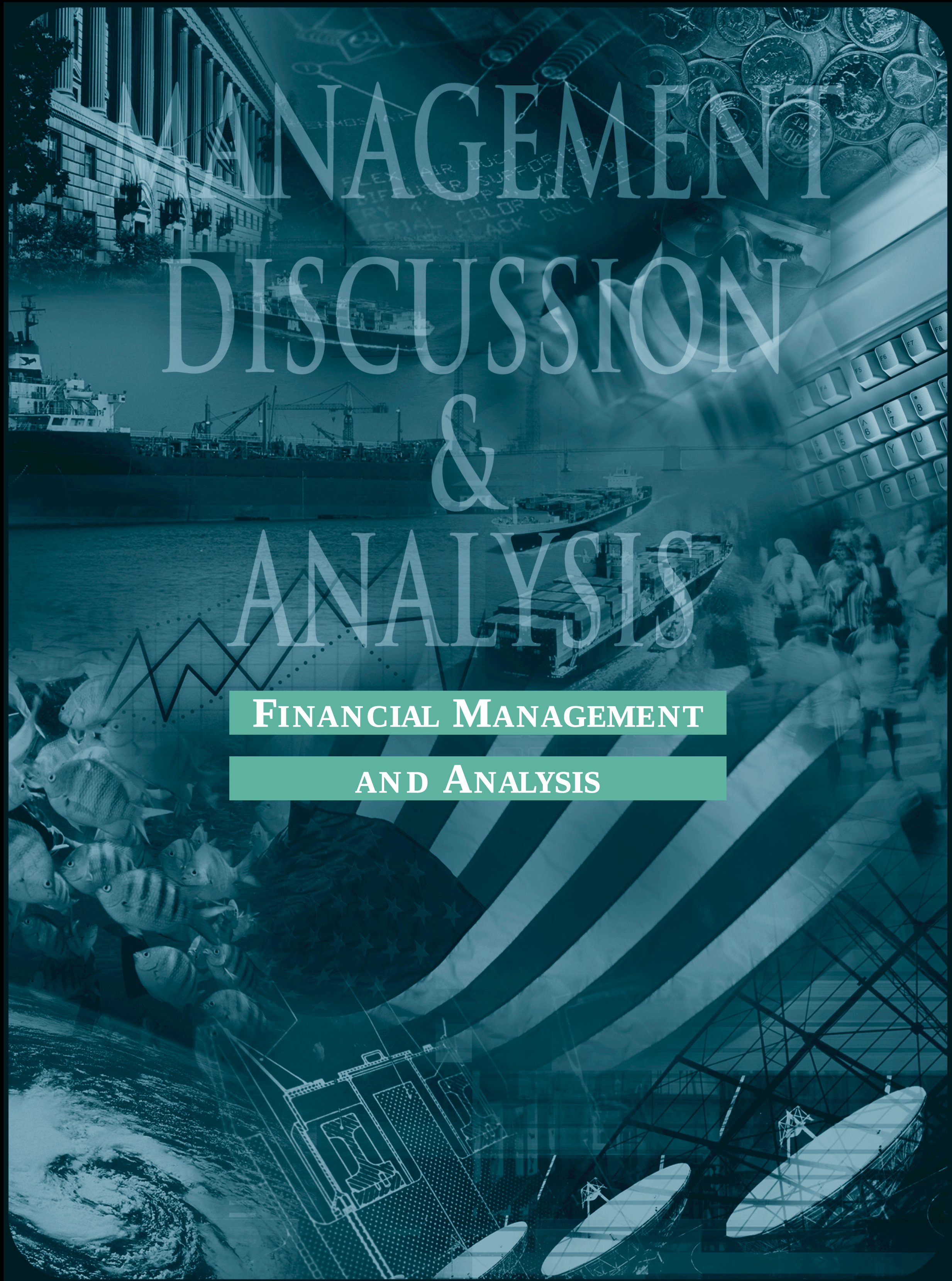
MANAGEMENT DISCUSSION & ANALYSIS

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 and accounting, as well as 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; and
- Develop human resources in the financial management community

Improve Financial Accountability. Under the Secretary's leadership, we are continuing to give the highest priority to providing accurate financial data to our internal and external customers, and to our accountability for all assets. Our goal is to strengthen the integrity of our financial operations to ensure the accuracy of our financial data and continue to earn an unqualified opinion for all future consolidated financial statements. In FY 2001, four of the Department's reporting entities produced stand-alone financial statements, each of which was audited individually. Financial statements for the remaining reporting entities, along with the four stand-alone entities, were consolidated and audited. We are continuing to correct several 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 objective is to reduce the number of internal control deficiencies, and thereby provide managers with timely, accurate financial data.

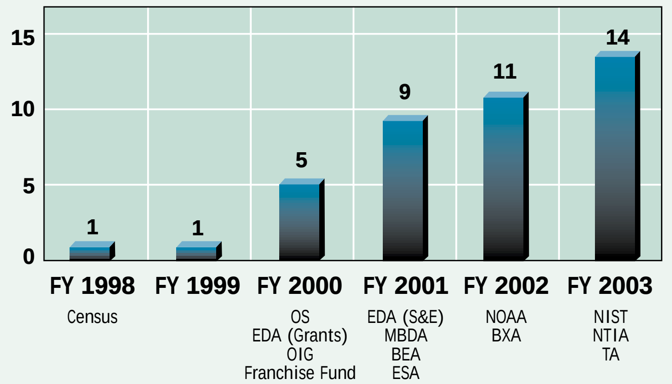
As demonstrated by the preparation of this Accountability Report and the publication of our FY 2000 – 2005 Strategic Plan, we are also seeking to improve our performance in meeting our reporting requirements, thereby providing a comprehensive picture of the Department's performance. The goal of the Department 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, 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 (CFS) interfaced with administrative systems for small purchases, bankcards, a data warehouse, and time reporting/labor cost distribution module, collectively called Core CAMS.

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 providing our executives and OMB 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. CAMS is the financial system for the Bureau of the Census (Census), the Office of the Secretary (OS), the Office of the Inspector General (OIG), the Economic Development Administration (EDA), the Minority Business Development Agency (MBDA), the Economics and

Statistics Administration (ESA), and the Bureau of Economic Analysis (BEA). The Department will continue to focus on implementing CAMS at the National Oceanic and Atmospheric Administration (NOAA), the Bureau of Export Administration (BXA), the National Institute of Standards and Technology (NIST), Technology Administration (TA), and the National Telecommunications and Information Administration (NTIA). The graph below depicts our implementation, successes, and future plans at bureaus.

Percent of Financial Entities (Bureaus/Offices) Implemented on CAMS (System of Record)



To provide an integrated financial management system, the Department is continuing to implement the CAMS Core Financial System (CFS) at its bureaus. To support this effort, the CAMS Reports Teams were formed to design standardized financial reports. The teams included representatives from the bureaus and were led by OFM members. During FY 2001, reports teams standardized reports and processes in the areas of Accounts Receivable/Advances/Undelivered Customer Orders, Accounts Payable/Undelivered Orders, Year-End Close, and SF 224/Non–224.

The Department evaluated and implemented a Corporate Database to produce consolidated financial reports. The Corporate Database provides an integrated solution to financial statements and federal Agency Centralized Trial Balance System I (FACTS I) Adjusted Trial Balance reporting at the Department, bureau, and Treasury Appropriation/Fund Group level, and also provides the ability to perform data analysis. In FY 2002 and forward, the Department will explore additional Corporate Database reporting capabilities such as financial statement footnotes and FACTS I supplemental data.

Improve Administration of Federal Grant Programs. The Department ensures policy consistency across grant programs through its Office of Executive Assistance Management (OEAM) under the Department's Chief Financial Officer and Assistant Secretary for Administration (CFO/ASA). OEAM is charged with developing, issuing, and overseeing implementation of policies and procedures for the administration of the Department financial assistance programs, including grants, cooperative agreements, loans, and loan guarantees. A Department-wide Grants Manual was drafted during FY 2001, which is expected to be approved and issued during FY 2002. The Manual prescribes the Department Financial Assistance Terms and Conditions, generic special award conditions, and procedures for the Department grant and cooperative agreement programs. The Grants Manual also prescribes standards and procedures to be used for reviewing, selecting, approving, and notifying applicants of funding decisions.

The Department was one of 26 federal agencies that developed a unified plan to streamline and simplify the award and administration of federal grants in accordance with the Federal Financial Assistance Management Improvement Act (P.L. 106-107). The Department is represented on each of the four interagency streamlining and simplification workgroups established by the CFO Council Grants Management Committee. The Department will continue to participate in these interagency initiatives to ensure consistent treatment of grantees.

The Department is also implementing the Automated Standard Application for Payments (ASAP), which is an all-electronic payment and information system developed jointly by the Financial Management Service at the Department of Treasury and the Federal Reserve Bank of Richmond. The latter, in its capacity as Treasury's fiscal agent, operates the system. ASAP is a system through which grantee organizations receiving federal funds can draw from accounts preauthorized by federal agencies. The Department anticipates full implementation of ASAP by October 2002 at its bureaus.

Develop Human Resources. All of the Department's bureaus have established Chief Financial Officer (CFO) positions or similar positions of financial leadership. The Department has both a CFO Council and Finance Officer's Council that meet monthly to discuss common financial management issues and problems, including human resources, budget, procurement, and information technology systems, as well as financial accountability issues. Conferences of bureau finance officials are held as necessary to ensure complete understanding and agreement with Departmental financial management objectives and approaches. OFM also participates in meetings of the Government-wide CFO Council and of the Federal Financial Managers Council to address issues that cut across agencies. OFM also 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 Inspector General, and similar organizations to develop the best possible financial management standards.

Our continuing professional education program enhances workforce development. This program requires a minimum of 40 hours of training and development activities per year for each financial management professional. In addition, OFM provides internships through a variety of sources to give finance and accounting majors an opportunity to gain hands-on accounting experience, while introducing potential future employees to the opportunities that exist at the Department. In FY 2001, the Department began a partnership with the National Academy Foundation (NAF), and employed finance and technology interns from the NAF Internship Program. We will continue to partner with NAF in the coming years.

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 2001 against the target performance established by OMB:

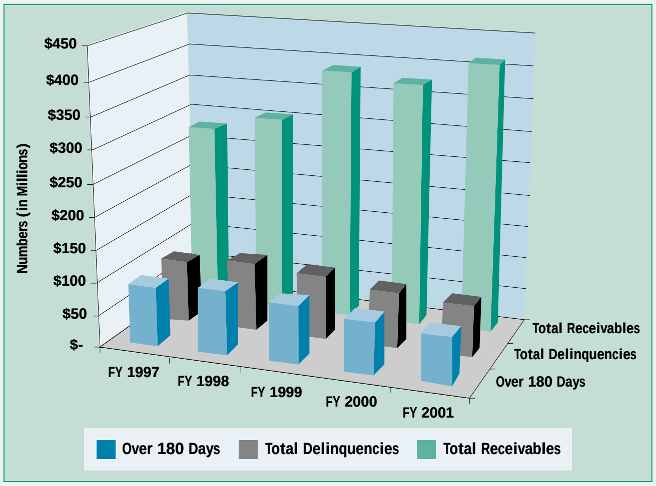
Financial Performance Measures

Financial Performance Measure	FY 2001 Performance	FY 2001 Target
Percentage of timely vendor payments	96%	95%
Percentage of payroll by electronic transfer	98%	90%
Percentage of Treasury agency locations fully reconciled	100%	95%
Timely reports to central agencies	93%	95%
Audit opinion on FY 2001 financial statements	Unqualified	Unqualified
Material weaknesses as reported by OIG	1	0

Debt Management

Receivables and Debt Collection

Commerce Receivables

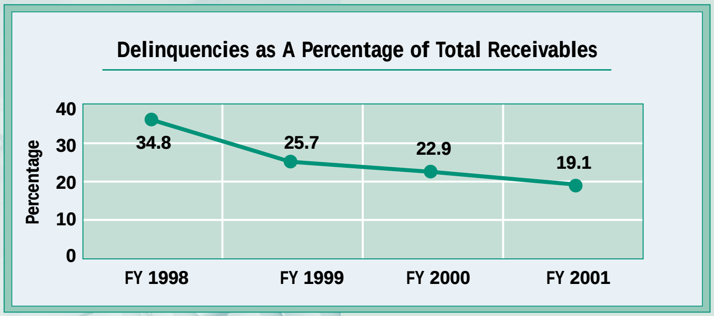


The Department has incorporated the principles of the Credit Reform Act of 1990 into the operations of its credit and debt programs. Prescreening procedures, account-servicing standards, determined collection of delinquent debt, inventory management, and asset disposition standards have helped to greatly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

Total Department receivables increased from $374 million in FY 2000 to $411 million in FY 2001, as reported on the Department's Treasury Report on Receivables (TROR). The

TROR is the primary means for the Department to provide comprehensive information on receivables and delinquent debt due from the public. It should be noted that the TROR reports the gross value of the debt, i.e. it is not reduced for the allowance for uncollectible accounts. This increase is primarily due to an increase in new receivables. Debt over 10 years old, as a percentage of total delinquent debt, decreased 8.7 percent, from 41.9 percent in FY 2000 to 33.2 percent in FY 2001. Total delinquencies, as a percentage of total receivables for the Department, decreased 3.8 percent, from 22.9 percent in FY 2000 to 19.1 percent in FY 2001.

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. Almost $14 million in delinquent debt has since been referred to Treasury for cross-servicing.



The issuance during FY 2001 of the revised Federal Claims Collection Standards and the revised OMB Circular No. A-129, "Policies for Federal Credit Programs and Non-Tax Receivables," provides agencies greater latitude to maximize the effectiveness of federal debt collection procedures. Accordingly, the Department will continue to implement the tools available to improve the management of our debt.

Payment Practices

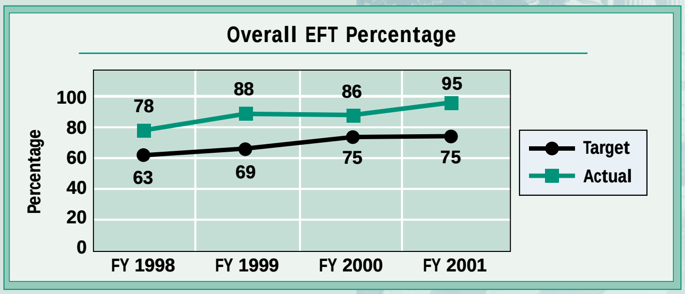
Electronic Funds Transfer

During FY 2001, we continued our efforts to maximize the use of payment mechanisms compliant with Electronic Funds Transfer (EFT) as required by the Debt Collection Improvement Act of 1996. Our achievements in this area are illustrated in the table below:

Payment Category	FY 2001 EFT Percentage	FY 2000 EFT Percentage	FY 2001 Total Volume	FY 2000 Total Volume
Retirement benefits	99	99	4,293	4,122
Salary	98	97	1,073,922	1,121,814
Salary (Census Field)	87	83	48,701	5,757,684
Vendor* & Misc.	91	86	773,314	1,096,401
TOTAL	95	86	1,900,230	7,980,021

* *Includes purchase card transactions*

The Department's overall EFT percentage for FY 2001, 95 percent, demonstrates a notable improvement over FY 2000. We substantially exceeded the National Partnership for Reinventing of Government goal of 75 percent for FY 2001. The Department made progress with a 5 percent increase in the EFT percentage for vendor and miscellaneous payments. In addition, we had a 1 percent increase in the EFT percentage for salary payments, which is the Department's highest volume category. The reduction in total payments volume for Census salary and vendor/miscellaneous payments reflects the winding-down of Decennial Census field operations during the early part of FY 2001.

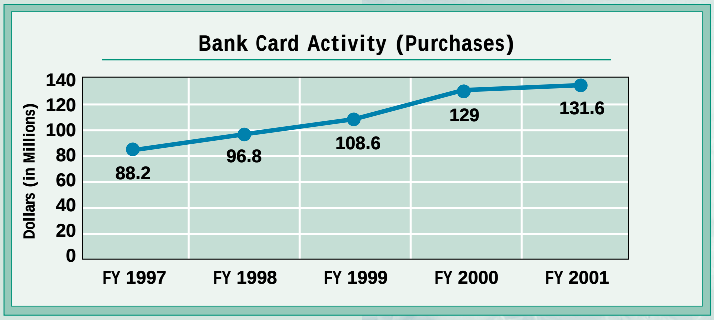


Overall EFT Percentage

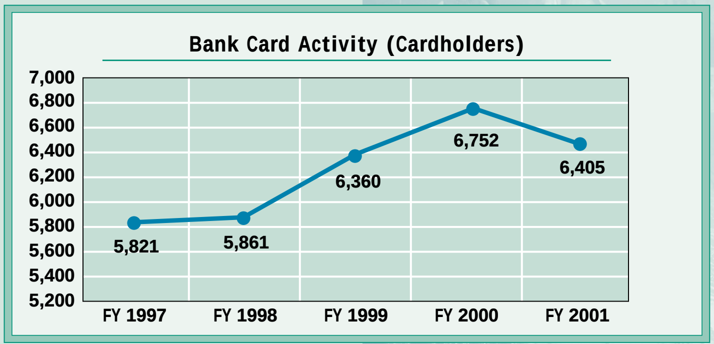
Also, in accordance with Treasury's policy directive, imprest funds were closed throughout the Department where feasible. Certain bureaus continued to maintain imprest funds for operational necessity for law enforcement activities and other environments that do not permit use of electronic payment methods. Miscellaneous payments to Departmental employees are now accomplished by direct deposit to the employee's bank account. Other limited pilot EFT-compliant payment/receipt programs under testing or consideration include providing employee travel advances through the Travel Card and participation in Treasury's Pay.Gov and Paper Check Conversion initiatives.

Bankcards

We are committed to the use of bankcards as a means of streamlining Departmental procurements. In FY 1998, we selected Citibank as our bankcard provider, and the use of bankcards 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 6,405 at the end of FY 2001. The value of purchases made using bankcards increased during the same period from $88.2 million to $131.6 million. Although there was a small decrease (347) in the number of cardholders compared to FY 2000, the value of purchases increased by $2.6 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.



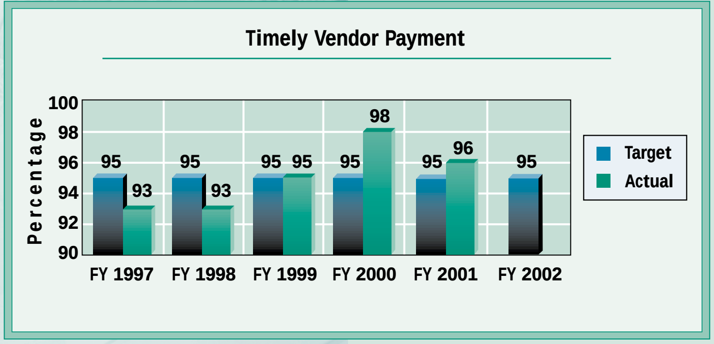
Bank Card Activity (Purchases)



Bank Card Activity (Cardholders)

Prompt Payment

We made approximately 96 percent of all payments on time in FY 2001, compared to 98 percent in FY 2000. Although it was a slight decrease compared to FY 2000, the Department's performance is still above the government-wide goal of 95 percent. In addition, the dollar amount in interest and penalties incurred on the late payments decreased by 34 percent to $484,777 in FY 2001. We will continue to monitor our bureaus payment performances to maintain our timely vendor payment percentage.



Financial Review

This is the sixth annual submission of the Department's financial statements made in accordance with the requirements of the Chief Financial Officers Act as amended by the Government Management Reform Act of 1994. These statements have been compiled according to the guidance issued by the Office of Management and Budget (OMB). In order to comply with OMB Bulletin No. 97-01, as amended, and sections of the new OMB Bulletin No. 01-09 that pertain to FY 2001 financial statements, 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 Consolidating Statement of Financing. The Independent Auditor contracted by the Office of the Inspector General is responsible for auditing the Department's financial statements.

Clean Financial Audits

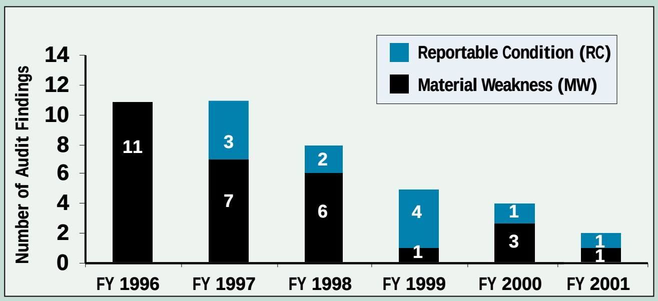
The Department is committed to strong financial management and has made much progress in this area. The audit opinion on our consolidated financial statements is directly attributable to the opinion received on our bureau financial statements. We received a disclaimer in FY 1997 and an unqualified opinion 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 2001, the Department has continued to receive an unqualified opinion on all five of our statements and on each of the four stand-alone entity audits. 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 1997 Number of Reporting Entities	FY 1998 Number of Reporting Entities	FY 1999 Number of Reporting Entities	FY 2000 Number of Reporting Entities	FY 2001 Number of Financial Audits
Unqualified	8	11	14	9**	5***
Unqualified/BS only*	3	2	0	0	0
Qualified/BS only*	2	0	0	0	0
Disclaimer	2	1	0	0	0
Not Audited	0	1	1	0	0

* Disclaimer on other statements.
** Decrease in number of reporting entities due to entities being combined for audit in FY 2000.
*** Due to a large number of reporting entities being combined for audit in FY 2001 at the Department level, we have changed the heading to "Number of Financial Audits".

Audit Findings by Fiscal Year



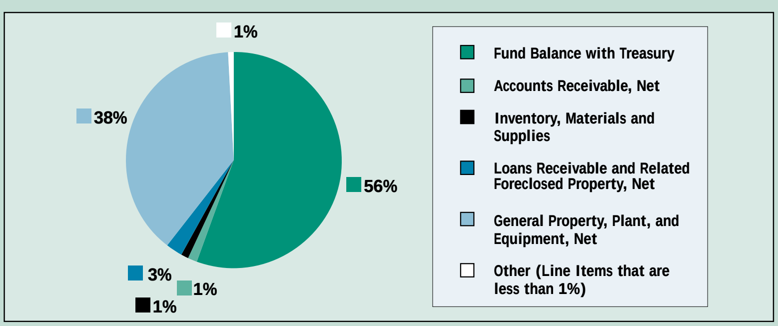
Analysis of FY 2001 Financial Conditions and Results

(Dollars in Thousands)

Composition of Department of Commerce Assets

Fund Balance with Treasury of $6,061,766 is the aggregate amount of funds available to make authorized expenditures and pay liabilities. General Property, Plant, and Equipment (PP&E), Net of $4,140,600 includes $1,463,170 of satellites and weather measuring and monitoring systems and $1,911,350 of Construction-In-Progress, primarily of satellites and weather systems, and Other property and equipment totaling $766,080. Loans Receivable and Related Foreclosed Property, Net of $297,076 results from the Department's five direct loan programs and three loan guarantee programs.

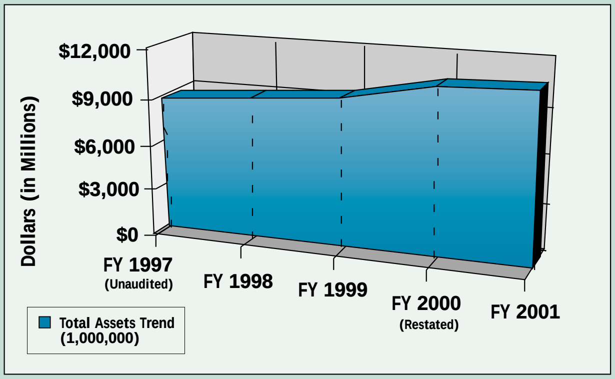
Composition of DOC Assets



Trends in Assets

Total Assets increased $211,356 or 2 percent, from $10,611,020 at September 30, 2000 to $10,822,376 at September 30, 2001. Fund Balance with Treasury increased $167,581 or 3 percent from $5,894,185 to $6,061,766. Loans Receivable and Related Foreclosed Property, Net increased $24,290 or 9 percent, from $272,786 to $297,076, primarily due to the National Oceanic and Atmospheric Administration (NOAA) issuing new direct loans within the Fisheries Funds. General PP&E, Net rose $17,498 or less than 1 percent, from $4,123,102 to $4,140,600.

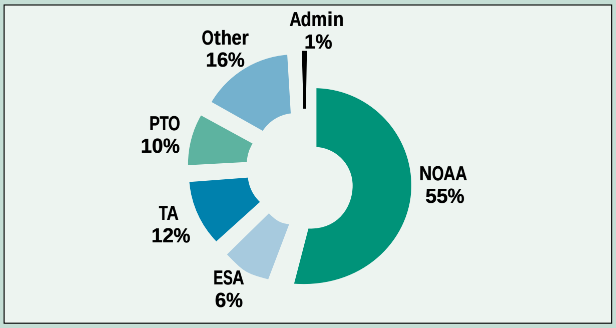
Total Assets Trend



Assets by Responsibility Segment

NOAA's significant asset is Fund Balance with Treasury of $2,047,011, which reflects an increase due to higher unexpended appropriations. The Bureau of the Census' significant asset, Fund Balance with Treasury decreased $573,771 or 51 percent, from $1,127,674 to $553,903 due to the loss and use of 2000 Decennial Census funding. The U.S. Patent and Trademark Office's (USPTO's) Fund Balance with Treasury increased $112,980 or 14 percent, from $810,381 to $923,361 due to an increase in fees collected for patents and trademark applications, and a decrease in rescission of USPTO funds. The Emergency Oil and Gas and Steel Loan Guarantee Program (ELGP) Fund Balance with Treasury decreased $115,511 or 43 percent, from $267,626 to $152,115, primarily due to rescission of ELGP funds. The International Trade Administration (ITA) Fund Balance with Treasury increased $23,569 or 23 percent, from $102,105 to $125,674 due to an increase in ITA's appropriation. The Fund Balance with Treasury for the General Administration Salaries and Expenses increased $16,159 or 79 percent, from $20,397 to $36,556, to fund the Commerce Information Technology Solutions (COMMITS) program.

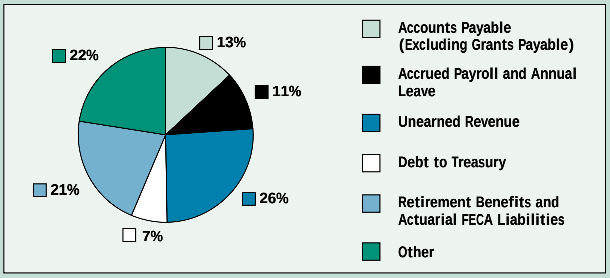
Total Assets by Responsibility Segment



Composition of Department of Commerce Liabilities

Accounts Payable of $388,301 consists of amounts owed for goods and services received, progress in contract performance by others, and other expenses due. Unearned Revenue of $778,154 represents monies received from customers for which goods and services have not yet been provided or rendered by Commerce.

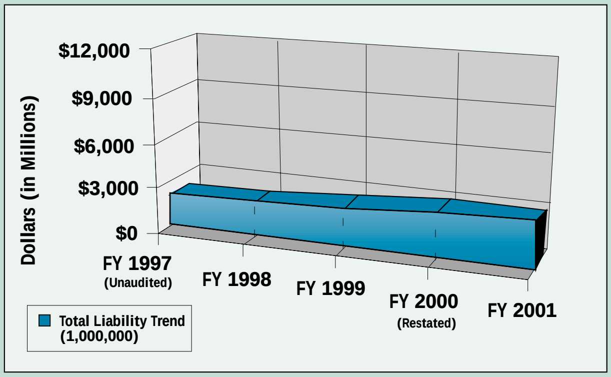
Composition of DOC Liabilities



Retirement Benefits and Actuarial Federal Employees Contribution Act (FECA) Liabilities of $635,016 is composed of NOAA Corps Retirement System of $301,100; NOAA Corps Post-Retirement Health Benefits of $110,200; and Actuarial FECA Liability of $223,716. Debt to Treasury of $195,933 results from monies borrowed for the Fisheries Finance Fund direct loan program and Fishing Vessel Obligation Guarantee Program.

Trends in Liabilities

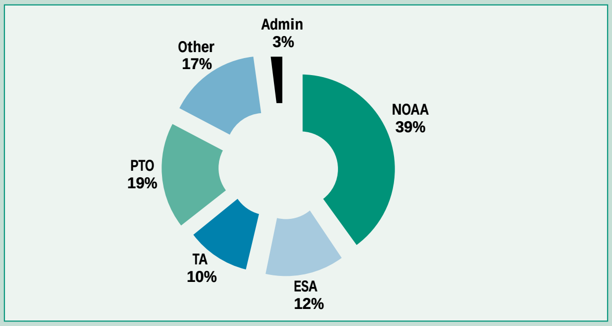
Total Liabilities Trend



Total Liabilities increased $132,863 or 5 percent, from $2,864,325 at September 30, 2000 to $2,997,188 at September 30, 2001. Accounts Payable decreased $106,627 or 22 percent, from $494,928 to $388,301, primarily due to diminishing 2000 Decennial Census activity, and timelier processing of OPACS by NOAA.

Liabilities by Responsibility Segment

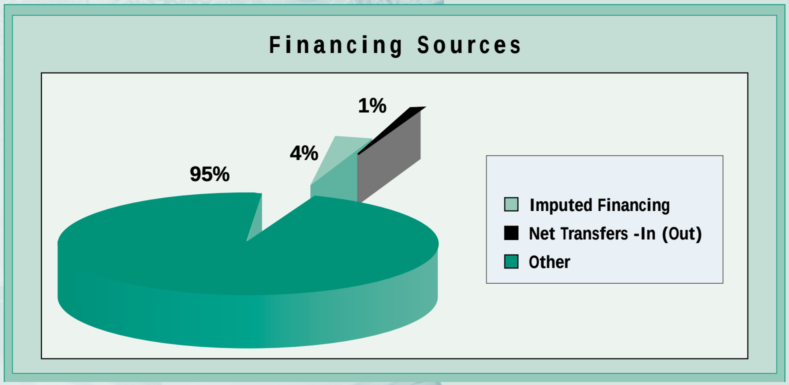
Total Liabilities by Responsibility Segment



NOAA's significant liabilities include Accounts Payable, $142,008; Debt to Treasury, $195,933, which results from its loan programs; and Retirement Benefits and Actuarial FECA Liability, $477,274, which includes retirement system and post-retirement health benefits for the NOAA Corps. USPTO has $432,447 of Unearned Revenue related to its patent and trademark processing. The Economic Development Administration's (EDA's) liabilities include $255,900 of Accrued Grants related to its economic development activity.

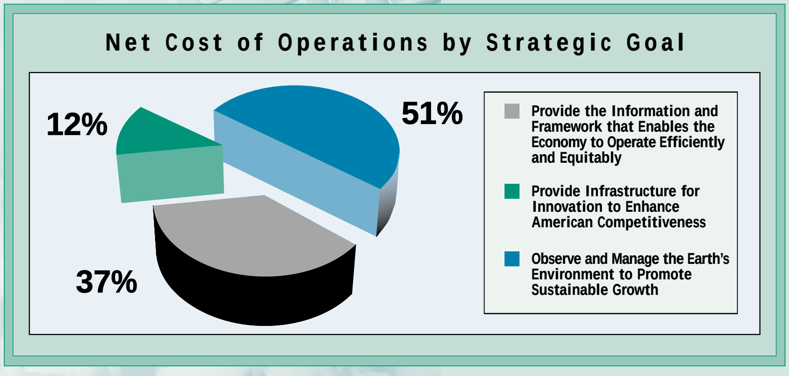
Trends in Financing Sources

Most of the Department's Financing Sources are obtained from appropriations. Total Financing Sources, shown on the Consolidating Statement of Changes in Net Position, decreased $2,962,522 or 35 percent, from $8,366,807 at September 30, 2000, to $5,404,285 at September 30, 2001. This results from a decrease in Appropriations Used, primarily due to the diminishing 2000 Decennial Census activity.



Net Cost of Operations by Strategic Goal

In FY 2001, Net Cost of Operations totaled $5.4 billion. We spent 51 percent of the total to achieve the Department's strategic goal to Observe and Manage the Earth's Environment to Promote Sustainable Growth, which includes NOAA's "Advance Short Term Warning Forecast Service" program; 37 percent to Provide the Information and the Framework that Enables the Economy to Operate Efficiently and Equitably; and 12 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 U.S.C. 3515(b). While the statements have been prepared from the books and records of the Department in accordance with the formats prescribed by OMB, the statements are in addition to the financial reports used to monitor and control budgetary resources that are prepared from the same books and records.

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