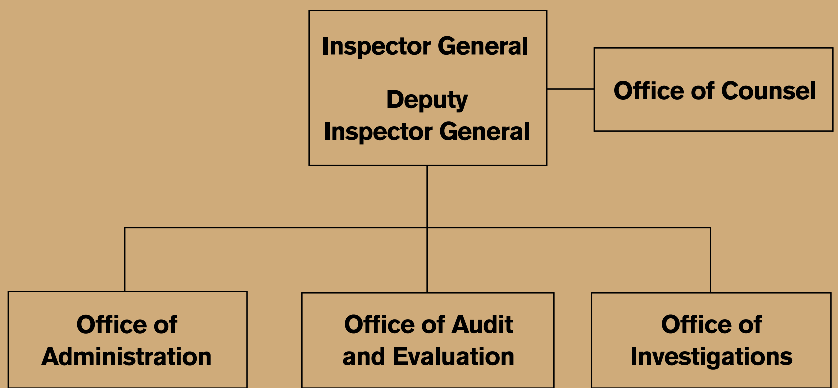
U.S. Department of Commerce
Office of Inspector General

Semiannual Report to Congress

March 2016

OFFICE OF INSPECTOR GENERAL



Oversight Areas

Office of the Secretary
Bureau of Economic Analysis
Bureau of Industry and Security
Economic Development Administration
Economics and Statistics Administration
First Responder Network Authority
International Trade Administration
Minority Business Development Agency
National Institute of Standards and Technology
National Oceanic and Atmospheric Administration
National Technical Information Service
National Telecommunications and Information Administration
U.S. Census Bureau
U.S. Patent and Trademark Office

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FROM THE DEPUTY INSPECTOR GENERAL

I am pleased to present the Department of Commerce Office of Inspector General's *Semiannual Report to Congress* for the 6 months ending March 31, 2016.

This report summarizes work we initiated and completed during this semiannual period on a number of critical Departmental activities. Over the past 6 months—in addition to issuing our annual *Top Management Challenges*—our office completed 19 audits, inspections, and responses to Congressional requests.

In October 2015, we issued our annual report identifying what we consider from our oversight perspective to be the top management challenges facing the Department in fiscal year (FY) 2016, a summary of which begins on page 2. We will continue to work closely with the Department and with Congress to meet these and other challenges facing Commerce, especially as it tackles the ambitious strategies and initiatives outlined in *America Is Open for Business*, its strategic plan for FYs 2014 through 2018.

We thank Secretary Pritzker, senior officials throughout the Department, and members of Congress and their staffs for their support of our work and for their receptiveness to our recommendations to improve Commerce programs and operations.

David Smith

DAVID SMITH

TOP MANAGEMENT CHALLENGES FACING THE DEPARTMENT

The Reports Consolidation Act of 2000 requires federal inspectors general to identify the top management challenges facing their departments. In October 2015, the Department of Commerce OIG identified five challenges that require significant Departmental attention in FY 2016 and beyond. *Top Management Challenges Facing the Department of Commerce* presents cross-cutting issues aligned with the Department's strategic plan for FYs 2014–2018.

Below is a detailed summary of those five top challenges, reflecting the status of Departmental issues as of the October 2015 publication of the *Top Management Challenges* report. Updates will appear in subsequent semiannual reports.

1. TRADE AND INVESTMENT: EXPAND THE U.S. ECONOMY THROUGH INCREASED EXPORTS AND INWARD FOREIGN INVESTMENT THAT LEADS TO MORE AND BETTER AMERICAN JOBS

The International Trade Administration (ITA), Bureau of Industry and Security (BIS), and Economic Development Administration (EDA) each have a role in supporting the infrastructure for U.S. economic growth. The top challenges we identified for this priority area are management and organizational issues at ITA following its recent consolidation; the continued BIS migration of export licensing functions to the Department of Defense's U.S. Exports System (USXPORTS); and Departmental and bureau oversight of grant recipient programs.

Promptly addressing remaining issues from ITA's consolidation. In October 2013, ITA initiated a reorganization to consolidate its operations from four business units to three. By streamlining its operations, ITA aimed to enhance its mission to assist U.S. companies with their export promotion needs, enforce U.S. trade laws, and increase foreign direct investment in the United States.

ITA's consolidation was an opportunity to improve its client services as it implements the Department of Commerce's and Administration's current export strategy, the National Export Initiative/NEXT. However, in March 2015, we reported that—because ITA management had not executed an effective organizational change management plan—ITA staff were unclear about their new roles and responsibilities and lacked the proper training for these roles. Consequently, ITA must resolve challenges that have arisen as a result of the consolidation. This must be done while the bureau continues to deliver trade promotion and enforcement services to its clients and work effectively with federal trade partners.

Migrating export licensing functions to USXPORTS. In last year's *Top Management Challenges*, we identified the continued need for BIS to migrate its export licensing operations to the Department of Defense's USXPORTS, in support of the President's Export Control Reform (ECR) Initiative. BIS had originally planned to migrate to USXPORTS by 2012 because the legacy export licensing system, Export Control Automated Support System (ECASS), (a) was too costly, (b) lacked security, and (c) would no longer be supported after December 2014. However, because of USXPORTS project delays, BIS decided in 2014 not to migrate from ECASS to USXPORTS. According to BIS, in its current state of development, USXPORTS will not fully support required internal BIS processing. BIS decommissioned ECASS in 2014, after it enhanced its internal system—Commerce USXPORTS Exporter Support System (CUESS)—to provide the license processing capabilities that it asserts are not functioning in USXPORTS.

With the project now in its fifth year, BIS has not migrated to USXPORTS. In May 2015, it entered into a sixth amendment to its original memorandum of agreement with the Department of Defense's Defense Technology Security Administration to develop a USXPORTS Interagency Referral Sub-System. This will make it possible for the export licensing agencies to review and process applications referred from BIS in USXPORTS. However, its challenge is to assess the costs versus the benefits of developing a USXPORTS Interagency Referral Sub-System—which does not fulfill BIS' original commitment to fully migrate to USXPORTS.

Executing Departmental and bureau oversight of grant recipients. The Department and its bureaus with grant programs must incorporate the Office of Management and Budget's (OMB's) Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance)—which went into effect during the first quarter of FY 2015 and mandates how grants are awarded, administered, and audited. They have begun the complex process of implementing this new guidance: the National Institute of Standards and Technology (NIST), National Oceanic and Atmospheric Administration (NOAA), and EDA are each implementing their own single audit review/audit resolution process and will provide the Department with status updates.

In addition, the Department and its bureaus have been tasked with implementing the Digital Accountability and Transparency Act of 2014 (DATA Act) by May 2017. The timing of this implementation deadline may present difficulties in light of another development: the Department is currently transitioning the NOAA Grants Online system requirements to handle the needs of two other grants data sources, the EDA Operations Planning and Control System and the NIST Grant Management Information System. The transition is expected to be completed in 2017. Affected Departmental bureaus will need to make decisions based on the costs of updating the three systems to meet DATA Act requirements while staying on schedule for transitioning to one system. If not handled effectively, implementing both OMB's Uniform Guidance and the DATA Act may affect the Department's grant programs, which in FY 2014 totaled approximately $1.3 billion in awards.

2. INNOVATION: FOSTER A MORE INNOVATIVE U.S. ECONOMY—ONE THAT IS BETTER AT INVENTING, IMPROVING, AND COMMERCIALIZING PRODUCTS AND TECHNOLOGIES THAT LEAD TO HIGHER PRODUCTIVITY AND COMPETITIVENESS

The U.S. Patent and Trademark Office (USPTO) faces various challenges of improving the timeliness and quality of patent application examinations and appeal decisions. USPTO also faces challenges in advocating for international agreements and policies to protect and enforce intellectual property (IP) rights. The First Responder Network Authority (FirstNet) faces challenges in its efforts to implement a nationwide interoperable public safety broadband network.

Improving process time and quality of patent application examinations. While USPTO has made progress in reducing the request for continued examination (RCE) backlog and pendency of unexamined patent applications, it still faces challenges in meeting all of its pendency goals and improving patent examination quality. Furthermore, USPTO has been unable to achieve some of its annual pendency targets, such as Patent Average First Action Pendency and Patent Average Total Pendency. Although the patent quality composite score was a Departmental priority goal in FY 2015, USPTO experienced difficulties in meeting its own targets for patent quality. The patent quality composite score in FY 2014 was 75, an increase over the previous fiscal year but still short of the target range of 83–91.

In April 2015, OIG issued an audit report on patent quality issues, finding that (a) USPTO's official quality metrics may underrepresent the true error rate on patent determinations; (b) USPTO's performance appraisal plan and related policies are ineffective at measuring whether examiners are issuing high-quality patents; and (c) USPTO is not collecting data that could improve patent quality. Between FY 2010 and FY 2014, the number of USPTO patent examiners increased by 31.2 percent; over the same period, actual budget obligations for patent examination increased by 50.1 percent. Despite the increase in the number of patent examiners and the growth in spending on patent examination, USPTO is still facing challenges in reducing the patent application backlog and improving patent quality.

Improving decision timeliness and quality at the Patent Trial and Appeal Board (PTAB). Since September 2012, the PTAB—a USPTO unit that decides patent appeals, conducts trials, and decides some petitions in patent-related cases—has been increasing the size of its staff to address both the appeals inventory and new proceedings under the America Invents Act. For FY 2014, the PTAB reviewed for quality 8.6 percent of its appeal decisions issued that year. The Appeals Quality Task Force issued a report with qualitative feedback on appeal decision quality and the PTAB has taken steps to train administrative patent judges, patent attorneys, and paralegals accordingly.

From FY 2010 to FY 2014, the number of employees at the PTAB increased by 36.5 percent. During this same period, actual obligations for the board increased by 68.1 percent. However, over the same period, the ex parte appeal backlog increased 44.5 percent and the pendency increased 141.7 percent. Despite the high rates of increase in PTAB personnel and spending on patent trials and appeals, USPTO is still facing challenges in reducing the ex parte appeal backlog and pendency.

Advocating for protection and enforcement of IP rights. The Office of Policy and International Affairs monitors IP developments internationally and works with other countries to promote the protection and enforcement of IP through international cooperation agreements and technical assistance. The IP rights attaché program advocates directly with host governments to improve IP policies, laws, and regulations for the benefit of U.S. stakeholders and provide support for U.S. companies abroad with IP issues.

For the IP policy protection and enforcement program, the number of personnel decreased by 9.7 percent between FY 2010 and FY 2014, from 145 to 131. Actual obligations increased by 1.5 percent, from $48.7 million in FY 2010 to $49.5 million in FY 2014. Critical challenges with carrying out the program to protect and enforce IP rights include budget uncertainty, due primarily to fluctuations in fee revenue and external factors such as sequestration; international politics; regional instability in the Middle East; and the USPTO's lack of authority to rate the attachés' performance.

Implementing a nationwide public safety broadband network. The Middle Class Tax Relief and Job Creation Act of 2012 established FirstNet as an independent authority to implement a nationwide interoperable public safety broadband network. As FirstNet makes progress in establishing an organizational structure and performing consultation and outreach, remaining challenges include adequacy of funding, effective consulting, internal control, and staffing and other organizational issues.

Addressing the increasing demand for radio frequency spectrum. In June 2010, the President directed the Department of Commerce, working through the National Telecommunications and Information Administration (NTIA), to make 500 megahertz of federal and non-federal spectrum available by 2020 to support wireless broadband needs. Then, in June 2013, federal agencies were further directed to expand the availability of spectrum by accelerating efforts to share federal spectrum with non-federal users.

To meet the 2020 deadline, NTIA needs to incorporate the lessons learned from its research and development activities into actual strategies that lead to results—as well as identify the availability of, and more efficient use of, radio frequency spectrum. Also, the termination of the Federal Spectrum Management System presents a challenge to NTIA's capability to manage spectrum, as it will still be in need of a technological system that can modernize, automate, and integrate key spectrum management functions.

3. ENVIRONMENT: ENSURE COMMUNITIES AND BUSINESSES HAVE THE NECESSARY INFORMATION, PRODUCTS, AND SERVICES TO PREPARE FOR AND PROSPER IN A CHANGING ENVIRONMENT

The Department's objectives under this goal include advancing our understanding and prediction of changes in the environment; building a weather-ready nation; and fostering healthy and sustainable marine resources, habitats, and ecosystems. As the lead agency for addressing this goal, NOAA must meet several challenges, including costly, complex satellite system acquisitions and potential gaps in satellite data; preparation for processing next-generation satellite observational data; and the competing needs of fisheries stakeholders.

Keeping satellite acquisition programs on schedule. The Department must actively manage risks associated with the acquisition and development of NOAA environmental satellites, which are its largest investments and comprise more than 20 percent of its $9.8 billion FY 2016 budget request. Polar and geostationary satellites are essential components in understanding and predicting the environment: they provide data and imagery used to track severe storms, forecast weather, and study climate and other environmental conditions. However, acquisition and development delays could lead to gaps in NOAA's satellite coverage, potentially degrading its ability to produce actionable environmental information.

The Joint Polar Satellite System (JPSS) program's challenge is to keep the JPSS-1 satellite development on track to meet a second quarter FY 2017 launch commitment—while taking steps to implement a newly-proposed Polar Follow-On program, which is intended to mitigate potential coverage gaps in the afternoon polar orbit by providing additional satellites to make the constellation more robust over the longer term. The Department must also ensure that the Geostationary Operational Environmental Satellite-R Series (GOES-R) program continues to meet requirements and manage development challenges. The launch of the first GOES-R satellite has been delayed from March 2016 to a date yet to be determined, increasing the potential for the GOES fleet to be without an "on-orbit" spare, which is needed to ensure coverage should an operational satellite fail. NOAA requested $809 million for JPSS, $380 million for Polar Follow-On, and $872 million for GOES-R for FY 2016.

Preparing to process observational data from new satellite missions. NOAA may need to defer or even eliminate planned operational capabilities as it completes complex integration testing for the GOES-R and JPSS-1 missions in order to launch both satellites as soon as possible and mitigate potential data gaps. Post-launch test activities, as well as validation of data flows and products, will need to be closely monitored to ensure timely processing for user availability.

In our May 2015 audit report, we also noted that any work the GOES-R program defers until after launch could similarly delay the operational use of GOES-R data and imagery. The challenge for NOAA, as we have recommended, is keeping observational data processing preparations on track and, should delays occur, efficiently informing its stakeholders of product availability issues. Likewise, NOAA must closely monitor efforts to transition the JPSS ground system into operations ahead of the JPSS-1 launch.

Prioritizing national goals for more cost-effective collection of fishing data. Since 1972, NOAA's National Marine Fisheries Service (NOAA Fisheries) has used human observers to collect catch data and monitor fishing activity. Over the years, the use of observers has grown into a nationwide program that in 2012 cost more than $69 million to monitor 47 fisheries. The total cost is shared between NOAA Fisheries and the fishing industry, but the portions paid vary widely depending on the observer program.

To reduce these costs and increase oversight, NOAA Fisheries has considered the use of emerging electronic technologies—such as video monitoring—to increase coverage and reduce the costs associated with a human observer, as well as contribute to a more cost-effective and sustainable collection of fishing data. For more than 12 years, NOAA Fisheries and the fishing community have been studying the potential use of electronic monitoring for fishery data collection. However, NOAA Fisheries has not yet developed a nationwide strategic plan and continues to have each region developing its own plan, with current objectives detailed across multiple policy documents.

4. DATA: IMPROVE GOVERNMENT, BUSINESS, AND COMMUNITY DECISIONS AND KNOWLEDGE BY TRANSFORMING DEPARTMENT DATA CAPABILITIES AND SUPPORTING A DATA-ENABLED ECONOMY

The Department plays a key role in the 21st century's information-driven economy, providing data that benefit businesses, governments, and the public. A major source of the Department's data, the Census Bureau, faces challenges as it prepares for the 2020 decennial census and continues to provide a stream of timely demographic, housing, social, and economic information for states and local areas. Also, the DATA Act compels federal departments and agencies to expand data capabilities and support a data-enabled economy.

Delivering a timely 2020 Census that maintains or improves data quality but costs less than the 2010 Census. The Bureau's deadline for making preliminary design decisions for the 2020 Census was September 30, 2015. These decisions, supported by the results of research and testing (R&T) during FYs 2012–2014, will include several key design components, such as automating field data collection efforts, deploying a new operational control system, encouraging self-response, assessing the accuracy of administrative records, and updating the Bureau's address database.

Once design decisions are made, the Bureau must complete operational development and systems testing—which could use the American Community Survey (ACS) as a test environment—by FY 2018. Although R&T for the 2020 Census is progressing—for example, self-response enumeration via the Internet has been tested and will be used—the Bureau continues to face challenges in achieving cost savings goals while fully utilizing resources needed to realize these goals. Moreover, the Bureau still needs to develop a defined schedule for achieving key milestones in order to complete the operational development and systems testing phase and begin readiness testing and execution by FY 2019.

Effectively recording, collecting, and using financial data to guide programmatic decisions. The Bureau's FYs 2013–2015 budget justifications for 2020 Census R&T were based on an estimated $5 billion in savings if design innovations can be implemented. Likewise, the regional office realignment was justified by an annual savings estimate of $14–17 million per year, beginning in FY 2014. However, recently we identified issues with the Bureau's cost estimates, and the Bureau has not been able to demonstrate that actual cost savings can or will be achieved. We have also identified issues with the process used to charge salary costs to projects. To effectively manage a program of the size, complexity, and cost of the 2020 Census—and assess the return on investment of R&T—managers need to develop detailed and supportable cost estimates to use as benchmarks for success. The estimates should then be compared to actual costs to assess the return on investment of R&T. The Bureau must improve its cost estimation and accounting practices to provide stakeholders assurance that budget requests are justified and will yield expected results.

Developing, testing, and implementing a cost-effective, secure 2020 Census information technology (IT) infrastructure. For the 2020 Census, the Bureau's goal is to have mature, proven systems in place to avoid building one-time use applications. To accomplish this, the Bureau intends to deliver an integrated and standardized combination of systems. The Census Enterprise Data Collection and Processing (CEDCaP) initiative aims to reduce or avoid costs by retiring many of the nearly 30 unique, survey-specific systems and by centrally managing IT expenditures across the Bureau. With CEDCaP, the Bureau intends to bring an enterprise-wide approach to survey and census data collection and processing through shared services. The Bureau expects this enterprise approach to be mature and proven well in advance of the 2020 Census. However, the Bureau has previously struggled with program management and meeting scheduled benchmarks for its IT development programs.

The Bureau faces the challenges of defining and integrating multiple requirements into an enterprise solution; developing the system solution—either in-house or using external expertise; deploying the solution in advance of the decennial census for its existing surveys; and ensuring scalability to meet workload demands of the decennial census. With the July 2015 departure of the Bureau's Chief Information Officer, this top priority will undergo a leadership change at a critical time—when decisions influencing the decennial census design occur.

Overcoming public resistance to the ACS. During the 2000s, the Bureau followed through on its plans to transition the decennial "long form" to the ACS, leaving the entire decennial survey with only 10 short-form questions designed for easier response. Fully implemented in 2005, the ACS is an ongoing survey which provides updated information to numerous entities. However, there is public resistance to many of the questions included in the ACS: in addition to privacy and confidentiality concerns, some questions are viewed as intrusive.

Since 2009, six bills have been introduced in Congress to make responding to the ACS voluntary and to remove penalties for nonresponse. According to the Bureau, a voluntary response will likely adversely affect data quality for small geographic areas, low-population rural areas, and small population groups—and will result in higher costs due to increased sample sizes and nonresponse follow-up resulting from lower response rates. The challenge for the Bureau is to balance the federal need for quality data against the public's dissatisfaction with the intrusive nature of the survey.

Achieving the mandate for government-wide data standards of the DATA Act. The DATA Act requires federal agencies to make available detailed information on their spending and use of federal funds and reporting it by specific categories, such as how much funding an agency receives from Congress and how much agencies spend on specific projects and awards. The DATA Act also requires federal agencies to use common government-wide data standards when posting this information to USAspending.gov—standards that are not currently applied across all agencies for all uses.

In May 2015, OMB and the Department of the Treasury issued guidance defining the initial data elements and reporting requirements that must be implemented within the next 2 years to comply with the DATA Act. Due to the Department's legacy information systems, providing reliable and consistent agency program information and meeting the goals of the DATA Act will be a significant challenge. The Department will need to dedicate resources in FY 2016 to continue implementation of the established data standards.

5. OPERATIONAL EXCELLENCE: STRENGTHEN THE DEPARTMENT'S CAPACITY TO ACHIEVE ITS OBJECTIVES, MAXIMIZE RETURN ON PROGRAM INVESTMENTS, AND DELIVER QUALITY, TIMELY SERVICE.

Achieving operational excellence is essential for the Department to achieve mission-focused objectives and maximize value to its customers. This objective focuses on the high-priority, cross-cutting initiatives that the Department's leadership believes are the most critical to mission success. We identified top challenges for this priority area as follows:

Improving IT controls for financial data processed on the Department's systems. For each of the past 3 years, the independent auditor of the Department's annual financial statements reported general IT controls as a Department-wide significant deficiency. Despite the Department's ongoing efforts to implement corrective actions, the independent auditor found that weaknesses still exist and require management's attention. It is essential that the Department focus on improvements in the areas identified to ensure that financial data processed on the Department's systems has integrity, is securely maintained, and is only available to authorized users.

Identifying a long-term solution to replace Commerce Business Solutions (CBS). The lack of centralized and integrated financial management systems creates reporting and oversight challenges for the Department, including the ability to effectively report financial data and monitor financial activity across its operating units. In addition, the lack of an integrated system will make it challenging for the Department to comply with the requirements of the DATA Act. With its current outdated financial management system, limited functionality, high support costs, lack of system integration, and lack of centralized reporting capability impede the Department's ability to oversee and manage Department-wide financial activities.

Plans are in progress to replace the CBS legacy financial management system. However, there have been significant challenges with this project, including delays in identifying a viable Federal Shared Service Provider solution for a replacement. As a result, CBS will need to be operational Department-wide through FY 2022. It will also be costly to maintain CBS, as it is not set up for data analytics, data archiving, or enterprise data warehousing—all of which will be provided by a new business application solution. Other challenges include the need to interface separate component systems, and uncertainty of funding that will be adequate to bring the project to timely completion.

Addressing persistent IT security issues. *Implementing basic security measures.* Since 2011, our IT security audits have found that the Department's operating units have not been implementing basic security measures that (1) control access; (2) establish, implement, and enforce secure configuration of components; (3) timely identify and fix security flaws; and (4) detect and monitor for intrusions. This relatively small set of basic security measures is essential for improving the security posture of IT systems Department-wide.

Remediating critical and high-risk vulnerabilities. As a result of these unaddressed security measures, we continued to find critical and high-risk vulnerabilities were not being remediated expeditiously. For example, all five high-impact systems we reviewed during FY 2014 Federal Information Security Management Act (FISMA) audits have a history of allowing high-risk vulnerabilities to persist significantly beyond the Department's 30-day remediation requirement, notwithstanding readily available repairs. Furthermore, our ongoing security audit work continues to find problems with timely remediation of critical and high-risk vulnerabilities.

In recent years, the Department has made substantial progress toward implementing its Enterprise Cybersecurity Monitoring and Operations (ECMO) initiative, which provides timely information about vulnerabilities to system owners in the bureaus. However, the ECMO deployment on Department high-impact systems is still in the planning stage—and not likely to be operational until the end of FY 2016. Because the high-impact systems are vital to supporting the Department's critical functions, the Department should assign a higher priority to expeditiously implementing ECMO solutions on its high-impact systems.

Improving the quality and thoroughness of system security control assessments. Federal agencies are required to establish a continuous monitoring program to manage information security risks on a continuous basis, including monitoring the security controls in their information systems. Security control assessments are an integral part of a continuous monitoring program; however, a recent OIG audit report determined that independent assessors did not conduct sufficiently rigorous assessments of critical security controls for five National Weather Service (NWS) systems. Consequently, these assessments likely did not provide authorizing officials an accurate implementation status of these systems' security controls.

Continuing to strengthen its incident detection and response capabilities. In early FY 2015, NOAA was the victim of a serious cyber-attack resulting in an interruption of services that provide essential data for vital weather forecasts and warnings. As a result, we initiated an audit of NOAA's IT security practices related to this latest cyber-attack.

We have reported that the Department has started implementing its Enterprise Security Operations Center (ESOC) initiative—whose goal is to establish a facility to provide Department-wide security situational awareness to senior Departmental and operating unit managers. During FY 2015, the Department began to advance the ESOC initial operating capabilities. Currently, ESOC is receiving and analyzing cybersecurity-related information covering approximately 30 percent of the Department's operating units. The ESOC initiative is critical to providing timely cyber situational awareness across the Department. Thus, the Department needs to ensure the required management commitment and strong cooperation from operating units to fully implement ESOC capabilities.

Finally, OIG has identified significant concerns with Department-wide cybersecurity. The Department must address persistent security deficiencies that make the Department vulnerable to cyber-attacks, improve the quality of security control assessments, and strengthen its incident detection and response capabilities.

Managing high-risk contracts. Recently, our audit work has identified opportunities for the Department to improve its management of high-risk cost reimbursable type contracts—and save taxpayer dollars. A government-wide initiative calls for federal agencies to reduce spending on high-risk contract types, such as time-and-materials and labor-hour, cost reimbursement, and noncompetitive contracts. The Department still faces challenges in contract oversight and administration of these contracts.

For example, in a report issued in December 2014, we found that USPTO contracting and program officials did not follow best practices—Office of Federal Procurement Policy, Federal Acquisition Regulation (FAR), the *Commerce Acquisition Manual*, and relevant USPTO policies—to award and administer contracts and task orders for work performed. Our work continues to identify that—without proper oversight of contractor performance in accordance with contract requirements—the risk of wasted government dollars increases.

Needing a sufficiently staffed and qualified acquisition workforce. In a September 3, 2013, memorandum, the Office of Federal Procurement Policy's Administrator acknowledged that the federal government needs talented and trained individuals who can plan, manage, and oversee acquisitions. The Department considers the scarcity of talent a critical challenge in managing its acquisition workforce due to its procurement of a variety of products and services, such as highly specialized satellite equipment, broadband technology, and coastal and ocean resources.

During FY 2014, the Department enhanced its recruitment efforts to include attending college and job fairs, exploring available recruitment incentives, and utilizing special hiring authorities to aid in attracting and retaining highly qualified acquisition professionals to meet hiring projections for a staff of 260 contracting officers and specialists. Although this aggressive recruitment effort resulted in filling some contracting officer and specialist positions, the Department still fell short of this goal due to attritions and retirements. To meet its FYs 2015 and 2016 projections, the Department needs to continue its aggressive recruitment efforts to attract and retain the best-qualified acquisition workforce at entry- and mid-level positions.

Accuracy of reported Federal Procurement Data System-Next Generation (FPDS-NG) procurement data. The Department needs to improve its process for entering accurate and reliable data into the FPDS-NG. In FY 2015, we issued an audit report regarding the quality of the Department's procurement data reported in the FPDS-NG. Most of the problems we noted involved contracting officials inadvertently selecting the wrong code and poor internal control, such as inadequate verification of entered information. Similar problems concerning FPDS-NG data accuracy were also reported in previous OIG audit reports (in May 2012 and November 2013). The Department must ensure that accurate and reliable information is entered into FPDS-NG in order to provide a comprehensive view into the details of contract spending and increasing the transparency and accountability of the Department for how it spends taxpayer dollars.

Improving premium-class travel compliance with Federal Travel Regulation. The Department also faces challenges as it addresses operational issues related to the use of premium-class travel. Our office's recent audit identified that the Department does not implement effective controls over the management of premium-class travel; as a result, additional costs spent to upgrade travel to premium-class may not have been warranted. The Department must take actions to address the reported deficiencies to ensure adequate controls over premium-class travel justification, approval, and reporting are in place and functioning in compliance with Federal Travel Regulation. To address earlier conditions, and take action on OIG's August 2015 recommendations, the Department has begun a series of process improvements related to premium class travel. The Department should continue to monitor its progress toward these efforts.

Creating a Department-wide culture of accountability. *Detecting and preventing time and attendance abuse.* In FYs 2014–2015, OIG concluded several investigations involving time and attendance abuse by employees, with significant findings in several operating units. In addition, over the last year, OIG has received a growing number of disclosures from employees and agency representatives concerning time and attendance abuse, suggesting a concerning trend in the Department. For example: over a 4-year period at the Census Bureau, OIG found that a significant number of employees appeared neither to have worked nor been on paid-leave status a total of nearly 20,000 hours (or nearly 2,500 full 8-hour work days) for which they were paid, resulting in a loss of over $1.1 million to the government. We have also investigated individual issues in several other Departmental operating units. We noted these issues to alert the Department and prompt improved controls over detecting and preventing such activity.

Supporting OIG independence, publication decisions, and access to records. On August 3, 2015, the current Deputy IG, along with 67 other OIGs, signed a joint letter to the Senate Committees on Oversight and Government Reform and Homeland Security and Government Affairs requesting legislative relief from a July 20, 2015, Department of Justice Office of Legal Counsel opinion threatening OIG access to Department information. In September 2015, OIG responded to a request from the House Committee on Oversight and Government Reform to provide a list and descriptions of instances within the last 2 years that raise our concerns about receiving appropriate access to documents, information, and agency employees. In order for OIG to provide effective oversight and ensure the integrity of the programs and operations of the Department, OIG staff require direct access to evidence, documents, and personnel. To achieve this, the Department's senior leadership must create a culture that supports OIG's oversight function by encouraging all employees to cooperate with OIG audits, inspections, and investigations.

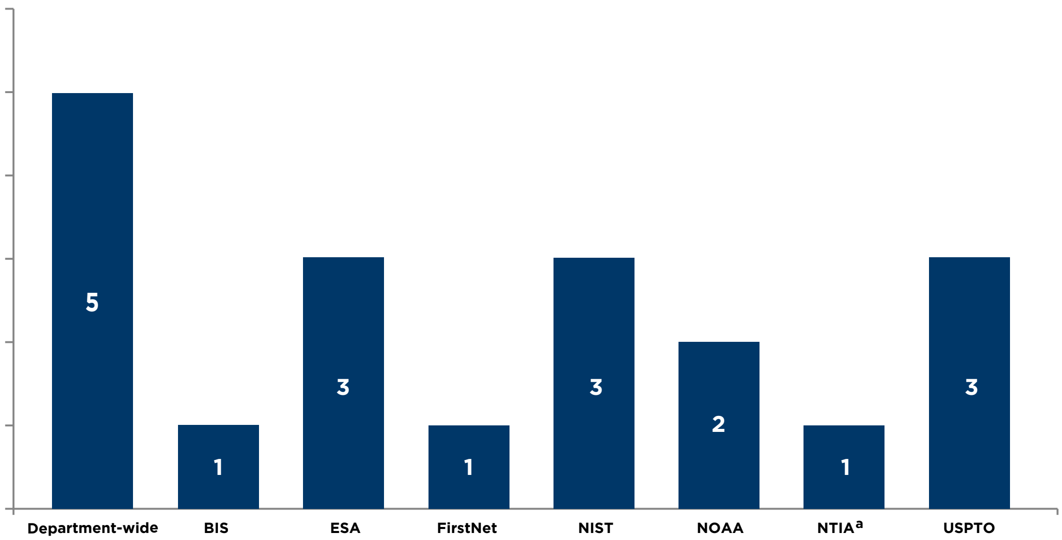
DEPARTMENT-WIDE MANAGEMENT

The **U.S. Department of Commerce** works to help American companies become more innovative and successful at home and more competitive abroad. It creates the conditions for economic growth and opportunity by promoting innovation, entrepreneurship, competitiveness, and stewardship.

The Department accomplishes its mission by providing national and local weather services; developing key economic and demographic data (including the Census); advancing technological and scientific innovation; protecting and restoring environmental resources; promoting international trade; and supporting local, regional, and national economic development. These activities affect U.S. business and industry daily and play a critical role in the nation's economic well-being.

COMPLETED WORKS (BY OVERSIGHT AREA)

During this reporting period—in addition to issuing its *Top Management Challenges*—OIG completed 19 audit and inspection reports, as well as responses to Congressional requests.



[a] Completed work concerning NTIA includes one audit report regarding the Broadband Technology Opportunities Program (BTOP).

DEPARTMENT OF COMMERCE FY 2015 CONSOLIDATED FINANCIAL STATEMENTS AUDITS (OIG-16-007-A, OIG-16-009-A, OIG-16-010-A)

KPMG LLP, an independent public accounting firm, performed the audit in accordance with U.S. generally accepted government auditing standards and OMB Bulletin 15-02, *Audit Requirements for Federal Financial Statements*. In its audit of the Department, KPMG determined that the financial statements were fairly presented in all material respects and in conformity with U.S. generally accepted accounting principles.

KPMG identified three significant deficiencies in (a) internal control over financial reporting related to weaknesses in IT general controls; (b) accounting for Public Safety Trust Fund spectrum auction proceeds; and (c) accounting for NOAA Corps pension benefits. (A significant deficiency in internal control exists when the design or operation of a control does not allow management or employees—in the normal course of performing their assigned functions—to prevent or detect and correct misstatements on a timely basis and merits attention by those charged with governance.)

In addition, KPMG reported five potential Antideficiency Act compliance matters that are being reviewed by the Department's Office of the Secretary and the Department's Office of General Counsel: (a) potential incorrect use of budgetary funding sources to support its programs; (b) accepting terms of agreement on purchases made through the internet; (c) relating to work performed without compensation through appointment as an intermittent expert after retiring from employment with the bureau; (d) unemployment claims filed by temporary employees; and (e) potential obligations in excess of quarterly advance of apportionment from OMB. Because these reviews are not complete, the ultimate outcomes of these potential matters are not presently known.

KPMG also issued a report that outlines the specific IT deficiencies noted during the audit in the areas of access controls, configuration management, segregation of duties and contingency planning.

KPMG also audited the Department's closing package financial statements and determined its compliance with financial reporting requirements in the *Treasury Financial Manual*. These statements are used to assist in preparing the *Financial Report of the U.S. Government*. KPMG issued an unmodified opinion and reported no material weakness in internal control and no instance of noncompliance.

COMPLYING WITH UNIFORM GUIDANCE ON PROFIT OR MANAGEMENT FEES UNDER FEDERAL ASSISTANCE AWARDS (OIG-16-013-M)

The recently adopted Uniform Guidance allows award recipients to receive a profit or management fee under grants and cooperative agreements. As cognizant federal agencies of the numerous grantees receiving Department of Commerce funding develop policies and procedures to control the awarding of profit or management fees, the Department must decide now how profit or management fees will be controlled.

In this memorandum, we provided background discussion of how costs were previously considered—according to OMB circulars—and what changes under the new Uniform Guidance. We then discussed implementation of the new Guidance—including potential issues that may arise—and responded to the Department's current position on grantee profit and management fees. Finally, we recommended that the Chief Financial Officer and Assistant Secretary for Administration ensure that

- agency controls be established and designated officials consulted on issues of policy or guidance on federal awards when determining whether management fees or profit are appropriate.
- the Department receives and reviews a reasonable justification and explanation from each grant or cooperative agreement recipient that provides the intended use of any management fees or profit awarded.
- Department policy or guidance identifies examples of inappropriate uses of management fees or profit (e.g., purchase of alcoholic beverages, entertainment, meals for non-business purposes, membership dues for social or sporting clubs, and lobbying).
- management fees or profit are not used to circumvent statutory or other limitations included in the terms and conditions of the award on otherwise allowable costs.

2016 ANNUAL LETTER TO OMB RE: GOVERNMENT CHARGE CARD ABUSE PREVENTION ACT OF 2012 (OIG-16-016-M)

The Charge Card Act and OMB's implementing guidance requires each OIG to perform annual risk assessments and, in coordination with its department, submit to OMB semiannual reports of employee purchase or integrated card violations and the resulting actions taken. The Charge Card Act also requires each OIG to submit an annual purchase and travel card audit recommendation status report to OMB.

In this correspondence, we provided a summary of the actions we had taken during FY 2015 to fulfill these requirements, as well as additional information on our related work. We provided information regarding known and completed reviews and investigations of fraudulent use or abuse of purchase cards that resulted in fraud, loss to the government, or misappropriation of funds or assets for the Department's July 2015 and January 2016 reports to OMB. As of the date of the letter, two Departmental bureaus each had an audit report recommendation concerning the use of government cards that had yet to be implemented (both bureaus had concurred with the recommendations and agreed to corrective actions):

- From OIG-11-013-A, *2010 Census: The Partner Support Program Lacked Adequate Controls for Monitoring Purchases and Ensuring Compliance*: we recommended that management improve oversight of card purchases and address compliance with policies and procedures.
- From OIG-14-013-A, *Manufacturing Extension Partnership (MEP) Incurred Avoidable Conference Costs*: we recommended that NIST management make determinations on potential travel card misuse related to 2011 and 2012 conferences.

Additionally, during FY 2015 we completed an investigation that identified the improper (or illegal) use of a purchase card by an employee in the Department's Office of Secretary. We also reported a violation of administrative policies involving use of purchase cards, which was acknowledged by NOAA and is currently pending corrective action. As of the date of the correspondence, there were two alleged violations pending investigation.

Also in FY 2015, we assessed purchase, travel, and fleet card usage as components in our annual Department-wide risk assessment. The assessment is based on detailed analyses that identify trends and variances; the results are then aggregated and included as components of the overall risk rating for each agency. The results of the annual risk assessment inform our audit plan for the subsequent year. Our FY 2016 audit plan now includes an audit of travel card use as a result.

BUREAU OF INDUSTRY AND SECURITY

The **Bureau of Industry and Security** is primarily responsible for administering and enforcing the nation's system for controlling exports of sensitive dual-use goods and technologies. BIS's major functions include formulating and implementing export control policy; processing export license applications; conducting various policy, technical, and economic analyses; promulgating regulations; conducting industry outreach; and enforcing the Export Administration Act and regulations. BIS has three primary organizational units.

Export Administration—Implements U.S. export control and nonproliferation laws and policies through export licensing, commodity classifications, and advisory opinions; technical, economic, foreign availability, and policy analyses; promulgation of regulations; and industry outreach. It also conducts various defense industry activities and enforces industry compliance with arms control treaties.

Export Enforcement—Participates in reviews of export license applications and conducts criminal and administrative investigations relating to the export control portions of the Export Administration Act and regulations. It also administers and enforces the anti-boycott provisions of the act and regulations.

Chief Financial Officer and Office of Administration—Advises senior leadership on business and IT issues and oversees policies and procedures for administrative functions for programs including budget and finance, human resources and workforce issues, corporate analysis and risk management, IT operations and cyber security, acquisitions, audits and investigations, and Freedom of Information Act requests.

LACK OF BASIC SECURITY PRACTICES HINDERED BIS' CONTINUOUS MONITORING PROGRAM AND PLACED CRITICAL SYSTEMS AT RISK (OIG-16-003-A)

An audit was conducted to determine whether BIS' continuous monitoring strategy and practices, including ongoing security control assessments of its critical information systems, provide adequate information for authorizing officials to make proper risk-based decisions.

We evaluated BIS' continuous monitoring program, including strategy and implementation. We also performed our own assessments of selected critical security controls in place to protect two of BIS' high-impact systems—the BIS Export Control Cyber Infrastructure Version 2 and the Investigative Management System Redesign—which are designed to support its mission to advance U.S. national security, foreign policy, and economic objectives. We also reviewed BIS' compliance with a number of applicable provisions of law, regulation, and mandatory guidance of, among other, the Federal Information Security Management Act of 2002, IT Security Program Policy, NIST Federal Information Processing Standards, and Special Publications.

We found that BIS' documented strategy for continuous monitoring was in compliance with Department policy and NIST guidance. However, we also found the following:

- Deficient vulnerability scanning practices for its high-impact systems were creating significant risk: specifically, (a) an outdated vulnerability scanning tool was used to identify security weaknesses; (b) required credentialed vulnerability scans were not always performed; (c) vulnerability scanning results were not reviewed to determine remediation actions; and (d) BIS had no assurance that all system components were scanned for vulnerabilities.

- BIS had no assurance that security weaknesses were remediated; we found that BIS neither consistently followed the required plans of action and milestones (POA&Ms) process nor used the required tool to ensure that security weaknesses were remediated.

In light of the findings, we recommended that the Under Secretary for Industry and Security direct BIS' Acting Chief Information Officer to do the following:

- Ensure that an accurate inventory of hardware components and software products that make up its system is established and maintained.

- Establish an effective vulnerability scanning procedure that requires scanning all components in BIS's inventory, updating the vulnerability scanning tool regularly, using credentials for scanning, and reviewing vulnerability scanning reports in a timely manner.

- Ensure that responsibility for vulnerability remediation, including patching, for BIS system components are clearly documented.

- Ensure that POA&Ms are created for all unremediated security weaknesses.

- Implement procedures to provide accountability and greater management oversight of the POA&M process, and ensure supporting artifacts are included in the POA&Ms.

ECONOMICS AND STATISTICS ADMINISTRATION

The **Economics and Statistics Administration** analyzes economic activity, formulates policy options, and produces a major share of the U.S. government's economic and demographic statistics. ESA has one constituent operating unit and two primary operating units.

Office of the Chief Economist—Provides the Department with expertise on key economic forces affecting the U.S. economy, delivering timely, relevant, and credible economic analysis and advice to government leaders and the public.

Census Bureau—Publishes a wide variety of statistical data about the nation's people and economy, conducting approximately 200 annual surveys in addition to the decennial census of the U.S. population and the quinquennial census of industry.

Bureau of Economic Analysis—Prepares, develops, and interprets national income and product accounts (summarized by the gross domestic product), as well as aggregate measures of international, regional, and state economic activity.

CENSUS BUREAU REALIGNMENT DID NOT FULLY MEET STATED GOALS AND REIMBURSABLE AGREEMENTS ARE NOT MANAGED ADEQUATELY (OIG-16-004-A)

We conducted this audit of the Bureau's regional office realignment and field management reforms from June 2014 to February 2015 to accomplish the following objectives: (1) identify and assess the benchmarks that the Bureau is using to assess the success of the realignment effort; (2) assess whether or not the Bureau is achieving its cost savings and efficiency goals; and (3) determine the impact of the realignment on survey sponsors and customers to ascertain whether external sponsoring agencies and internal Census Bureau offices are satisfied with the survey content and design process, survey administration, data quality, cost, and other issues deemed important.

We found the following:

- Reimbursable agreements are not adequately managed, as the Bureau has not developed effective controls for estimating and documenting survey cost estimates and reporting anticipated and actual costs to survey sponsors.
- The Bureau is not monitoring survey costs and has failed to research interview anomalies.
- The Bureau could not support that estimated cost savings have been achieved and did not develop measurable goals to improve efficiency and data quality.

We recommended that the Director of the Census Bureau do the following:

- Implement steps to ensure that time charged by Census employees in WebTA (time and attendance) reflects actual work performed on specific surveys.
- Develop policies and procedures, which define (a) the methods for estimating reimbursable agreement costs, (b) the level of detail required for reporting actual costs of reimbursable agreements to survey sponsors, and (c) how often cost reports should be provided to survey sponsors.
- Improve survey cost and quality monitoring by (a) establishing measurable cost and quality standards, (b) consolidating monitoring systems to avoid duplicate capabilities and reduce costs, (c) prioritizing the implementation of all surveys in the Unified Tracking System and ensuring that all regional office survey statisticians are trained on system capabilities, and (d) instituting periodic time frames for supervisory review of the cost and quality reports and taking corrective action before the next survey cycle.

THE U.S. CENSUS BUREAU'S EFFORTS TO ENSURE AN ACCURATE ADDRESS LIST RAISE CONCERNS OVER DESIGN AND LACK OF COST-BENEFIT ANALYSIS (OIG-16-018-A)

To conduct demographic, population, and income surveys, including the decennial census, the Census Bureau maintains a complete list of all living quarters in the United States in the Master Address File–Topologically Integrated Geographic Encoding and Referencing database (MTdb). As the backbone of the Bureau's survey operations, the MTdb must be up-to-date and accurate. Because there is no single source for updating data in the MTdb, the Bureau must coordinate with providers of multiple data sources, such as tribal, state, and local governments; conduct its own operations to verify and update addresses and maps; and receive updates twice a year with delivery point addresses from the United States Postal Service.

Before the 2010 Census, two operations—address canvassing and the Local Update of Census Address (LUCA) program—were conducted to ensure completeness of residential address data.

In the 2010 Census, address canvassing, which required Bureau employees to traverse every street in the United States and totaled $444 million in field costs, was a significant cost driver. The LUCA program updates the MTdb through coordination with tribal, state, and local governments.

We conducted an audit to address the status of the Bureau's 2020 Census program preparation and planning efforts. Our audit objectives were to (1) assess the methods and costs of continuously updating the MTdb; (2) determine how efforts, such as the FY 2015 Address Validation Test, support the accuracy of the Master Address File; and (3) evaluate the preparation of the LUCA program for the 2020 decennial census. Our report focused on risks identified for objectives 2 and 3 to provide timely recommendations for the Bureau's operational design decisions. We intend to report on the results of objective 1 subsequent to the completion of additional fieldwork.

As the Bureau prepares to make design decisions regarding address canvassing and implementing the LUCA program, we highlighted four issues for its prompt attention. We identified concerns with (1) the lack of a cost-benefit analysis for statistical modeling and partial block canvassing tests, (2) the lack of success benchmarks for statistical modeling, (3) the elimination of LUCA participation options, and (4) the lack of a cost-benefit analysis for the LUCA program.

We recommended the Census Bureau Director

- collect cost information during testing to fully inform design decisions.
- develop test plans that contain success criteria with quantitative benchmarks and comply with GAO guidance for establishing performance measures.
- develop strategies to ensure 2010 LUCA participants are able to submit address updates.
- plan for the 2020 LUCA program to collect more comprehensive cost information and program data so that the 2030 LUCA program can make more informed cost-benefit decisions.

CENSUS BUREAU REVIEWS OF UNLIQUIDATED OBLIGATIONS COULD BE IMPROVED WITH GREATER REVIEW FREQUENCY AND ADDITIONAL DOCUMENTATION (OIG-16-019-A)

On February 23, 2016, OIG issued an audit on the effectiveness of the Census Bureau's unliquidated obligation (ULO) review policies and procedures developed in response to an OIG audit report issued in June 2013 (OIG-13-026-A). In that report, we concluded that Department-wide controls over the management of ULOs needed strengthening. Further, effective management of outstanding obligation balances allows agencies to review and deobligate unneeded funds, promoting a better use of federal resources.

In our 2016 follow-up audit, we found that the Bureau's obligation and deobligation review policies and procedures implemented since our June 2013 report were generally adequate and effective—and that the Bureau had achieved the intent of our recommendations. Although this did not impact our overall conclusions, we did note the Bureau's ULO review frequency and documentation can be improved to further enhance its management of ULOs.

We recommended that the Director of the Census Bureau instruct the Director of the Census Office of Finance to

- follow up on the remaining obligations identified in our report to ensure that, if they are no longer needed, appropriate action is taken.

- update its obligation review policies to conduct quarterly reviews on all open balances and provide sufficient oversight to ensure timely deobligations.
- follow Departmental documentation standards on future deobligations by ensuring all deobligated ULOs have appropriate notifications, confirmations, and certifications on record.

CENSUS BUREAU EMPLOYEES PLACED ON ADMINISTRATIVE LEAVE FOR TIME AND ATTENDANCE ABUSE, MISUSE OF OFFICE, AND RETALIATION AGAINST A PERCEIVED WHISTLEBLOWER

On September 15, 2015, OIG issued a report to the U.S. Census Bureau presenting its findings of widespread misconduct in the Census Hiring and Employment Check (CHEC) Office. The evidence obtained over the course of OIG's investigation established that many current and former CHEC employees engaged in pervasive misconduct over several years, including widespread time and attendance abuse, misuse of office, and repeated attempts to retaliate against a perceived whistleblower. On January 14, 2016, the Bureau informed OIG that it had placed numerous employees on administrative leave, was evaluating potential administrative action, and had improved its policies and training.

ECONOMIC DEVELOPMENT ADMINISTRATION

The **U.S. Economic Development Administration's** mission is to lead the federal economic development agenda by promoting innovation and competitiveness, preparing American regions for growth and success in the worldwide economy. Its investment policy is designed to establish a foundation for sustainable job growth and the building of durable regional economies throughout the United States. This foundation builds on two key economic drivers: innovation and regional collaboration.

FORMER EDA EMPLOYEE CONVICTED IN EXTENSIVE BENEFITS FRAUD SCHEME

As reported in our March 2015 *SAR*, a former EDA employee was indicted for multiple counts of wire fraud and mail fraud, along with making false statements, in connection with an extensive scheme to fraudulently obtain federal and state benefits. The indictment was returned in U.S. District Court for the Western District of Washington in November 2014 following an investigation, which revealed that the individual made false and conflicting claims to various agencies in an effort to fraudulently obtain benefits from the U.S. Department of Veterans Affairs (VA) and Social Security Administration (SSA), as well as unemployment benefits from Washington State.

Subsequently, in February 2016, the individual signed a plea agreement and pled guilty to two counts of wire fraud for illegal conduct between September 2009 and November 2014; sentencing is pending. The case was investigated by multiple agencies—led by the SSA OIG—including OIGs from VA, Department of Commerce, U.S. Office of Personnel Management, and General Services Administration, along with other law enforcement entities.

FIRST RESPONDER NETWORK AUTHORITY

The **First Responder Network Authority** mission is to build, operate, and maintain the first high-speed, nationwide wireless broadband network dedicated to public safety, providing a single interoperable platform for emergency and daily public safety communications.

AUDIT OF FIRSTNET'S EFFORTS TO INCLUDE FEDERAL AGENCIES IN ITS NPSBN (OIG-16-017-A)

We initiated an audit with the objective to assess FirstNet's effectiveness regarding (1) informing federal agencies on their anticipated use and the benefits associated with the Nationwide Public Safety Broadband Network (NPSBN) and (2) soliciting and addressing concerns federal agencies may have with the development and planned operation of the NPSBN.

We found FirstNet's process to inform federal agencies about the benefits of the NPSBN and its initial efforts to address federal agency challenges reasonable given the limitations on federal consultation mentioned throughout our report. However, we identified opportunities to improve the effectiveness of the federal consultation program, including strengthening accountability, increasing federal input, and documenting federal agency analyses.

We recommended that the FirstNet Chief Executive Officer

- identify and document non-subjective performance indicators and milestones and define and document how each will be measured.
- identify steps to mitigate the risk of low federal participation in FirstNet's Federal Stakeholder Engagement Plan.
- perform and document analysis of federal consultation and outreach efforts, including analyses specific to the 14 agencies that compose the Emergency Communications Preparedness Center.

NATIONAL INSTITUTE OF STANDARDS AND TECHNOLOGY

The **National Institute of Standards and Technology** promotes U.S. innovation and industrial competitiveness by advancing measurement science, standards, and technology in ways that enhance economic security and improve our quality of life. NIST carries out its mission via three programs:

NIST Laboratories—Conduct research that advances the nation's technology infrastructure and is needed by U.S. industry to continually improve products and services.

Hollings Manufacturing Extension Partnership—Works with small- and mid-sized U.S. manufacturers through a nationwide network of 350 field offices to help them expand into new markets, develop new products, increase profits, find cost savings, and create and retain jobs.

Baldrige Performance Excellence Program—Promotes performance excellence among U.S. manufacturers, service companies, educational institutions, health care providers, and nonprofit organizations through outreach programs and the annual Malcolm Baldrige National Quality Award.

SIGNIFICANT FIRM-FIXED-PRICE CONTRACT ACTIONS IN FYS 2011–2013 CANNOT BE VERIFIED FROM DOCUMENTATION IN NIST CONTRACT FILES (OIG-16-001-A)

Our audit of NIST Office of Acquisition and Agreements Management's (OAAM's) management, monitoring, and administration of NIST firm-fixed-price (FFP) contracts during FYs 2011–2013 had three objectives: to determine whether (1) NIST OAAM has managed, monitored, and administered the FFP contracts in accordance with federal and Departmental requirements; (2) contract officer's representative requirements were met and completed in accordance with federal and Departmental requirements; and (3) all invoice payments were valid, reasonable, and paid on a timely basis in accordance with federal and Departmental requirements.

We found that NIST OAAM did not document all contract administration actions in the contract files we audited and was not consistent with the guidance found in the FAR subpart 4.802. In conjunction with this, we found that (1) 32 contract actions were missing critical documentation and (2) some contract files were missing.

We recommended that the Director, NIST OAAM, do the following:

- Ensure that contracting officials properly prepare, maintain, and safeguard all applicable FAR Subpart 4.803 identified contract documents in accordance with Subpart 4.802(c).

NIST WORKING CAPITAL FUND BUDGETARY CONTROLS ARE IN PLACE, BUT ISSUES WITH CARRYOVER BALANCES, POLICIES, AND TIME CHARGES SHOULD BE ADDRESSED (OIG-16-023-A)

The NIST working capital fund (WCF) was established to provide the agency a way to (a) fund the cost of providing services and information to other agencies and the public, (b) efficiently distribute costs that should be shared by all sources of support, and (c) invest in equipment and inventories.

The overall objective of our audit was to evaluate specific budgetary and fund controls over the NIST WCF in FYs 2012–2014. Specifically, our objectives were to determine whether (1) the carryover balance in the WCF is valid and supported; (2) funds received in advance on reimbursable agreements were legally available when earned; and (3) controls for building overhead rates and distributing charges to NIST projects, divisions, and organizational units are implemented and functioning as intended.

Based on our results, we found no significant exceptions to controls related to the carryover of unobligated funds for reimbursable agreements—which help ensure that amounts carried forward are valid and supported—but procedures for evaluating carryover balances in other sources of funds need improvement. For amounts collected in advance on reimbursable agreements, we found no indications that the funds received were other than legally available when earned.

Specifically, we found the following:

- Carryover balances for reimbursable agreements are reviewed annually, but procedures to evaluate the need for carryover balances in remaining fund sources need improvement, due to
  - inadequate oversight of carryover balances in some WCF components and
  - incomplete WCF policies and procedures.
- Funds received in advance on reimbursable agreements were legally available when earned.

- Controls for building overhead rates and distributing charges to NIST projects, divisions, and organizational units were implemented.
- Some Engineering Lab employees use projected rather than actual time when charging to projects.

We concluded that NIST has controls in place to ensure that it (a) develops reasonable overhead rates and surcharges and (b) properly distributes charges to the fund's customers.

We recommended that the NIST Director and the Associate Director for Management Resources

- establish a process to evaluate and justify carryover balances in the "all other funds" category of the WCF.
- establish policy and procedures to
    - calculate earned net income in conformance with federal accounting principles, which accurately represent the significant WCF components, and
    - ensure that earned income balances are periodically reviewed and significant excess or insufficient balances are fully addressed.

We also recommended that the Associate Director for Laboratory Programs, and the Associate Director for Management Resources

- implement steps to ensure that time the Engineering Lab employees charge to the Lab's overhead and other projects reflects the actual work performed on the projects.

NIST MUST STRENGTHEN JUSTIFICATIONS FOR REMAINING UNLIQUIDATED OBLIGATIONS AND REVIEW PROCEDURES (OIG-16-024-A)

On March 24, 2016, we issued a report on the effectiveness of NIST's ULO review policies and procedures developed in response to an OIG audit report issued in June 2013 (OIG-13-026-A). In that 2013 report, we concluded that Department-wide controls over the management of ULOs needed strengthening. Further, we highlighted how effective management of outstanding obligation balances allows agencies to review and deobligate unneeded funds, promoting a better use of federal resources.

In this follow-up audit, we found that—although NIST has generally achieved the intent of our recommendations—NIST's ULO review policies and procedures implemented since our June 2013 report need improvement. Specifically, we found that NIST had a decentralized approach to monitoring and managing ULO balances by delegating the responsibility to three different divisions (Acquisition Management Division, Grants Management Division, and Finance Division). We also identified approximately $1.5 million in ULO balances that could have been deobligated.

We recommended that the NIST Director instruct the Division Chiefs of NIST's Finance Division, Grants Management Division, and Acquisition Management Division to

- follow up on the 15 obligations specifically identified in this report to ensure that, if they are no longer needed, appropriate action is taken.
- develop and execute a process for conducting quarterly obligation reviews on all open balances.

FORMER NIST POLICE OFFICER SENTENCED FOR ATTEMPTING TO MANUFACTURE METHAMPHETAMINE

As reported in our September 2015 *SAR*, a former NIST police officer in August 2015 pleaded guilty in U.S. District Court for the District of Maryland to attempting to manufacture methamphetamine. The incident occurred in July 2015, when the then-lieutenant with the NIST police force entered a NIST building and attempted to use the facility to manufacture the drug. This resulted in an explosion that caused injury to the individual, as well as property damage to the NIST laboratory room.

In January 2016, the individual was sentenced to more than 3 years in prison and began serving his term on March 1, 2016. The joint investigation was conducted by the Montgomery County Police Department (MCPD), the Federal Bureau of Investigation (FBI), the U.S. Drug Enforcement Administration, and OIG.

FORMER DIRECTOR OF CENTER FOR MANUFACTURING AND TECHNOLOGY SENTENCED FOLLOWING FRAUD CONVICTION

As reported in our September 2015 *SAR*, a former director of the University of South Carolina's Center for Manufacturing and Technology (CMAT) in June 2015 pleaded guilty to wire fraud, a violation of 18 U.S.C. § 1343, in U.S. District Court for the District of South Carolina. As director of CMAT, the individual submitted fraudulent documentation that enabled the organization to obtain federal grant money through the NIST Manufacturing Extension Partnership (MEP). The fraudulent records indicated the work was completed for CMAT when it had not been. In addition, the individual approved contracts and payments to shell corporations that were controlled by friends, family members, and him/herself for work that was not completed. The former director submitted a total of approximately $336,000 worth of fraudulent documentation to the University of South Carolina, the government, and to the entity responsible for administering the grant funds.

In December 2015 the individual was sentenced to 27 months incarceration, 36 months supervised probation, and fines, restitution, and a special assessment in the total amount of $336,585. The case was investigated by OIG with assistance from the FBI.

DIRECTOR OF SOUTH CAROLINA MANUFACTURING EXTENSION PARTNERSHIP INDICTED AND CONVICTED FOR MAKING FALSE STATEMENT

During the course of another investigation, OIG learned that the director of the South Carolina MEP, a grant program at NIST, allegedly solicited fraudulent in-kind matching funds from subrecipients to mitigate over $1 million in questioned costs identified in an OIG audit. When questioned by OIG and the FBI, the individual falsely asserted not being involved in preparing a fraudulent document that was submitted to NIST—even though the individual was directly involved in the false record's preparation and submission to the Department.

In February 2016, the individual was charged in violation of 18 U.S.C. § 1001 in U.S. District Court for the District of South Carolina. A plea agreement was made shortly thereafter, and sentencing is pending at this time. The case was investigated by OIG with assistance from the FBI.

NATIONAL OCEANIC AND ATMOSPHERIC ADMINISTRATION

The **National Oceanic and Atmospheric Administration** mission—to understand and predict changes in Earth's environment, as well as conserve and manage coastal and marine resources to meet our nation's economic, social, and environmental needs—is accomplished through six line offices:

National Environmental Satellite, Data, and Information Service—Observes the environment by operating a national satellite system.

National Marine Fisheries Service—Conducts a program of management, research, and services related to the protection and rational use of living marine resources.

National Ocean Service—Provides products, services, and information to promote safe navigation, support coastal communities, sustain marine ecosystems, and mitigate coastal hazards.

National Weather Service—Reports the weather of the United States and provides weather forecasts and warnings to the general public.

Office of Oceanic and Atmospheric Research—Conducts research related to the oceans and Great Lakes, the lower and upper atmospheres, the space environment, and the Earth.

Office of Program Planning and Integration—Develops and coordinates NOAA's strategic plan, supports organization-wide planning activities, guides managers and employees on program and performance management, and integrates policy analysis with decision making.

AUDIT OF NOAA HURRICANE SANDY DISASTER RELIEF FUNDS (OIG-16-014-M)

In October 2012, Hurricane Sandy damaged hundreds of thousands of homes and caused billions of dollars in damage to vital infrastructure systems. Hurricane Sandy made landfall south of New Jersey's shore and caused historic devastation and substantial loss of life. In January 2013, President Obama signed the Disaster Relief Appropriations Act into law.

The Act appropriated $326 million in Hurricane Sandy Relief funds to NOAA, which was required to submit a "Spend Plan" to Congress with details of how the $326 million would be spent. The plan listed, and this audit focused on, the $7 million identified specifically for repair and replacement of ocean observing and coastal monitoring assets. NOAA spent $6.3 million of the $7 million in grants, contracts, and purchase card transactions.

Our original audit objectives were to determine whether (1) NOAA followed federal and Departmental guidelines when awarding grants and contracts and making purchase card transactions for equipment damaged by Hurricane Sandy and (2) adequate controls were implemented to ensure Hurricane Sandy Relief funds were effectively monitored.

Based on the results of our interviews and reviewing Hurricane Sandy documentation, we concluded our work under the objectives. We did not identify any issues with NOAA's implementation of the Act when awarding grants and contracts or when it purchased equipment and supplies with the purchase card. NOAA implemented adequate controls to effectively monitor Hurricane Sandy Relief funds. Our procedures were not designed to provide assurances on the overall effectiveness of NOAA's oversight of Hurricane Sandy awards and whether the program has reached its intended goals, and we do not express such assurances.

NOAA FISHERIES NEEDS TO IMPROVE MANAGEMENT AND OVERSIGHT OF ELECTRONIC MONITORING PROGRAMS (OIG-16-022-I)

In 1972, NOAA Fisheries' began deploying human observers on fishing vessels in U.S. waters to collect data and monitor fishing activity. In 1999, the National Observer Program was established to coordinate regional and national observer activities. Over the years, the use of observers has grown into a nationwide program that, in 2012, cost more than $74 million, monitored 47 fisheries, and employed 974 observers who collectively spent more than 83,000 days at sea.

In February 2013, NOAA Fisheries released its Electronic Monitoring White Papers to provide an overview of existing electronic reporting and electronic monitoring (EM) technology and its applications for U.S. fisheries. This was followed by NOAA Fisheries' May 2013 release of its Policy on Electronic Technologies and Fishery-Dependent Data Collection (EM policy), which "encourage(s) the consideration of electronic technologies to complement and/or improve existing fishery-dependent data collection programs to achieve the most cost-effective and sustainable approach that ensures alignment of management goals, data needs, funding sources and regulations." This policy lays out the objectives for the use and implementation of electronic technologies, as well as Regional Office implementation responsibility; it also creates milestones to measure each region's progress towards policy implementation.

The objectives of our report were to evaluate NOAA Fisheries' study, oversight, progress, implementation, and incorporation of EM into its National Observer Program and determine how NOAA Fisheries is executing its EM policy. We found that the regional offices have made progress by finalizing their regional EM plans and conducting several EM studies. However, NOAA Fisheries lacks a centralized, coordinated, and consistent approach to effectively and efficiently evaluating technology implementation in the National Observer Program. Although EM has proven benefits for fisheries monitoring, these benefits have not been realized—due, in part, to the differing perspectives NOAA Fisheries and its stakeholders have on the capabilities and expected outcomes of a future EM program. The next step is to implement EM in the regions; however, this process may be hindered due to financial constraints, the lack of oversight, and cost data.

We recommended that the Assistant Administrator for NOAA Fisheries

- develop and coordinate a central repository for EM documentation and information sharing to facilitate regional access to complete, organized, and accurate information.
- develop an EM cost estimation template, to include all necessary cost components, which is shared with regions and Fishery Management Councils and used in a determination on further deployment of EM technologies.

FORMER NWS CONTRACTOR DEBARRED FOR 3 YEARS

As reported in our March 2015 *SAR*, a former NWS contract employee in October 2014 tried in the Circuit Court for Montgomery County, Maryland, was convicted of theft for stealing computer equipment and government funds from NOAA. The case, worked in conjunction with MCPD, established that the individual purchased over 70 wireless devices—for approximately $18,000—with government funds and converted the items for personal use. It was also determined that several laptop computers assigned to him were reported missing from NWS; two were returned to NOAA, along with a mobile device, and MCPD established the individual had sold one of the stolen laptops to a pawn shop.

In December 2014, the individual was sentenced to 18 months of incarceration (suspended), as well as 3 years of supervised probation, and was ordered to pay NOAA restitution of more than $17,500. In addition, the individual was debarred by the Department of Commerce for 3 years from federal procurement and nonprocurement programs.

NATIONAL TELECOMMUNICATIONS AND INFORMATION ADMINISTRATION

The **National Telecommunications and Information Administration** serves as the executive branch's principal adviser to the President on domestic and international telecommunications and information policy issues. NTIA manages the federal use of the electromagnetic spectrum, provides grants for national information and public broadcasting infrastructure projects, and performs telecommunications research and engineering. It works to enhance citizens' access to cable television, telephone, and other telecommunications services, and educates state and local governments and other entities on ways to use information technology and telecommunications more effectively.

BROADBAND TECHNOLOGY OPPORTUNITIES PROGRAM RECIPIENTS RETAINING EXCESS EQUIPMENT AT END OF PROJECTS (OIG-16-012-A)

For our audit of the effectiveness of NTIA's oversight of the BTOP comprehensive community infrastructure awards, we assessed the effectiveness of NTIA's procedures for identifying BTOP award recipients who maintain excess inventory in warehouses, as well as disposing of excess BTOP inventories. Our objectives were to (1) determine whether grantees purchased equipment beyond program needs for commercialization (i.e., whether grantees warehoused equipment); (2) assess NTIA's procedures for identifying recipients maintaining excess inventory; and (3) evaluate NTIA's procedures for disposition of excess BTOP award inventory, including construction equipment and vehicles.

We found that more than half of the recipients we reviewed (i.e., five of nine) had excess equipment, $3.5 million in total, including equipment outside the needs of completing the grant projects. Also, we found that NTIA's processes for identifying and disposing of BTOP-funded excess inventory were inadequate for effective management of these awards. Additionally, we identified about $600,000 that may have been improperly disposed. Finally, during the course of our review, we noted that expired projects were not closed out in a timely manner.

We recommended that the Assistant Secretary for Communications and Information of the NTIA do the following:

- Make a determination on the need for the $3.5 million in excess inventories, including making sure that the state recipients are following their respective state laws and procedures.
- Develop procedures to address how all current and closed out recipients can itemize (in a uniform format) current excess equipment, including the use and purpose of vehicles on hand.
- Develop additional procedures to aid recipients and program officials responsible for the disposition of excess equipment at end of projects, including methods for determining equipment transfers and values.

FIVE ENTITIES DEBARRED FOR 3 YEARS

OIG received allegations that a BTOP subrecipient misused and mismanaged grant funds and that a whistleblower employee of the subrecipient was terminated for disclosing the misuse and mismanagement. OIG substantiated that the subrecipient terminated the whistleblower in retaliation for making the disclosures. However, NTIA declined to grant a remedy, stating that subrecipients are not covered by the whistleblower protection provisions of the American Recovery and Reinvestment Act of 2009.

OIG also found that the executive director of the subrecipient misused grant funds, primarily by (1) using grant funds to pay $18,574.53 in rent for office space that was owned by the executive director and another individual without disclosing the self-interest to NTIA or the prime recipient and (2) possibly inflating or reporting false computer usage statistics for a computer center located in the aforementioned office space.

The U.S. Attorney's Office declined to prosecute the matter. However, the Department debarred five individuals/entities (including the subrecipient and the executive director) each for a period of 3 years.

UNITED STATES PATENT AND TRADEMARK OFFICE

The **United States Patent and Trademark Office** administers the nation's patent and trademark laws. Patents are granted and trademarks registered under a system intended to provide incentives to invent, invest in research, and commercialize new technology. USPTO also collects, assembles, publishes, and disseminates technological information disclosed in patents.

USPTO FY 2015 FINANCIAL STATEMENTS AUDITS (OIG-16-006-A, OIG-16-008-A)

Independent auditor KPMG LLP performed the audit in accordance with U.S. generally accepted government auditing standards and OMB Bulletin 15-02, *Audit Requirements for Federal Financial Statements*. In its audit of USPTO, KPMG determined that the financial statements were fairly presented, in all material respects, and in conformity with U.S. generally accepted accounting principles.

KPMG identified no instances of internal control over financial reporting that were considered to be a material weakness, as defined in its report. (A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis.)

In addition, KPMG identified no instances of reportable noncompliance with applicable laws, regulations, and contracts.

KPMG also issued a report (OIG-16-008-A) that summarized information technology deficiencies noted in access controls, configuration management, and contingency planning, which were also included in KPMG's report on information technology controls in support of the Department's FY 2015 consolidated financial statements audit (OIG-16-010-A).

AUDIT OF TRADEMARK'S ACTIVITY-BASED INFORMATION SYSTEM (OIG-16-020-A)

An audit was conducted to review allocation algorithms and controls of USPTO's Activity-Based Information (ABI) system and determine whether Trademark's use of ABI justifies and supports fee changes. OIG contracted with the independent public accounting firm RMA Associates, LLC of Arlington, VA, to help complete a portion of the audit.

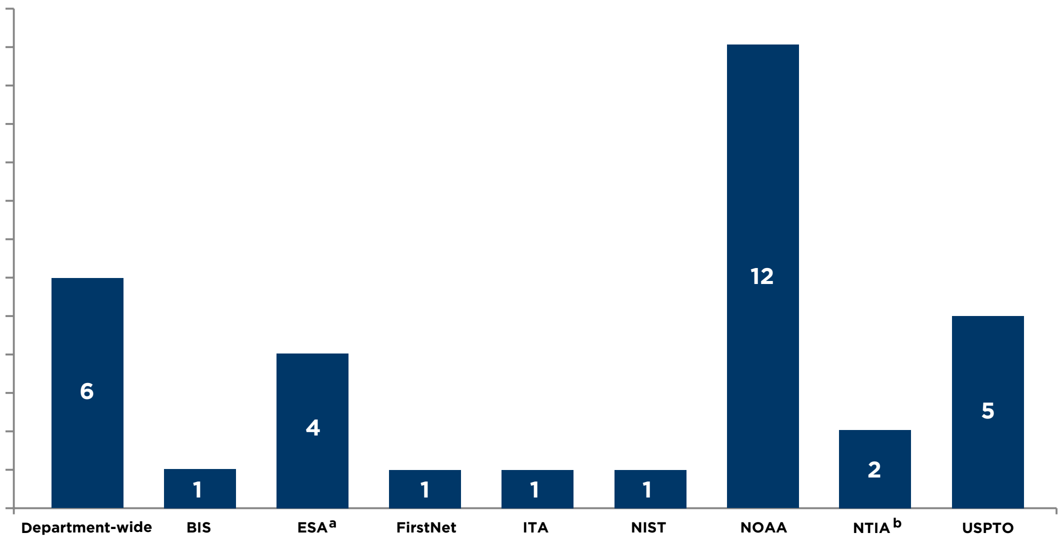
We found that the cost allocation algorithms were implemented consistent with supporting documentation and their internal control over the execution of ABI methodologies was operating effectively. Also, we found that USPTO used ABI as part of the fee change process.

During our review of the ABI system, we identified that one activity drive—Enterprise Architecture—was not properly input into the system despite approval by the ABI Steering Committee. Upon our discussion with ABI division personnel, they corrected the error immediately. Subsequently, ABI division personnel implemented new procedures to ensure that activity drivers approved at the ABI Steering Committee meetings are properly input with supervisory approval. Further, ABI division personnel initiated a comprehensive review of all drivers approved by the steering committee. During the audit, however, we identified adequate internal control over the ABI program; therefore, we limited the scope of our work to the high-level review of documentation supporting the program.

WORK IN PROGRESS

WORK IN PROGRESS (BY OVERSIGHT AREA)

During this reporting period, 33 OIG audit and evaluation projects were initiated or underway.



[a] All four ESA works in progress concern the Census Bureau.

[b] The two NTIA works in progress include one concerned with BTOP.

Department-Wide

Audit of the Department's Trade-Related Operations in China

To assess the Department's trade-related operations in China, including management, administrative, and financial arrangements for the Department's bureaus and units operating in China. Audit will focus primarily on the ITA's U.S. & Foreign Commercial Service, the bureau with the largest presence in China, which also accommodates personnel from other Departmental bureaus at post.

Audit of FY 2016 FISMA Compliance

To assess the effectiveness of the Department's information security program and practices—specifically, the Department's and selected bureaus' policies and procedures and selected IT systems.

Review of the Department's FY 2015 Compliance with Improper Payment Requirements

To evaluate the accuracy and completeness of the Department's reporting and its performance in reducing and recapturing improper payments.

Assessment of Department-Wide Security Metrics Pursuant to the Cybersecurity Act of 2015

To examine the IT security policies, procedures, practices, and capabilities as defined in the Cybersecurity Act of 2015, Pub. L., No. 114-113, Division N, Section 406 (2015) for national security systems and systems that provide access to personally identifiable information operated by or on behalf of the Department.

Audit of the Department's Progress to Address the Management of Classification Policies and Procedures

To determine whether the Department has taken appropriate corrective actions on recommendations made by OIG in the 2013 report *Classified Information Policies and Practices at the Department of Commerce Need Improvement* (report number OIG-13-031-A, issued September 30, 2013, fulfilled the first requirement of the Reducing Over-Classification Act of 2010; the Act also required a follow-up evaluation to be issued by September 30, 2016).

Audit of Department's FY 2016 Consolidated Financial Statements

To determine whether the financial statements are presented fairly, in all material respects, in accordance with generally accepted accounting principles. The audit will also consider the Department's internal control over financial reporting and test compliance with certain provisions of laws, regulations, contracts, and grant agreements that could have a direct and material effect on the financial statements.

BUREAU OF INDUSTRY AND SECURITY

Audit of BIS USXPORTS Adoption and CUESS Implementation

To determine whether BIS is (1) effectively and efficiently managing its transition toward using USXPORTS to perform export licensing processing and (2) using effective and efficient software development practices for CUESS.

ECONOMICS AND STATISTICS ADMINISTRATION

Audit of the Census Bureau's Working Capital Fund

To evaluate the budgetary controls over the fund; to assess the controls for building overhead rates and distributing charges to projects, review the appropriateness of the level of fund balance, and evaluate compliance with appropriations law.

Audit of the 2015 Census Site Test (Maricopa County, Arizona)

To assess (1) whether the Census Bureau's reengineered and automated operational control system for managing fieldwork functioned as expected and (2) the Bureau's progress toward determining whether enumerators are able to use employee-owned mobile devices to collect household data, as well as the status of the Bureau's efforts to overcome policy and legal issues associated with the use of those devices.

Audit of the U.S. Census Bureau's Efforts to Continuously Update the MAF-TIGER Database and the LUCA Program in Preparation for the 2020 Decennial Census

To assess the methods and costs of continuously updating the MAF-TIGER database; to determine how efforts, such as the 2015 Address Validation Test, support the accuracy of the Master Address File; and evaluate preparation of the LUCA program for the 2020 decennial census.

Audit of the Census Bureau's Contracts Awarded Using Other Than Full and Open Competition

To determine whether Census Bureau's contracting officials properly awarded noncompetitive contracts.

FIRST RESPONDER NETWORK AUTHORITY

Audit of First Responder Network Authority's Management of Interagency Agreements

To evaluate FirstNet's processes for entering into, monitoring, and closing its interagency agreements.

INTERNATIONAL TRADE ADMINISTRATION

Audit of the Enforcement and Compliance Business Unit's Efforts to Ensure Timely and Quality Trade Remedy Determinations

To assess and evaluate internal processes that help ensure the timeliness and accuracy of preliminary and final duty rates for antidumping and countervailing duty investigations and administrative reviews.

NATIONAL INSTITUTE OF STANDARDS AND TECHNOLOGY

Audit of NIST Security and Foreign National Access

To determine whether NIST has adequate processes and procedures to ensure that foreign nationals have the proper access limitations to NIST facilities and information systems.

NATIONAL OCEANIC AND ATMOSPHERIC ADMINISTRATION

Audit of NOAA's Polar Satellite Follow-on Planning and JPSS Implementation

To determine the progress of polar satellite follow-on program planning, monitor ongoing JPSS acquisition and development, and assess the extent of potential data gaps.

Review of NOAA Fisheries Alaska Regional Office Use of Grants and Cooperative Agreements to Acquire Personal Services

To determine whether NOAA inappropriately used a cooperative agreement and grant to acquire personal services, as alleged by a confidential complainant.

Audit of the National Ocean Service (NOS) Sole-Source Contract Regarding Gulf Oil Spill

To determine whether NOAA NOS followed proper procurement procedures in awarding the sole-source contracts in its response to the 2010 Deepwater Horizon oil spill in the Gulf of Mexico.

Audit of NOAA's IT Security Practices

To determine the significant factors that contributed to the successful cyberattack on NOAA information systems and evaluate NOAA's handling of the detection, analysis, eradication, and reporting of the attack, as well as recovery from it.

Audit of Controls over Contractor Services Used to Support NWS Workforce

To evaluate whether NWS has adequate controls in place to ensure compliance with applicable laws and regulations for personnel support acquired through service contracts.

Audit of the NOAA Fisheries Finance Program

To evaluate the program's effectiveness and management controls, including those related to compliance and loan monitoring.

Audit of GOES-R Integration and Test Activities

To assess the adequacy of NOAA's GOES-R integration and test activities in preparation for launch and data distribution, per NOAA and National Aeronautics and Space Administration standards. We will also monitor the program's progress in developing and reporting on flight and ground segment contracting actions and changes to minimize cost increases.

Audit of the Office of Coastal Protection and Restoration Authority (CPRA) Grant Number NMA11NMF4630150

To determine whether CPRA (1) complied with grant terms and conditions and applicable laws and regulations; (2) has met the 15 percent matching share requirement; and (3) claimed reasonable and allowable costs under the grant award.

Audit of NOAA Real Property Management

To assess whether NOAA is effectively managing real property, by reviewing management's monitoring of real property utilization, as well as the efforts toward meeting federal "Reduce the Footprint" policy requirements.

Audit of NOAA's Unliquidated Obligations

To evaluate the effectiveness of NOAA's ULO review policies and procedures implemented since our 2013 report *Monitoring of Obligation Balances Need Strengthening* (OIG-13-026-A; June 18, 2013).

Audit of NOAA's Ship Fleet Maintenance Repair

To determine whether the NOAA Office of Marine and Aviation coordinates ship maintenance and repairs of its fleet using the Shipboard Automated Maintenance Management system.

Audit of NOAA's Use of Blanket Purchase Agreements

To determine whether NOAA established and administered blanket purchase agreements in accordance with laws, regulations, and agency guidance.

NATIONAL TELECOMMUNICATIONS AND INFORMATION ADMINISTRATION

Review of Sustainability of BTOP Infrastructure Awards

To determine—in coordination with BCA Watson Rice LLP—whether grant recipients of BTOP funds have appropriately planned and implemented adequate internal controls for the sustainability of the award beyond the funding period.

Audit of NTIA's Unliquidated Obligations

To evaluate the effectiveness of NTIA's ULO review policies and procedures implemented since our 2013 report *Monitoring of Obligation Balances Need Strengthening* (OIG-13-026-A; June 18, 2013).

U.S. PATENT AND TRADEMARK OFFICE

Audit of USPTO's Contracts Awarded Using Other Than Full and Open Competition

To determine whether USPTO's noncompetitive contract awards were properly justified.

Audit of USPTO's Inventory of Hoteling Employees' Equipment

To assess the effectiveness of USPTO's controls over inventory and equipment used by hoteling employees.

Audit of the Intellectual Property Rights Attaché Program

To assess the Intellectual Property Rights Attaché Program's management controls, focusing primarily on the effectiveness and efficiency of program management and the validity of program expenditures.

Audit of USPTO's FY 2016 Financial Statements

To determine whether the financial statements are presented fairly, in all material respects, in accordance with generally accepted accounting principles. The audit will also consider USPTO's internal control over financial reporting and test compliance with certain provisions of laws, regulations, and contracts that could have a direct and material effect on the financial statements.

Audit of USPTO's IT Security Posture

To determine whether key security measures are in place to adequately protect USPTO systems that utilize databases to store business information.

STATISTICAL DATA

The Inspector General Act Amendments of 1988 require us to present the statistical data contained in tables 1–7.

TABLE 1. OFFICE OF INVESTIGATIONS STATISTICAL HIGHLIGHTS FOR THIS PERIOD

Investigative activities cover investigations opened and closed by OIG; arrests by OIG agents; indictments and other criminal charges filed against individuals or entities as a result of OIG investigations; convictions secured at trial or by guilty plea as a result of OIG investigations; and fines, restitution, and all other forms of financial recoveries achieved by OIG as a result of investigative action.

Allegations processed present the number of complaints from employees, stakeholders, and the general public that were handled by our Complaint Intake Unit. Of these, some resulted in the opening of investigations; others were referred to bureaus for internal administrative follow-up. Others were unrelated to departmental activities or did not provide sufficient information for any investigative follow-up and so were not accepted for investigation or referral. Fines and other financial recoveries refer only to agreements that a judge accepted.

Allegations Received	
Total hotline contacts	859
Of which, are complaints related to Commerce programs	307
Number of hotline referrals to Commerce management	213
Investigative Caseload	
Investigations opened this period	33
Investigations closed this period	22
Investigations completed this period[a]	12
Investigations in progress as of March 31, 2016	75
Prosecutive Actions and Monetary Results	
Indictments/Informations	2
Arrests	0
Convictions	3
Monetary Issues Identified (waste, questioned costs, recoveries, and fines)	$3,591,435
Administrative Actions	
Suspension/Debarment	6
Disciplinary action	0

[a] *Completed cases* include those that are pending adjudication by the Department of Justice or awaiting agency response.

TABLE 2. AUDIT RESOLUTION AND FOLLOW-UP

The Inspector General Act Amendments of 1988 require us to present in this report audits issued before the beginning of the reporting period (October 1, 2015) for which no management decision had been made by the end of the period (March 31, 2016). Four audit reports remain unresolved for more than 6 months for this reporting period (see table 7, page 51).

Audit resolution is the process by which the Department of Commerce reaches an effective management decision in response to audit reports. **Management decision** refers to management's evaluation of the findings and recommendations included in the audit report and the issuance of a final decision by management concerning its response.

Department Administrative Order 213-5, *Audit and Evaluation Resolution and Follow-up*, provides procedures for management to request a modification to an approved audit action plan or for a financial assistance recipient to appeal an audit resolution determination. There was no modification and appeal activity during the 6-month period ending March 31, 2016. The following table summarizes modification and appeal activity during the reporting period.

Report Category	Modifications	Appeals
Actions pending (October 1, 2015)	0	0
Submissions	0	0
Decisions	0	0
Actions pending (March 31, 2016)	0	0

TABLE 3. AUDIT, EVALUATION, AND INSPECTION STATISTICAL HIGHLIGHTS FOR THIS PERIOD

Audits comply with standards established by the Comptroller General of the United States for audits of federal establishments, organizations, programs, activities, and functions.

Evaluations and inspections include evaluations, inquiries, and similar types of reviews that do not constitute an audit or a criminal investigation.

Questioned costs[a]	$3,526,056
Value of audit recommendations that funds be put to better use[b]	$3,569,250
Value of audit recommendations agreed to by management[c]	$57,640,453

These amounts include costs questioned by state and local government auditors or independent public accountants.

[a] **Questioned cost**: This is a cost questioned by OIG because of (1) an alleged violation of a provision of a law, regulation, contract, grant, cooperative agreement, or other agreement or document governing the expenditure of funds; (2) a finding that, at the time of the audit, such cost is not supported by adequate documentation; or (3) a finding that an expenditure of funds for the intended purpose is unnecessary or unreasonable.

[b] **Value of audit recommendations that funds be put to better use**: This results from an OIG recommendation that funds could be used more efficiently if Department management took action to implement and complete the recommendation. Such actions may include (1) reductions in outlays; (2) deobligation of funds from programs or operations; (3) withdrawal of interest subsidy costs on loans or loan guarantees, insurance, or bonds; (4) costs not incurred by implementing recommended improvements related to the Department, a contractor, or a grantee; (5) avoidance of unnecessary expenditures identified in pre-award reviews of contracts or grant agreements; or (6) any other savings specifically identified.

[c] **Value of audit recommendations agreed to by management**: This is the sum of (1) disallowed costs and (2) funds put to better use that are agreed to by management during resolution. Disallowed costs are the amount of costs that were questioned by the auditors or the agency action official and subsequently determined—during audit resolution or negotiations by a contracting officer—not to be charged to the government.

TABLE 4. AUDITS WITH QUESTIONED COSTS

See table 3 for a definition of “questioned cost.” An unsupported cost is a cost that is not supported by adequate documentation at the time of the audit. Questioned costs include unsupported costs.

Report Category	Number	Questioned Costs ($)	Unsupported Costs ($)
A. Reports for which no management decision had been made by the beginning of the reporting period	4	877,885	686,924
B. Reports issued during the reporting period	1	3,526,056	0
Total reports (A+B) requiring a management decision during the period	5	4,403,941	686,924
C. Reports for which a management decision was made during the reporting period[a]	9[b]	4,403,941	686,924
i. Value of disallowed costs		9,459,731	5,340,320
ii. Value of costs not disallowed		343,307	343,307
D. Reports for which no management decision had been made by the end of the reporting period	0	0	0

[a] In category C, lines i and ii do not always equal the total in line C because resolution may result in values greater than the original recommendations.
[b] Questioned costs were identified for 4 non-federal audits during audit resolution. Prior to audit resolution, the 4 non-federal audits had no questioned costs.

TABLE 5. AUDITS WITH RECOMMENDATIONS THAT FUNDS BE PUT TO BETTER USE

See table 3 for a definition of “recommendation that funds be put to better use.”

Report Category	Number	Value ($)
A. Reports for which no management decision had been made by the beginning of the reporting period	2	48,180,722
B. Reports issued during the reporting period	2	3,569,250
Total reports (A+B) requiring a management decision during the period	4	51,749,972
C. Reports for which a management decision was made during the reporting period[a]	2	48,180,722
i. Value of recommendations agreed to by management	2	48,180,722
ii. Value of recommendations not agreed to by management	0	0
D. Reports for which no management decision had been made by the end of the reporting period	2	3,569,250

[a] In category C, lines i and ii do not always equal the total in line C because resolution may result in values greater than the original recommendations.

TABLE 6. REPORT TYPES FOR THIS PERIOD

Performance audits are engagements that provide assurance or conclusions based on an evaluation of sufficient, appropriate evidence against stated criteria such as specific requirements, measures, or defined business practices. Performance audits provide objective analysis so that management and those charged with governance and oversight can use the information to improve program performance and operations, reduce costs, facilitate decision making by parties with responsibility to oversee or initiate corrective action, and contribute to public accountability.

Evaluations and inspections include evaluations, inquiries, and similar types of reviews that do not constitute an audit or investigation. An inspection is defined as a process that evaluates, reviews, studies, or analyzes the programs and activities of a department or agency to provide information to managers for decision making; make recommendations for improvements to programs, policies, or procedures; and identify where administrative action may be necessary.

Type	Number of Reports	Table Number
Performance audits	10	Table 6-a
Financial statement audits	5	Table 6-b
Evaluations and inspections	5	Table 6-c
Total	**20**	

TABLE 6-A. PERFORMANCE AUDITS

Report Title	Report Number	Date Issued	Funds to Be Put to Better Use ($)	Amount Questioned ($)	Amount Unsupported ($)
Bureau of Industry and Security					
Lack of Basic Security Practices Hindered BIS' Continuous Monitoring Program and Placed Critical Systems at Risk	OIG-16-003-A	10.16.2015	0	0	0
Economics and Statistics Administration					
Census Bureau Realignment Did Not Fully Meet Stated Goals and Reimbursable Agreements Are Not Managed Adequately	OIG-16-004-A	10.22.2015	0	0	0
The U.S. Census Bureau's Efforts to Ensure an Accurate Address List Raise Concerns over Design and Lack of Cost-Benefit Analysis	OIG-16-018-A	02.23.2016	0	0	0
Census Bureau Reviews of Unliquidated Obligations Could Be Improved with Greater Review Frequency and Additional Documentation	OIG-16-019-A	02.23.2016	$2,049,922	0	0
First Responder Network Authority					
Audit of FirstNet's Efforts to Include Federal Agencies in its Nationwide Public Safety Broadband Network	OIG-16-017-A	02.08.2016	0	0	0
National Institute of Standards and Technology					
Significant Firm-Fixed-Price Contract Actions in Fiscal Years 2011-2013 Cannot Be Verified from Documentation in NIST Contract Files	OIG-16-001-A	10.02.2015	0	0	0
NIST Must Strengthen Justifications for Remaining Unliquidated Obligations and Review Procedures	OIG-16-024-A	03.24.2016	$1,519,328	0	0
NIST Working Capital Fund Budgetary Controls Are in Place, but Issues with Carryover Balances, Policies, and Time Charges Should Be Addressed	OIG-16-023-A	03.23.2016	0	0	0
National Telecommunications and Information Administration					
Broadband Technology Opportunities Program Recipients Retaining Excess Equipment at End of Projects	OIG-16-012-A	12.18.2015	0	$3,526,056	0
U.S. Patent and Trademark Office					
Audit of Trademark's Activity-Based Information System	OIG-16-020-A	02.23.2016	0	0	0

TABLE 6-B. FINANCIAL STATEMENT AUDITS

Report Title	Report Number	Date Issued	Funds to Be Put to Better Use ($)	Amount Questioned ($)	Amount Unsupported ($)
Office of the Secretary					
Department of Commerce FY 2015 Consolidated Financial Statements	OIG-16-007-A	11.13.2015	0	0	0
Review of Information Technology Controls in Support of the Fiscal Year 2015 Department of Commerce Consolidated Financial Statement Audit	OIG-16-010-A	11.17.2015	0	0	0
FY 2015 Closing Package Financial Statements	OIG-16-009-A	11.17.2015	0	0	0
U.S. Patent and Trademark Office					
U.S. Patent and Trademark Office Fiscal Year 2015 Financial Statements	OIG-16-006-A	11.13.2015	0	0	0
Review of Information Technology Controls in Support of the Fiscal Year 2015 USPTO Financial Statement Audit	OIG-16-008-A	11.13.2015	0	0	0

TABLE 6-C. EVALUATIONS AND INSPECTIONS

Report Title	Report Number	Date Issued	Funds to Be Put to Better Use ($)	Amount Questioned ($)	Amount Unsupported ($)
National Oceanic and Atmospheric Administration					
Audit of NOAA Hurricane Sandy Disaster Relief Funds	OIG-16-014-M	01.06.2016	0	0	0
NOAA Fisheries Needs to Improve Management and Oversight of Electronic Monitoring Programs	OIG-16-022-I	03.02.2016	0	0	0
Office of the Secretary					
Top Management Challenges Facing the Department of Commerce	OIG-16-002	10.06.2015	0	0	0
Complying with Uniform Guidance on Profit or Management Fees Under Federal Assistance Awards	OIG-16-013-M	01.04.2016	0	0	0
Annual Letter to OMB re: Government Charge Card Abuse Prevention Act of 2012	OIG-16-016-M	01.29.2016	0	0	0

TABLE 7. AUDITS UNRESOLVED FOR MORE THAN 6 MONTHS

National Institute of Standards and Technology	**Four nonfederal audits of financial assistance grants awarded to Massachusetts Manufacturing Extension Partnership for FY 2008–2012.** NIST and OIG continue to work to resolve these audits.

REPORTING REQUIREMENTS

The Inspector General Act of 1978, as amended, specifies reporting requirements for semiannual reports. The requirements are listed below and indexed to the applicable pages of this report.

SECTION 4(A)(2): REVIEW OF LEGISLATION AND REGULATIONS

This section requires the inspector general of each agency to review existing and proposed legislation and regulations relating to that agency's programs and operations. Based on this review, the inspector general is required to make recommendations in the semiannual report concerning the impact of such legislation or regulations on (1) the economy and efficiency of the management of programs and operations administered or financed by the agency or (2) the prevention and detection of fraud and abuse in those programs and operations. Comments concerning legislative and regulatory initiatives affecting Departmental programs are discussed, as appropriate, in relevant sections of the report.

SECTION 5(A)(3): PRIOR SIGNIFICANT RECOMMENDATIONS UNIMPLEMENTED

This section requires identification of each significant recommendation described in previous semiannual reports for which corrective action has not been completed. Section 5(b) requires that the Secretary transmit to Congress statistical tables showing the number and value of audit reports for which no final action has been taken, plus an explanation of why recommended action has not occurred, except when the management decision was made within the preceding year. Information on the status of any audit recommendations can be obtained through OIG upon request.

SECTIONS 5(A)(5) AND 6(B)(2): INFORMATION OR ASSISTANCE REFUSED

These sections require a summary of each report to the Secretary when access, information, or assistance has been unreasonably refused or not provided.

Upon OIG's re-start of its audit of ITA Enforcement and Compliance's (E&C's) efforts to ensure quality and timely trade remedy determinations, the Department of Commerce again refused to provide OIG access to ITA records.

Our original audit, initiated in February 2015, resulted in a June 2015 termination. On March 14, 2016, OIG notified ITA of OIG's intent to re-start the audit of E&C and on March 17, 2016, an entrance conference was held between OIG and ITA counterparts. At that meeting, ITA did not raise objections when informed that the OIG would require access to records containing business proprietary information (BPI). OIG submitted to ITA staff a written request for access to BPI on March 23, 2016. On March 30, 2016, the Department's Office of General Counsel informed OIG that the Department had advised ITA staff not to provide OIG with the requested records, claiming ITA is prevented from disclosing documents with BPI to OIG under the Trade Secrets Act, 18 U.S.C. section 1905, and section 777 of the Tariff Act of 1930, as amended, 19 U.S.C. section 1677f. According to section 540, Division B, Title V, of the 2016 Appropriations Act, we are required to report this matter to the Senate Appropriations Committee.

On April 27, 2016, OGC advised ITA to grant OIG access to BPI data. OIG plans to re-start the audit once it obtains such access.

On a semiannual basis, we report on unimplemented recommendations and issues related to information access, in response to a joint request from the chairs of the United States Senate Committee on Homeland Security and Governmental Affairs and the Committee on the Judiciary.

SECTION 5(A)(10): PRIOR AUDIT REPORTS UNRESOLVED

This section requires (1) a summary of each audit report issued before the beginning of the reporting period for which no management decision has been made by the end of the reporting period (including the date and title of each such report); (2) an explanation of why a decision has not been made; and (3) a statement concerning the desired timetable for delivering a decision on each such report. There are 4 nonfederal audit reports concerning a NIST grant recipient, which are more than 6 months old for which no management decision has been made. (See table 7.)

SECTION 5(A)(11): SIGNIFICANT REVISED MANAGEMENT DECISIONS

This section requires an explanation of the reasons for any significant revision to a management decision made during the reporting period. Department Administrative Order 213-5, *Audit and Evaluation Resolution and Follow-up*, provides procedures for revising a management decision. For financial assistance audits, OIG generally must concur with any decision that would change the audit resolution proposal in response to an appeal by the recipient. There are no appeals pending at the end of this period.

SECTION 5(A)(12): SIGNIFICANT MANAGEMENT DECISIONS WITH WHICH OIG DISAGREED

This section requires information concerning any significant management decision with which the inspector general disagrees. Department Administrative Order 213-5 provides procedures for elevating unresolved audit recommendations to higher levels of Department and OIG management, including their consideration by an audit resolution council. During this period, no audit issues were referred.

SECTION 5(A)(14): RESULTS OF PEER REVIEW

The most recent peer review of the Office of Audit and Evaluation was conducted in 2015 by the Office of Inspector General for the Board of Governors of the Federal Reserve System and the Consumer Financial Protection Bureau (FRB OIG). FRB OIG's System Review Report of our audit operations is available on our website. We received a pass rating, the highest available rating. We have implemented all of FRB OIG's recommendations for process and policy improvements.

In March 2016, we completed our peer review of the audit operations of the Office of Inspector General for the U.S. Department of State and the Broadcasting Board of Governors (DOS OIG). DOS OIG has informed us that it is implementing the recommendations that we made in our review.

On March 2, 2015, OIG's Office of Investigations received official notification that the system of internal safeguards and management procedures for our investigative function was in compliance with the quality standards established by the Council of Inspectors General on Integrity and Efficiency and the applicable Attorney General Guidelines. The peer review was conducted by the Federal Reserve Board OIG.

ACRONYMS AND ABBREVIATIONS

ABI	Activity-Based Information
ACS	American Community Survey
BIS	Bureau of Industry and Security
BPI	business proprietary information
BTOP	Broadband Technology Opportunities Program
CBS	Commerce Business Solutions
CEDCaP	Census Enterprise Data Collection and Processing
Charge Card Act	Government Charge Card Abuse Prevention Act of 2012
CHEC	Census Hiring and Employment Check
CMAT	Center for Manufacturing and Technology
CPRA	Coastal Protection and Restoration Authority
CUESS	Commerce USXPORTS Exporter Support System
DATA Act	Digital Accountability and Transparency Act of 2014
DOS OIG	U.S. Department of State Office of Inspector General
E&C	enforcement and compliance
ECASS	Export Control Automated Support System
ECMO	Enterprise Cybersecurity Monitoring and Operations
ECR	Export Control Reform
EDA	Economic Development Administration
EM	electronic monitoring
ESA	Economics and Statistics Administration
ESOC	Enterprise Security Operations Center
FAR	Federal Acquisition Regulation
FBI	Federal Bureau of Investigation
FFP	firm-fixed-price
FirstNet	First Responder Network Authority
FISMA	Federal Information Security Management Act
FPDS-NG	Federal Procurement Data System-Next Generation
FRB OIG	Board of Governors of the Federal Reserve System and the Consumer Financial Protection Bureau Office of Inspector General
FY	fiscal year
GOES-R	Geostationary Operational Environmental Satellite-R Series

IP	intellectual property
IT	information technology
ITA	International Trade Administration
JPSS	Joint Polar Satellite System
LUCA	Local Update of Census Address
MCPD	Montgomery County Police Department
MEP	Manufacturing Extension Partnership
MTdb	Master Address File Topologically Integrated Geographic Encoding and Referencing database
NIST	National Institute of Standards and Technology
NOAA	National Oceanic and Atmospheric Administration
NOAA Fisheries	NOAA National Marine Fisheries Service
NOS	National Ocean Service
NPSBN	Nationwide Public Safety Broadband Network
NTIA	National Telecommunications and Information Administration
NWS	National Weather Service
OAAM	Office of Acquisition and Agreements Management
OMB	Office of Management and Budget
POA&Ms	plans of action and milestones
PTAB	Patent Trial and Appeal Board
R&T	research and testing
RCE	request for continued examination
SAR	Semiannual Report
SSA	Social Security Administration
U.S.C.	United States Code
ULO	unliquidated obligation
USPTO	U.S. Patent and Trademark Office
USXPORTS	U.S. Exports System
VA	U.S. Department of Veterans Affairs
WCF	working capital fund

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