantially comply with the federal financial management systems requirements discussed in the preceding paragraph. With regard to conditions noted at Census, this information is summarized from the other auditors' reports.

Federal system requirement for a single integrated system

The Department is not in compliance with federal system requirements for a single integrated financial system. The Department reported this in the Federal Managers' Financial Integrity Act section of the fiscal year 2001 Accountability Report. The Department reported that, taken as a whole, its financial systems are not compliant with GAO principles and standards, nor with the requirements of the Chief Financial Officers Act, the Joint Financial Management Improvement Program or OMB requirements. Its existing systems are not sufficiently integrated, lack security controls, are improperly documented, and do not provide reliable and timely information.

Federal systems not in substantial compliance with federal financial management system requirements

Three of the Department's financial management systems do not substantially comply with the federal financial systems requirements as implemented. Below is a description of the systems and the primary reasons for noncompliance.

- The primary system for the National Oceanic and Atmospheric Administration, which is also used to process accounting transactions for the Bureau of Export Administration, does not support the preparation of timely, accurate financial statements through an integrated system and requires manual procedures for accounting and budgetary transactions. Also, this system does not adequately support the budget execution process (e.g., there are insufficient controls to prevent over-obligations). The National Oceanic and Atmospheric Administration's program managers use manual or automated "cuff" systems, instead, to monitor budgetary status.

- The primary accounting system for the National Institute for Standards and Technology, which is also used to process transactions for the National Telecommunications and Information Agency and the Technology Administration, continues to have weaknesses in general controls procedures.

- Census's financial management systems did not substantially comply with Federal financial management system requirements, including OMB Circulars A–127, *Financial Management Systems* and A–130 *Management of Federal Information Resources*.

  The following factors contributed to Census's financial management systems not substantially complying with federal financial management systems requirements:

  - Internal control weaknesses related to entity-wide security program planning and management and access controls;
  - Bureau-specific feeder systems were not fully integrated or electronically interfaced with CAMS, causing extensive manual account reconciliations to be performed, creating a high risk for error; and
  - CAMS does not have archive capability to store completed transactions to reduce data volume, increasing the risk that errors on subsidiary listings may not be properly identified and resolved.

Census' Financial Statement Reporting Functionality

Census did not have adequate internal control around its financial reporting processes. Specifically, Census did not have adequate external financial statement reporting functionality within its accounting system of record, CAMS, to meet the financial reporting requirements of OMB Bulletin No. 97–01, *Form and Content of Agency Financial Statements*, as amended. Also, manual processes and procedures implemented did not satisfy the provisions of OMB Circular A-127.

The Chief Financial Officer (CFO) and Assistant Secretary for Administration and Deputy CFO have been assigned the responsibility of ensuring the integration of financial and information systems. Actions the Department and applicable bureaus should take to strengthen financial management systems are described in our *Independent Auditors' Report on Internal Control Over Financial Reporting*, and those reports issued to Commerce bureaus by other auditors. By October 2003, the Department plans to have all of its reporting entities under compliant financial management systems.

The results of our tests disclosed no instances in which the Department's financial management systems did not substantially comply with the requirements for federal accounting standards or the United States Government Standard General Ledger at the transaction level.

Other Matters. A review is being conducted by the Office of Inspector General of the Department of Commerce as a result of work conducted by the Office of Inspector General of the Department of Defense, related to use of Department of Defense funds by the National Oceanic and Atmospheric Administration on a jointly sponsored project. The National Oceanic and Atmospheric Administration disagrees with the Department of Defense Office of Inspector General's findings. The National Oceanic and Atmospheric Administration believes this matter may have arisen due to the issues relating to budgetary funds control as described in our *Independent Auditors' Report on Internal Control over Financial Reporting*. However, the ultimate resolution of these matters cannot presently be determined.

****

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

KPMG LLP

January 31, 2002

UNITED STATES DEPARTMENT OF COMMERCE
Chief Financial Officer
Assistant Secretary for Administration
Washington, D.C. 20230

February 14, 2002

MEMORANDUM FOR Johnnie E. Frazier
Inspector General

FROM: James L. Taylor
Deputy Chief Financial Officer and
Director for Financial Management

SUBJECT: Response to the Department's Consolidated Financial Statement Audit Report

We appreciate the opportunity to respond to the draft audit report prepared by your Independent Public Accounting Firm. We are pleased that the audit report demonstrates the improvements in Department financial management, as evident in the decrease in the number of internal control deficiencies from four to two. While we generally agree with the audit findings, we strongly disagree with the classification of Census' financial systems as non-compliant with the Federal Financial Management Improvement Act (FFMIA); and the statement that the National Institute of Standards and Technology was unable to provide timely trial balances for bureaus that it provides accounting services for.

We believe that Census improved its financial management and reporting from FY 2000 to 2001. In fact, the FY 2001 audit report specifically states that Census improved its financial management and reporting over the previous fiscal year. While we disagree with the categorization of items in the auditors report as deficiencies causing non-compliance with FFMIA, these conditions existed during FY 2000, a year in which the financial systems were found compliant.

We believe that Census' systems, both electronic and manual, meet each of the four criteria set forth in OMB's Revised Implementation Guidance for FFMIA issued January 2001. This guidance states that agencies are substantially compliant with FFMIA if they can:

- Prepare financial statements and other required financial and budget reports using information generated by the financial management system(s);
- Provide reliable and timely financial information for managing current operations;
- Account for their assets reliably and timely, so that they can be properly protected from loss, misappropriation, or destruction; and
- Do all of the above in a way that is consistent with Federal accounting standards and the SGL.