



THE INSPECTOR GENERAL'S STATEMENT OF MANAGEMENT CHALLENGES

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*Inspector General
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Challenge: Strengthen Department-Wide Information Security

Safeguarding the numerous Commerce computer systems holding nationally significant data is one of the Department's most serious challenges. OIG's evaluations under the Federal Information Security Management Act (FISMA) have revealed significant problems in the certification and accreditation (C&A) of some of Commerce's national and mission critical systems. Commerce officials have begun an intense effort to improve both C&A and policy and guidance for computer incident response. We are seeing progress, and based on the work being done to address concerns, believe the Department is on the way to developing an effective information security program. However, much remains to be done, and a Commerce-wide view of reported IT vulnerabilities should be employed.

Challenge: Effectively Manage Departmental and Bureau Acquisition Processes

Commerce spends nearly \$2 billion per year procuring goods and services. The Department must pay careful attention to acquisition policies and procedures to make sure the public dollars being spent get the best value. Indeed, procurement officials at both the Department and bureau levels acknowledge that acquisition planning and management need greater emphasis.

Effective acquisition management is particularly critical in light of the upcoming 2010 decennial. Our recent review of the Census Bureau's planning for the acquisition of mobile computing devices to automate field data collection revealed substantial problems with scheduling, planning, and project management. Considering the enormity of the decennial census undertaking, it is essential that the Department adequately control and oversee the acquisition process.

Challenge: Enhance USPTO's Ability to Manage and Operate its Own Processes

As USPTO continues its transformation to a performance-based organization, it must effectively manage its budget, procurements, and personnel decisions. OIG has assessed USPTO's patent examiner production goals, performance appraisal plans and awards, and the move to its new headquarters complex. Our work has uncovered a number of problematic issues, particularly in the area of human resource management, such as questionable hiring practices and failure to properly adhere to merit system principles. USPTO has been receptive to our recommendations and has implemented significant changes to address issues raised by our reviews.

Challenge: Control the Cost and Improve the Accuracy of Census 2010

At an estimated cost of more than \$11 billion, the decennial census will be one of the most costly and critical operations the Department has ever undertaken. There are two field tests and a dress rehearsal to be managed in addition to the actual census, so the Census Bureau and the Department face some formidable challenges in both controlling costs and improving the accuracy of the data collected.

OIG has conducted a review of the bureau's progress in planning and managing the automation of field data collection activities for the 2008 dress rehearsal and the 2010 decennial. Although Census estimates that automation will reduce the decennial's costs by as much as \$900 million, we raised concerns regarding the acquisition of the automation, and we made several recommendations for Census to improve management of the project. In addition, we will assess the 2006 Census test to follow up on issues we identified in the 2004 test, such as problems with data transmissions, technical field support, and limitations of handheld computers. We will also evaluate Census' progress in improving the accuracy of address lists and maps and closely examine its budget and spending plan as part of our review of the 2006 test.

Challenge: Monitor the Effectiveness of NOAA's Stewardship of Ocean and Living Marine Resources

The National Oceanic and Atmospheric Administration's (NOAA's) responsibilities to protect the nation's coastal and ocean resources are vast and likely to expand in the future. Our recent review of the National Marine Fisheries Service's biological opinion for the California Central Valley Project, conducted at the request of 19 members of Congress, revealed a number of serious problems, including the agency's failure to (1) follow its established process for issuing the opinion, (2) obtain a required legal review, and (3) ensure the quality of the opinion. OIG made several recommendations for improvement, and NOAA has promised to reevaluate its policies and directives for issuing biological opinions in the next 6 months. NOAA has already initiated some changes in response to our review.

Challenge: Promote Fair Competition in International Trade

As the primary agency charged with promoting trade, opening overseas markets for American companies, and protecting U.S. industry from unfair import competition, the International Trade Administration (ITA) plays a key role in the federal government's attempts to make sure the field is level for the U.S. business community.

OIG will continue to assess the Department's efforts to increase U.S. market opportunities and overcome trade barriers in difficult foreign markets. Our work inspecting Commercial Service post activities is ongoing, with an inspection of ITA's Commercial Service post in China under way. ITA reports it is addressing issues identified in our recent reviews of posts.

Challenge: Enhance Export Controls for Dual-Use Commodities

Charged with advancing U.S. national and economic security interests through export controls, the Department's Bureau of Industry and Security oversees the federal government's export licensing and enforcement system. Controlling the export of technologies and materials that have both civilian and military applications to prevent their acquisition by hostile nations and terrorist groups that threaten global security is a primary goal of the system.



OIG has completed six reviews of export controls with the Inspectors General of Defense, Energy, and State as directed by the National Defense Authorization Act (NDAA) for FY 2000. To meet NDAA's FY 2005 requirement, we assessed BIS' licensing process for chemical and biological commodities to determine whether the process was timely and in compliance with statutory and regulatory requirements. We also examined the status of recommendations from prior reviews and concluded that, while some recommendations have not been resolved, Commerce has made progress on a number of them.

Challenge: Enhance Emergency Preparedness, Safety, and Security of Commerce Facilities and Personnel

The world changed forever after Sept. 11, 2001, making the safeguarding of Commerce's personnel and property one of the greatest challenge that its managers now have to meet. OIG first identified the Department's emergency preparedness weaknesses in a 2002 review that revealed some serious security vulnerabilities.

Our most recent follow-up review of Commerce's emergency preparedness found that, while the Department has made significant progress, additional improvements are needed in several areas including the risk assessment process, development and oversight of occupant emergency plans, and security for critical assets.

Challenge: Continue to Strengthen Financial Management Controls and Systems

In recent years, the Department has improved its financial management, as evidenced by achieving and maintaining unqualified opinions on its consolidated financial statements, implementing Commerce Business Systems and substantially complying with the Federal Financial Management Improvement Act.

Under the revised OMB Circular A-123, agencies must assess internal controls over financial reporting, document those controls and the assessment process, and provide an assurance statement on the effectiveness of internal control over financial reporting beginning in FY 2006. Reliable financial reporting and effective, efficient program operations depend on strong internal controls. OIG will continue to monitor a range of financial management issues, including Commerce's efforts to implement the new A-123 requirements, improve internal controls, and achieve other operating efficiencies.

Challenge: Continue to Improve the Department's Strategic Planning and Performance Measurement in Accordance with the Government Performance and Results Act

Collecting and reporting accurate performance data required by the Government Performance and Reporting Act (GPRA) is a challenge for most federal agencies, and the Department of Commerce is no exception. OIG audits of bureau performance measure reporting have repeatedly identified the need to ensure that individuals who collect and use performance data really understand what is being measured. Prior audits also have repeatedly shown a need for improved management controls over performance data, particularly where verification and validation of information is required. The bureaus we have audited have made many improvements in response to the issues raised, but the Department should remain vigilant in ensuring that the collection and reporting of performance data be thorough and, above all, accurate.

MANAGEMENT CHALLENGES AND ACTIONS

Each year, the Department's Office of Inspector General (OIG) reviews the Department's and its component bureaus' program activities to ensure that the management, financial and operational activities are sound and meet the requirements of the Chief Financial Officer's Act and the Government Performance and Results Act (GPRA).

The emphasis by the President, the Office of Management and Budget (OMB), and Congress on improved government accountability underscores Commerce's resolve to enhance transparency within the Department while promoting improved efficiency and effectiveness. Progress in these endeavors requires strong commitment from the Department's senior leadership and staff at all levels.

The following is the Department's description of its actions to address the management challenges identified by the Inspector General (IG).

MANAGEMENT CHALLENGES	
CHALLENGE	RESPONSE
1. Strengthen Department-wide information security	<ul style="list-style-type: none"> ◆ Made significant progress in information technology (IT) security, with 100 percent of systems covered by IT security plans, 100 percent with tested controls, 100 percent with contingency plans, 97 percent with certification and accreditation (C&A) packages, and with much-improved C&A documentation that still needs further improvement.
2. Effectively manage departmental and bureau acquisition processes	<ul style="list-style-type: none"> ◆ Began major communication and outreach program to acquisition and program communities focusing on acquisition planning, the training of contracting officers' representatives (COR), and development of a performance-based acquisition enterprise. Procurement Executive (PE) briefed top management at all the bureaus and the acquisition community on the criticality of a performance-based organization, acquisition planning and the role of the COR. ◆ Expanded the Acquisition Review Board to cover interagency agreements over \$5 million and real property. The Board met 12 times this fiscal year and reviewed 21 cases with an estimated value of \$2.4 billion. ◆ Developed and began implementing a database to track the education and training of the acquisition workforce including the CORs. Office of Acquisition Management and Financial Assistance (OAMFA), Office of Human Resources, and the Chief Information Officer's office jointly sponsored training sessions focused on program management, performance-based contracting, and contract compliance. OAMFA entered into a memorandum of understanding (MOU) with the Office of Personnel Management to use the Competency Plus skills assessment tool to identify skill gaps for Department employees in the contracting series (1102). It also standardized position descriptions of 1102s, 1105s and 1106s across the Department.

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MANAGEMENT CHALLENGES <i>(continued)</i>	
CHALLENGE	RESPONSE
<p>2. Effectively manage Departmental and bureau acquisition processes <i>(continued)</i></p>	<ul style="list-style-type: none"> ◆ Launched the COR program at the COR conference in October 2004 with 324 attendees. Developed a COR training program for the four levels of COR certification. Training requires expertise in four areas: business/industry, general management, project management, and procurement knowledge. The COR element must be included in the performance plan of individuals who spend more than 20 percent of their time working on contracts. ◆ Implemented the acquisition community strategy (Case for Change) for becoming a performance-based organization across the enterprise. The PE implemented a major outreach program to the acquisition community and to program officials stressing that acquisition is much broader than procurement or contracting and that the acquisition community and program officials are being transformed into business brokers for mission success. ◆ Refined Balanced Scorecard (BSC) for Acquisition by reviewing and revising surveys and beginning design of a BSC for grants which will cover the entire Department grant community. ◆ In March 2005, the Departmental PE briefed the Inspector General and his staff on progress on the above initiatives. The PE meets on a quarterly basis with the Deputy IG to discuss acquisition initiatives.
<p>3. Enhance the U.S. Patent and Trademark Office's (USPTO) ability to manage and operate its own processes</p>	<ul style="list-style-type: none"> ◆ The successful implementation and ultimate operation of the USPTO as a performance-based organization is, by its very nature, a challenge filled with both risk and opportunity. USPTO's ability to issue patents efficiently has an enormous impact on the pace of technological advancement worldwide, and it is essential that USPTO use its expanded performance-based organization authority over budget, personnel, procurement, and IT operations to process patents and trademarks in an effective, efficient, and timely manner. Past Office of Inspector General (OIG) reviews have identified issues that warrant management's attention, including problems with performance appraisal plans and awards, and USPTO's human resource policies and issues surrounding patent examiner production goals. ◆ For its part, USPTO has been responsive to Department concerns and has, for example, taken action to address human resource issues. Moreover, the Department's examination of USPTO's progress on construction of its new headquarters complex found that USPTO and GSA provided adequate project management and financial oversight of the project.

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MANAGEMENT DISCUSSION AND ANALYSIS

MANAGEMENT CHALLENGES <i>(continued)</i>	
CHALLENGE	RESPONSE
<p>4. Control the cost and improve the accuracy of Census 2010</p>	<ul style="list-style-type: none"> ◆ The 2010 Decennial Census Program re-engineering is intended to deliver a more accurate census with more timely data, reduce overall risk, and save taxpayer dollars compared to repeating the design and operations of the 2000 Census. The Census Bureau's goal is to capitalize on important technological advancements expected to save time and money while improving the accuracy of critical field operations. After a decade of research and testing, the American Community Survey (ACS) began nationwide data collection during the second quarter of FY 2005 at its full sample size of 250,000 addresses per month. Beginning in the second quarter of FY 2006, Group Quarters will be included in the sample for the first time. The Master Address File (MAF) /Topologically Integrated Geographic Encoding and Referencing (TIGER) Accuracy Improvement Project is well underway towards completion in FY 2008. Planning, development and testing for the 2010 Census also is well underway – two major tests have been completed, the 2005 test is currently in progress, one more test is planned in 2006, and a dress rehearsal will be conducted in 2008. By April 2006, two major automation contracts for the 2010 Census will be in place—the Decennial Response Integration (DRIS) contract and the Field Data Collection Automation (FDCA) contract. ◆ With respect to the OIG's specific observations about the 2004 Census Test, the Department has no substantial disagreements; in fact, they are very similar to the Census Bureau's own findings from that important first test of automating field data collection. The lessons learned from that test are being used to refine plans and methods for the 2010 Census, and the Census Bureau will conduct a second major field test in 2006. Also, as OIG notes, these test results helped the Census Bureau determine it did not have sufficient in-house technical resources needed for this program. This in turn led to the Census Bureau's decision to contract for an integrated solution for developing, testing, and deploying all the field automation infrastructure, software applications and tools, training materials, and infrastructure support. ◆ The Census Bureau is successfully testing planned innovations for the 2010 Census. This includes improving census questionnaire wording and using hand-held computers for personal visit follow-up operations. Also, the Bureau is successfully completing updates to geographic reference features for all planned counties. Testing of these innovations and improving the Census Bureau's geographic data are important in order to improve accuracy, reduce operational risk, and contain the cost of the 2010 Census. At the request of Congress, the Bureau conducted a feasibility test in France, Kuwait, and Mexico of collecting Census data from American citizens living overseas.

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MANAGEMENT CHALLENGES *(continued)*

CHALLENGE	RESPONSE
<p>5. Monitor the effectiveness of the National Oceanic and Atmospheric Administration's (NOAA) stewardship of ocean and living marine resources</p>	<ul style="list-style-type: none"> ◆ NOAA is developing a set of "corporate performance measures" that when fully developed, will provide NOAA program managers and decisionmakers with a more balanced approach to evaluating the health of coastal and marine ecosystems. This will also enable NOAA to better determine how effectively its resources are impacting ocean and living marine resources. ◆ NOAA has developed the National Coastal Management Performance Measurement System (NCMPMS) to track indicators of the effectiveness of the Coastal Zone Management Program and the National Estuarine Research Reserve System. When fully implemented, the NCMPMS will result in improved understanding of the Coastal Zone Management Program accomplishments and needs at the national level to assist the Office of Ocean and Coastal Resource Management (OCRM) in shaping national program priorities. NOAA is evaluating the effectiveness of the National Marine Sanctuary Program (NMSP) through a number of measures, including whether water quality and/or habitat is maintained or improved. ◆ The Pacific Coastal Salmon Recovery Fund (PCSRF) supplements existing federal, state, and tribal programs to foster development of partnerships and promotes efficiencies and effectiveness in recovery efforts through enhanced sharing and pooling of capabilities, expertise, and information. The OIG's Office of Inspections and Program Evaluations is conducting a series of audits of recipients and sub-recipients of PCSRF. OIG has found that funded projects are consistent with the program funding criteria, performance measures were adequate, and recipients are making sufficient progress on their projects. However, OIG found that some recipients have not kept records in accordance with federal cost principles and uniform administrative requirements. In those cases, the IG recommended recipients return a portion of their grant funds to the government. <p>NOAA concurs and has taken the following actions to ensure improvements in the future:</p> <ul style="list-style-type: none"> ● NOAA is strengthening and revising the memorandum of understanding (MOU) with each recipient to more clearly delineate requirements and goals. ● NOAA is encouraging grant and subgrant recipients to attend training in federal cost principles. ● Through the MOU's with each recipient, NOAA is requiring recipients to enter detailed information on projects and accomplishments into the PCSRF database on a regular basis. ● NOAA will work more closely with recipients to assure that grant administration questions are answered quickly and that any potential problems are resolved as quickly as possible.

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MANAGEMENT DISCUSSION AND ANALYSIS

MANAGEMENT CHALLENGES <i>(continued)</i>	
CHALLENGE	RESPONSE
<p>6. Promote fair competition in international trade</p>	<ul style="list-style-type: none"> ◆ The Import Administration (IA) oversaw the United States' Anti-Dumping/Countervailing (AD/CVD) laws and its subsidy enforcement activities during FY 2005 thereby providing U.S. companies with appropriate remedies to address unfairly traded imports consistent with U.S. law and our international obligations. The agency's work at the World Trade Organization (WTO) has helped ensure that access to these needed remedies is not weakened or undermined. ◆ ITA helped ensure that U.S. exporters subject to foreign AD/CVD proceedings receive fair treatment in proceedings that adhere to that country's obligations under the WTO. ◆ The IA Unfair Trade Practices Team confronted unfair foreign competition by monitoring economic data from U.S. global competitors and has vigorously investigated evidence of unfair subsidization and production distortions. ◆ IA's China Compliance office continued to devote more resources to China cases and issues unique to non-market economies, such as intellectual property rights violations affecting the U.S. textile industry. ◆ ITA's Market Access and Compliance (MAC) program helped to ensure that over 120 compliance cases were concluded in FY 2005. ◆ ITA has readily worked to reconstruct Iraq and Afghanistan and has expanded regional opportunities through advancing the completion of several significant free trade agreements (FTA) in FY 2005. This included FTA's of significant commercial value such as the recently passed Central American Free Trade Agreement–Dominican Republic (CAFTA–DR) and FTA's of strategic importance such as the FTA's completed in FY 2005 with Morocco, Bahrain, and Singapore.
<p>7. Enhance export controls for dual-use commodities</p>	<ul style="list-style-type: none"> ◆ While this challenge addresses the need to strengthen export controls, it cites the need for a new, comprehensive legislative authority to replace the expired Export Administration Act of 1979. The Administration strongly supports a streamlined and strengthened export control system that effectively promotes both U.S. national security and U.S. economic interests. The Bureau of Industry and Security (BIS) continues to work on export control reforms that facilitate legitimate global trade while reducing illicit traffic in dual-use items and targeting export control resources on transactions of greater risk. ◆ IG's interagency review to assess whether the current deemed export control program and regulations adequately protect against the illegal transfer of controlled U.S. technologies and technical information by foreign nationals to countries and entities of concern determined that some areas, such as the outreach program, are greatly improved. BIS is taking steps to strengthen the rest of the program, such as conducting extensive outreach to the exporting community and government and academic research laboratories to explain deemed export control requirements. BIS also plans to initiate a pilot program for post-shipment verifications on the most sensitive deemed export licenses to determine compliance with license conditions and to detect any violations.

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MANAGEMENT CHALLENGES <i>(continued)</i>	
CHALLENGE	RESPONSE
<p>8. Enhance emergency preparedness, safety, and security of Commerce facilities and personnel</p>	<ul style="list-style-type: none"> ◆ The Office of Security has aggressively worked to enhance the emergency preparedness, safety, and security of Department facilities and personnel. ◆ Efforts to provide for the safety of National Security Information (NSI) have been improved by briefing 2,350 of 4,376 cleared employees in the last year on the proper handling of classified information. ◆ In the current four-year cycle, anti-terrorism risk assessments based on criticality, threat, and vulnerability have been conducted for 223 of 747 Department facilities, with countermeasure upgrades being recommended to mitigate the identified risks. ◆ In-depth reviews of all bureau Continuity of Operations Plans (COOP) were conducted, as well as assessments of 146 of the Department's 747 Occupant Emergency Plans (OEP). ◆ The Office of Security continues to remain attentive to key issues central to mission success and to focus on the services necessary to make the Department a safer work environment for all.
<p>9. Continue to strengthen financial management controls and systems</p>	<ul style="list-style-type: none"> ◆ The Department completed implementation of the Commerce Business System (CBS) in all planned bureaus in October 2003. The Department now plans to implement CBS at ITA. The Office of Financial Management (OFM) ensures that CBS is Federal Financial Management Improvement Act (FFMIA)-compliant by further supporting integrated financial management through the use of the Corporate Database for consolidated financial statement reporting and the Consolidated Reporting System (CRS) for merging financial, acquisition, human resources, and performance data for executive decision-making. The Department continued to improve financial management processes by conducting a financial management business case to examine IT and finance best practices and migrating CBS to Web-based technology. Departmental teams have begun implementing recommendations from these business cases. See the Financial Management and Analysis section starting on page 151 of this report for additional information. ◆ The Department has developed a Department-wide plan for implementing OMB's revised guidance on internal controls, and has established a senior management council to oversee the implementation process. The scope of financial reports has been determined and the materiality analysis for planning, design, and assessment has been completed. Managers throughout the Department are in the process of determining which major programs will be included in the scope. Existing documentation is being identified and reviewed for sufficiency, and documentation shortfalls will continue to be filled in. During FY 2006, the Department will issue its first management assertion and internal controls report resulting from the new A-123 requirements.

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MANAGEMENT DISCUSSION AND ANALYSIS

MANAGEMENT CHALLENGES <i>(continued)</i>	
CHALLENGE	RESPONSE
<p>10. Continue to improve the Department's strategic planning and performance measurement in accordance with the Government Performance and Results Act (GPRA) of 1993</p>	<ul style="list-style-type: none"> ◆ The Office of Budget began a process of quarterly validating and verifying the data bureaus provide for their performance measures in FY 2005. ◆ The Office of Budget instituted quarterly performance reviews between bureau heads and the Deputy Secretary. These reviews serve four purposes: (1) identify the planned bureau accomplishments and performance targets of each bureau within the priorities set by the Department, (2) ensure that managers and senior Departmental officials are kept abreast of bureau performance, (3) determine how the program activity is performing, and (4) where targets are not being met, determine steps that need to be taken to ensure meeting the targets, or explain/justify why the targets will not be met.