



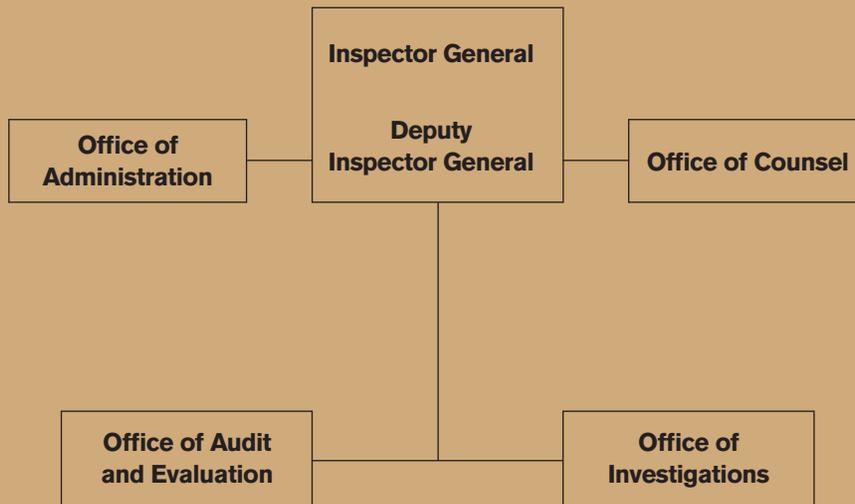
**U.S. Department of Commerce  
Office of Inspector General**

# Semiannual Report to Congress

**September 2012**



# OFFICE OF INSPECTOR GENERAL




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## Oversight Areas

Office of the Secretary  
 Bureau of Economic Analysis  
 Bureau of Industry and Security  
 U.S. Census Bureau  
 Economic Development Administration  
 Economics and Statistics Administration  
 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. Patent and Trademark Office

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Office of Inspector General**

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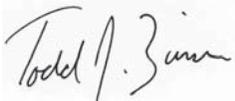
# FROM THE INSPECTOR GENERAL

I am pleased to present the Department of Commerce Office of Inspector General's *Semiannual Report to Congress* for the 6 months ending September 30, 2012.

This report summarizes work we initiated and completed during this semiannual period on a number of critical departmental activities. Over the past 6 months, our office issued 11 audit and evaluation reports addressing programs overseen by the Economics and Statistics Administration, International Trade Administration, National Institute of Standards and Technology, National Oceanic and Atmospheric Administration, National Telecommunications and Information Administration, United States Patent and Trademark Office, and the Department itself.

During the final months of this reporting period, we initiated our annual review to identify the top management challenges facing the Department in fiscal year 2013, a summary of which appears on page 2. These challenges will be issued in a separate report and included in the Department's November 2012 *Performance and Accountability Report* and the March 2013 *Semiannual Report to Congress*. We will work closely with the Department and with Congress in the months ahead to meet these and other challenges facing Commerce as it fulfills its complex mission.

We thank former Secretary John Bryson, Acting Secretary Rebecca Blank, senior officials throughout the Department, and members of Congress and their staffs for their support of our work during this reporting period and for their receptiveness to our recommendations for improving Commerce programs and operations.



TODD J. ZINSER

# TOP MANAGEMENT CHALLENGES FACING THE DEPARTMENT

The Reports Consolidation Act of 2000 requires inspectors general at major departments to issue an annual report highlighting what they consider, from their oversight perspective, the most significant management challenges facing their departments. On May 31, 2012, OIG issued to the Department and its agencies a memorandum that previewed what OIG would discuss in further detail in the upcoming fiscal year (FY) 2013 *Top Management Challenges Facing the Department of Commerce* report. On September 28, 2012, OIG issued the draft FY 2013 *Top Management Challenges Facing the Department of Commerce* report to the Acting Secretary for response. We identified five major challenges that represent cross-cutting issues with a focus on the President's most important goals and longstanding departmental management concerns.

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## 1. STIMULATE ECONOMIC GROWTH IN KEY INDUSTRIES, INCREASE EXPORTS, AND ENHANCE STEWARDSHIP OF MARINE FISHERIES

The Department is at the center of the federal government's efforts to stimulate economic and job growth in key industries and promote exports, while at the same time regulating exports and maintaining the delicate balance between promoting and regulating the commercial use of marine fisheries. These efforts require the Department to work effectively with interagency partners and the private sector as well as to marshal and integrate Commerce resources. We have identified three areas for management attention:

- stimulate economic growth in manufacturing, intellectual property, and wireless industries
- promote and regulate exports
- protect and promote marine fisheries

## 2. INCREASE OVERSIGHT OF RESOURCES ENTRUSTED BY THE PUBLIC AND INVEST FOR LONG-TERM BENEFITS

The Joint Select Committee on Deficit Reduction was tasked with seeking \$1.5 trillion in government-wide savings over the next 10 years. The Committee did not agree on spending reductions, resulting in a potential sequestration that will trigger across-the-board budget cuts beginning in January 2013. Departmental programs will be deeply affected. As the Department prepares for this extended period of tighter budgets and decreased spending, it is more important than ever to understand the risks associated with making trade-offs in allocating resources between the implementation of programs and the oversight of those programs.

Also, after experiencing significant cost increases in the last decennial (from \$8.2 billion to \$12.8 billion between 2000 and 2010 decennials), the Census Bureau—a Departmental component—has vowed to contain cost of the 2020 decennial by making critical design decisions by the end of FY 2014. However, it has already encountered significant challenges in achieving this goal. While the nation is facing significant financial hardship, the Department and Census Bureau simply cannot afford to repeat the cost growth experienced over prior decennials. We have identified three areas for management attention during a period of funding uncertainty:

- increase internal controls and oversight of Departmental operations under a constrained budget
- invest for efficiencies and long-term benefits
- implement bold design changes to contain 2020 decennial costs while maintaining enumeration quality

### **3. STRENGTHEN SECURITY AND INVESTMENTS IN INFORMATION TECHNOLOGY**

In FY 2012, the Department planned to invest \$2.4 billion in IT. This is about 25 percent of its annual budget and one of the highest percentages devoted to IT among all civilian agencies. The Department and its constituent bureaus rely on IT to support major mission activities, such as producing the constitutionally mandated decennial census; releasing vital economic statistics (e.g., the gross domestic product and consumer spending); granting patents and trademarks; issuing severe weather alerts; and operating weather satellites. However, we have identified major concerns in the Department's IT security posture and fragmented IT governance. While the Department's Chief Information Officer has taken steps to strengthen IT governance, we continue to find significant security vulnerabilities in bureau systems, which could lead, and already have led, to service disruptions and loss of sensitive information. We have identified four areas for management attention:

- continue improving the Department's IT security posture by addressing persistent security weaknesses
- develop resilient incident response and recovery capabilities with increased monitoring of Internet traffic
- manage the Department's IT portfolio with enhanced governance structure
- strengthen oversight of IT investments

### **4. IMPLEMENT FRAMEWORK FOR ACQUISITION PROJECT MANAGEMENT AND IMPROVE CONTRACTS OVERSIGHT**

In FY 2011, the Department obligated approximately \$2.4 billion on contracts for goods and services, including satellite acquisitions, intellectual property protection, broadband technology opportunities, management of coastal and ocean resources, information technology, and construction and facilities management. To maximize these funds, the Department needs to strengthen its acquisition and contract management practices. While it has made some progress—such as reorganizing the Office of Acquisition Management to more directly address major acquisition initiatives and implementing an Acquisition Center of Excellence, which will consolidate acquisition support for the Department's smaller bureaus, our audits continue to find weaknesses in how the Department plans, administers, and oversees its contracts. We have identified four areas for management attention:

- implementing the planned framework for acquisition project management
- overseeing high-risk contracts
- maintaining an acquisition workforce that holds bureau officials accountable
- implementing an effective suspension and debarment program

## **5. REDUCE RISKS OF COST OVERRUNS, SCHEDULE DELAYS, AND COVERAGE GAPS FOR NOAA'S SATELLITE PROGRAMS**

Managing risks in the acquisition and development of the next generation of environmental satellites is a continuing challenge for the Department. The two most prominent programs, the Joint Polar Satellite System (JPSS) and the Geostationary Operational Environmental Satellite-R series (GOES-R), together account for one-third of NOAA's FY 2013 budget request. They are also the largest investments in the Department, comprising nearly 20 percent of the Department's budget. The satellites will provide data and imagery for weather forecasting—including severe-storm tracking and alerting—and the study of climate change. Operating environmental satellites and weather forecasting are designated as primary mission-essential functions of the Department because they help lead and sustain the nation in the event of a catastrophe. Yet, because of cost overruns, schedule delays, and the aging of NOAA's current constellation of satellites, NOAA is confronting coverage gaps for these critical assets.

Strong program management and close oversight of these programs are needed to manage risks that inevitably lead to cost overruns, schedule delays, and coverage gaps for the critical capabilities these programs will provide. Based on our work with these programs, we have identified four areas for management attention:

- communicating with stakeholders to define JPSS capabilities, schedule, and cost baselines
- ensuring adequate leadership and governance structure over JPSS development
- developing a plan to support NOAA weather forecasting capabilities during coverage gaps
- reducing program risks associated with GOES-R development





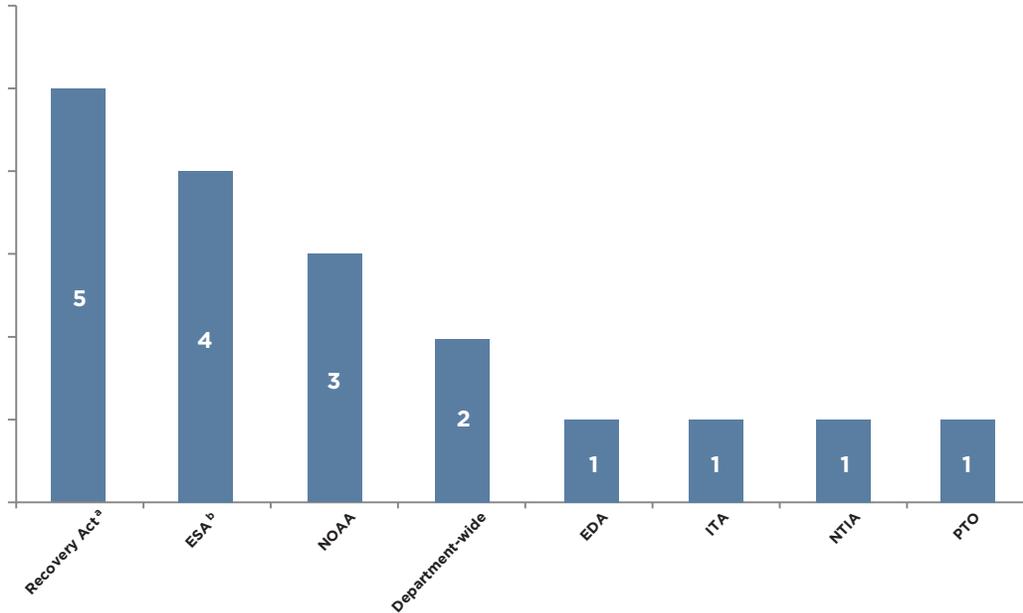
# DEPARTMENT-WIDE MANAGEMENT

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 decennial 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, OIG completed 19 audits and evaluations and 2 congressional testimonies.



<sup>a</sup> Of the 5 Recovery Act-related works, 1 was a Department-wide project; 2 concerned NTIA; 1 was IG testimony; and 1 concerned NIST.

<sup>b</sup> The ESA completed works concern the Census Bureau.

### NONFEDERAL AUDIT RESULTS FOR THE 6-MONTH PERIOD ENDING JUNE 30, 2012 (OIG-12-034-M)

Nonfederal entities (states, local governments, tribes, colleges and universities, and nonprofit organizations) that expend \$500,000 or more in a year of federal awards are required by the Single Audit Act of 1984, and Amendments of 1996, to have an annual audit of their federal awards. During the 6-month period ending June 30, 2012, OIG reviewed 176 reports by recipients of grants from EDA, ITA, NIST, NOAA, NTIA, and multiple bureaus. We identified approximately \$784,000 in questioned costs in these single audits. Our report contained an analysis of findings identified in single audit reports, noted trends in the types of findings reported, and summarized findings by Departmental program.

Commercial organizations that receive federal funds from the Department are subject to award requirements as stipulated in the award document. If an award does not have specific audit guidelines incorporated into the award, OIG auditors follow the requirements for a program-specific audit as described in Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, section 235. During the reporting period, OIG analyzed 114 audits submitted for awards to commercial and other organizations for NTIA's Broadband Technology Opportunities Program (BTOP), NIST's Advanced Technology Program (ATP), and NIST's Technology Innovation Program (TIP). We identified approximately \$426,028 in questioned costs for these program-specific audits.

## AUDITS OF COMMERCE FUND RECIPIENTS BY INDEPENDENT AUDITORS (REVIEWED BY OIG DURING THE 6 MONTHS ENDING SEPTEMBER 30, 2012)

In addition to undergoing OIG-performed audits, certain recipients of Department of Commerce financial assistance are periodically examined by state and local government auditors and by independent public accountants. OMB Circular A-133, sets forth audit requirements for most of these audits. For-profit organizations, including those that receive TIP funds, are audited in accordance with *Government Auditing Standards*. In addition, organizations that received ATP funds are audited in accordance with *NIST Program-Specific Audit Guidelines for ATP Cooperative Agreements*, and organizations that received BTOP funds are audited in accordance with the *Program-Specific Audit Guidelines for the Broadband Technology Opportunities Program*, issued by the Department.

We examined 188 audit reports during this semiannual period to determine whether they contained audit findings related to Departmental programs. For 110 of these reports, the Department acts as an oversight agency and monitors the audited entity's compliance with OMB Circular A-133, *Government Auditing Standards*, or program-specific reporting requirements. The other 78 reports cover entities for which other federal agencies have oversight responsibility. We identified 22 reports with material findings related to the Department.

Report Category	OMB A-133 Audits	Program-Specific Audits	Total
Pending Review (April 1, 2012)	16	37	53
Received	132	28	160
Examined	125	63	188
Pending Review (September 30, 2012)	23	2	25

The following table shows a breakdown by bureau of approximately \$914 million in Commerce funds audited.

Agency	Funds
Economic Development Administration	\$ 26,377,193
Minority Business Development Agency	247,860
National Institute of Standards and Technology <sup>a</sup>	69,837,826
National Oceanic and Atmospheric Administration	56,071,052
National Telecommunications and Information Administration <sup>b</sup>	130,926,994
Multi-bureau	630,481,696
<b>Total</b>	<b>\$913,942,621</b>

<sup>a</sup> Includes \$58,423,894 in program-specific audits; A-133 audits account for the remaining amount of \$11,413,932.

<sup>b</sup> Includes \$45,299,457 in program-specific audits; A-133 audits account for the remaining amount of \$85,627,537.

We identified a total of \$2,290,668 in the federal share of questioned costs and \$213,758 in funds to be put to better use. In most reports, the subject programs were not considered major

programs; thus, the audits involved limited transaction and compliance testing against laws, regulations, and grant terms and conditions. The 22 reports with Departmental findings are listed in table 7-a on page 48.

### **BODY ARMOR MANUFACTURER SETTLES IN DEFECTIVE MERCHANDISE CASE**

In April 2012, two former executives of Second Chance Body Armor, Inc., (SCBA) agreed to pay \$50,000 each to settle individual civil claims brought by the government as the result of an investigation into the manufacture and sale of bulletproof vests containing Zylon. In July 2012, the U.S. Bankruptcy Court, Western District of Michigan, ordered SCBA Liquidation, Inc., (formerly known as SCBA) to pay \$3,564,883.84 to settle civil claims brought against SCBA by the government as part of this same investigation. These settlements are part of a larger investigation of the body armor industry's use of Zylon ballistic material in body armor. The companies manufactured and sold Zylon bulletproof vests despite possessing information showing that the Zylon materials degraded quickly over time and were not suitable for ballistic use. The SCBA vests were purchased by the federal government and by various state, local, and tribal law enforcement agencies that were partially reimbursed by the United States under the U.S. Department of Justice's (DOJ's) Bulletproof Vest Partnership Grant Program. This settlement was the result of a joint investigation involving DOJ and investigative units from our office and eight other federal departments and agencies. Our office coordinated with NIST scientists for expert support at various phases of this investigation.

### **ADDITIONAL MULTIMILLION DOLLAR GUILTY PLEAS IN PRICE-FIXING CASE**

In September 2012, Yamato Global Logistics Japan Co. entered into a plea agreement in which it agreed to pay a criminal fine of \$2,326,774 and agreed to cooperate with the ongoing antitrust investigation. Still subject to court approval, this agreement is the latest of several previously reported (September 2011, page 9; March 2012, page 23) that resulted from an investigation into Sherman Antitrust Act violations, in which companies conspired to fix certain fees in the provision of freight forwarding services for air cargo shipments from Europe to the United States between 2002 and 2007.

In November 2011, four companies—EGL Inc., Geologistics, Kuhne Nagel, and Panalpina—had their plea agreements accepted by a federal judge. The four agreed to pay criminal fines totaling \$26,986,969 and special assessments totaling \$4,400. In December 2011, two additional companies—BAX Global and Schenker AG, Inc.—had their plea agreements accepted by a federal judge and agreed to pay criminal fines totaling \$23,281,441 and special assessments totaling \$2,400. All of these plea agreements were the result of an ongoing joint investigation into the freight forwarding industry by the DOJ's Antitrust Division—National Criminal Enforcement Section, the Federal Bureau of Investigation's (FBI's) Washington field office, and our office.

### **FORMER HUMAN RESOURCE EMPLOYEES CONSPIRED TO AVOID WAGE GARNISHMENT**

Two former Office of Human Resources Management (OHRM) employees conspired to avoid a judicially ordered wage garnishment of one of the employees. Our investigation found that one of the employees intercepted and diverted agency notification of the garnishment to the employee who was the subject of the garnishment. That employee then created a fraudulent letter on agency letterhead stating the employee was no longer employed by the Department and submitted it to the collection agency. During interviews, both employees admitted their misconduct. One of the employees resigned and the other was terminated.



# 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 upon two key economic drivers, innovation and regional collaboration.

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## **REVIEW OF TRADE ADJUSTMENT ASSISTANCE CENTER (TAAC) ADMINISTRATION COSTS (OIG-12-025-M)**

We provided the House and Senate Committees on Appropriations with information on the reasonableness of administrative costs charged by TAACs as part of the Trade Adjustment Assistance for Firms program administered by EDA. The information was requested in the House Committee Report that accompanied the FY 2012 Commerce, Justice, Science, and Related Agencies Appropriations bill. The TAA program exists to provide technical assistance to U.S. firms experiencing a decline in sales and employment, resulting in part from an increase in imports of like or directly competitive articles, so that they may become more competitive in the global marketplace.

As part of the review, we obtained the most recent available expenditure data from 3 of the 11 TAACs: New England, New York State, and Western. Our review focused on the use of federal funds provided by EDA and was limited to an analysis and comparison of expenses among the TAACs as well as interviews with EDA staff.

We did not determine that the level of administrative costs of the three TAACs were unreasonable, based on our recalculations of EDA-provided data. However, we noted that EDA cannot readily determine the true TAAC program activity costs. Improved and more consistent tracking of expenses by activity from the TAACs would allow EDA to better monitor the composition of expenses for each TAAC and determine whether they are reasonable. We also noted that EDA has not considered options beyond existing TAACs for executing the TAA program. EDA should periodically determine whether there are other organizations that can achieve the program's desired results more efficiently or effectively.



## 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.

## 2020 CENSUS PLANNING: DELAYS WITH 2010 CENSUS RESEARCH STUDIES MAY ADVERSELY IMPACT THE 2020 DECENNIAL CENSUS (OIG-12-023-I)

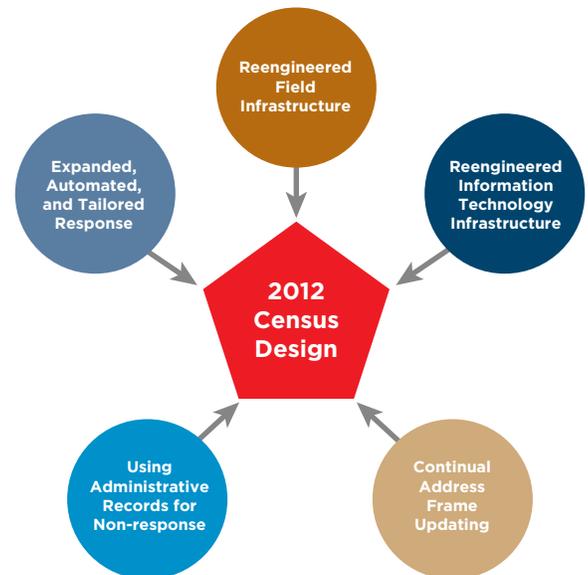
For the 2020 Census, the Census Bureau has reorganized to improve its research and testing, as well as develop more cost-effective program processes and methods. (See figure below for 2020 Census research tracks.) The Bureau is also working to improve its cost estimation process for the next decennial census; it will update estimates as research and testing progress, so that budget requests align with decennial census requirements.

The Census Bureau recognizes that it must fundamentally change its decennial design to improve the enumeration quality of the 2020 Census and contain life cycle costs. More specifically, the Bureau should reassess how it updates its address list, enumerates households, and utilizes field and IT infrastructure in this critical effort. The Census Program Evaluation and Experiments (CPEX) program provides lessons learned from the previous decennial that inform the next design; however, delays in the completion of 2010 CPEX studies could adversely impact its effort to improve the 2020 Census. Further, the 2020 Census requires a comprehensive risk management plan, which the Bureau is working to finalize and integrate with its enterprise risk management program and the Department's risk management efforts, including reviews of IT and non-IT major programs.

We recommended to the director of the Census Bureau the following actions (which, since December 2011, the Bureau has already begun implementing):

- prioritize further the 2010 CPEX studies, and focus program resources, to ensure that the most critical studies affecting the cost and quality of the 2020 Census are completed; and
- improve the transparency of the 2010 CPEX program by posting study plans, expected publication dates for the 109 studies, and final reports online as soon as practicable so that stakeholders can review and monitor the Bureau's progress in redesigning the 2020 Census.

### Five Major Research Tracks for the 2020 Census Design



Source: U.S. Census Bureau

## HIGH-QUALITY MAPS AND ACCURATE ADDRESSES ARE NEEDED TO ACHIEVE CENSUS 2020 COST-SAVING GOALS (OIG-12-024-I)

The Census Bureau maintains a database containing a complete list of all living quarters (the master address file, or MAF) and geospatial data (the topologically integrated geographic encoding and referencing system, or TIGER) of the nation to use in all demographic and decennial programs. The Bureau's method of collecting and tabulating decennial census data is to link (geocode) MAF addresses to TIGER.

The 2010 geographic initiative's efforts to produce an adequate measure to assess MAF/TIGER database (MTdb) quality fell short. In addition, the program's goal of updating address and map information from tribal, state, county, and local government partners was not fully realized. Both of these goals must be met to implement a 2020 decennial census address canvassing operation with reduced costs.

We recommended that the Census Bureau

- develop an MTdb measure for determining address list quality at a low level of geography that (a) provides a fair and equal opportunity for targeting selection, (b) drives selection and planning decisions, and (c) is well-documented and verifiable;
- work with the Department to determine the feasibility of improving methods of sharing MTdb information throughout the decade with governmental entities (partners) to create a uniform, national address list;
- investigate and remedy the exclusion of 500,000 ungeocoded address records, which had been designated as valid U.S. Postal Service delivery addresses, from the 2010 Census;
- conduct the necessary research, develop a proven methodology, and allocate the necessary funds to continuously reduce the number of ungeocoded records throughout the decade; and
- develop and implement quality indicator tools, including use of administrative records, to ensure that updates to the MAF are accurate.

*“The next decennial calls for new design elements and meticulous planning and testing—along with unprecedented transparency on the part of the Bureau, including early and continuous engagement with key stakeholders.”*

IG testimony before a Senate Homeland Security and Governmental Affairs Subcommittee, July 18, 2012

### CONGRESSIONAL TESTIMONY (OIG-12-030-T)

On July 18, 2012, the Inspector General testified about lessons learned from the 2010 decennial and methods the Census Bureau could employ to design a cost-effective and accurate enumeration in 2020. His testimony focused on three areas: important challenges encountered during the 2010 decennial; changes the Census Bureau and its stakeholders expect to improve the 2020 decennial; and key issues for the Bureau, the Department, and Congress to consider as the Bureau works to bring about these changes.

The Inspector General also recommended that Congress apply early and sustained attention to the Bureau’s development of design alternatives, adaptation of strategy, and development of budgets to support the 2020 decennial. This attention includes monitoring program developments, developing any necessary legislation to enable a reengineered census, and support for early and mid-decade research and testing requirements. Without this attention and oversight, he said that there will be significantly greater risk to the Bureau’s ability to contain costs.

### LETTER TO THE SENATE APPROPRIATIONS SUBCOMMITTEE REGARDING THE AMERICAN COMMUNITY SURVEY (OIG-12-033-M)

On August 20, 2012, OIG addressed the chair and ranking member of the Subcommittee on Commerce, Justice, Science, and Related Agencies, who had requested (a) the status of 2020 decennial census planning and (b) OIG insight on the impact of recent proposals concerning the Census Bureau’s American Community Survey (ACS) program. The letter expanded on highlights of the Inspector General’s July 18, 2012, testimony before the Senate Subcommittee on Federal Financial Management, Government Information, Federal Services, and International Security about planning for the 2020 Census.

Regarding the status of 2020 decennial planning, OIG reiterated challenges that complicated the 2010 decennial and call for fundamental changes to 2020 planning and execution:

- Departmental oversight, especially concerning the Census Bureau's data collection and IT infrastructure projects
- decennial planning within a constrained budget, which makes providing the Department and Congress reliable and transparent budget requests a top Census Bureau priority
- maintaining continuity of leadership over the long decennial planning cycle
- modernizing the 2020 decennial, to make the census more cost-effective

Regarding the ACS, OIG highlighted relevant recommendations from its June 27, 2011, final quarterly report to Congress on the 2010 Census. Since the ACS has replaced the long-form decennial survey, OIG suggested that the Census Bureau use the ACS to test content and design, response options (such as the Internet), administrative records use, and new data collection procedures and methodologies. OIG also recommended leveraging ACS and other Bureau survey operations to facilitate the introduction of new technologies for the 2020 decennial. Eliminating the ACS would have a significant impact on important local and federal programs. If ACS data are no longer collected, Congress will need to address (a) what federally collected information will be available for businesses, governments, and other users; (b) whether the long form will need to be reinstated for the next decennial census; and (c) whether reliable estimates could be created from other data sources. If the ACS becomes voluntary, the survey would result in lower-quality data and likely experience increased production costs. OIG hopes that these recommendations and findings provide additional insight and direction for the future of the decennial census and the ACS.

#### **FORMER CENSUS BUREAU EMPLOYEE SENTENCED TO 23 YEARS FOR ATTEMPTED MURDER**

In June 2012, a Census Bureau employee was sentenced to 23 years in state prison for the attempted murder of the husband of another Bureau employee. Our investigation found the former employee used Bureau computers to facilitate a complex scheme to make the planned murder appear to be a suicide. We provided substantial support, in the form of computer forensics requested by the Montgomery County Police Department, and testified at the trial. The former employee was terminated by the Bureau in July 2012.



INTERNATIONAL  
**T R A D E**  
ADMINISTRATION

# INTERNATIONAL TRADE ADMINISTRATION

The **International Trade Administration** strengthens the competitiveness of U.S. industry, promotes trade and investment, and ensures fair trade through the rigorous enforcement of our trade laws and agreements. ITA works to improve the global business environment and helps U.S. organizations compete at home and abroad. ITA is organized into four distinct but complementary business units:

***U.S. and Foreign Commercial Service***—Promotes U.S. exports, particularly by small- and medium-sized enterprises, and provides commercial diplomacy support for U.S. business interests around the world.

***Manufacturing and Services***—Strengthens U.S. competitiveness abroad by helping shape industry-specific trade policy.

***Market Access and Compliance***—Assists U.S. companies and helps create trade opportunities through the removal of market access barriers.

***Import Administration***—Enforces U.S. trade laws and agreements to prevent unfairly traded imports and to safeguard the competitive strength of U.S. businesses.

## IMPROVEMENTS ARE NEEDED TO STRENGTHEN ITA'S INFORMATION TECHNOLOGY SECURITY PROGRAM (OIG-12-037-A)

To fulfill its critical missions, ITA heavily relies on information technology, particularly the Internet, to conduct its business, and inevitably faces greater cybersecurity risks. In recent years, ITA has become a frequent target of cyber attacks. In order to minimize the serious damage caused by cyber attacks, ITA has taken action such as consolidating Internet access through a centralized service.

Our FISMA audit found weaknesses in the six ITA systems we reviewed, including inadequate security categorization that may affect protection against critical information and security control deficiencies that increase the likelihood of a successful cyber attack. The security control deficiencies included (a) deficiencies with vulnerability scanning and patch management, (b) weaknesses in securing databases, (c) the presence of unauthorized software and use of unauthorized removable media, and (d) risks related to network implementation.

We recommended that the Under Secretary of Commerce for International Trade

- ensure that system owners and appropriate ITA officials collaborate to identify and categorize all information processed, stored, or transmitted by each system and categorize each system accordingly;
- mitigate the remaining vulnerabilities identified by our vulnerability scan assessments;
- improve the patch management process by making timely patches for all software products and coordinating within ITA to comprehensively identify and remediate software flaws in a timely manner;
- address and fully implement critical security settings in database configuration checklists;
- ensure that only authorized software and USB devices are used on both servers and workstations; and
- strengthen the worldwide enterprise network's security posture by reducing the threats associated with allowing network traffic to flow freely between all computing components.

## Federal Information Security Management Act of 2002 (Title III, P.L. 107-347)

The Federal Information Security Management Act of 2002 (FISMA) requires agencies to secure systems through the use of cost-effective management, operational, and technical controls. The goal is to provide adequate security commensurate with the risk and extent of harm resulting from the loss, misuse, or unauthorized access to—or modification of—information collected or maintained by, or on behalf of, an agency.

In addition, FISMA requires inspectors general to evaluate agencies' information security programs and practices by assessing a representative subset of agency systems. The results are reported to the Office of Management and Budget, the Department of Homeland Security, and Congress annually.



# 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 four cooperative 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 create and retain jobs, expand into new markets and new products, increase profits, and save time and money.

***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.

***Technology Innovation Program***—Provides cost-shared awards to industry, universities, and consortia for research on potentially revolutionary technologies that address critical national and societal needs.

## **NIST REVISES POLICIES AND PROCEDURES REGARDING RECYCLABLE MATERIALS**

OIG investigated allegations that NIST employees were taking recyclable materials from a NIST facility and converting those materials into cash for their personal benefit. The matter could not be criminally prosecuted due to lax internal controls that prevented positive identification of the recyclable materials. Based upon our investigative findings, NIST implemented numerous process improvement actions in the ordering, control, and recycling of job materials under the purview of the NIST Plant Division.

## **CONTRACTOR ENTERS INTO CIVIL SETTLEMENT**

In August 2012, a contractor for both NIST and NOAA agreed to pay \$7.75 million to settle civil claims brought against it by the government as the result of an investigation into its submission of false claims for payment during the period from March 12, 2008, to March 11, 2011. In March 2008, the company pled guilty to knowingly submitting false or misleading export control filings to the Department. Despite that plea agreement, the company certified several times over the next 3 years that it had not been convicted of various criminal violations, including "making false statements," within the preceding 3 years. The company used false On-Line Representations and Certifications Application (ORCA, a federal contracting database) certifications and similar certifications to successfully bid on numerous government contracts. Previously, in September 2011, this same company had entered into a corporate compliance agreement for 3 years for this same conduct. The contractor falsely obtained 276 contracts from 16 different agencies during the period of the fraud. This settlement was the result of an investigation we conducted jointly with the Air Force Office of Special Investigations, FBI, and National Aeronautics and Space Administration (NASA) OIG.



# NATIONAL OCEANIC AND ATMOSPHERIC ADMINISTRATION

The **National Oceanic and Atmospheric Administration** mission is 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. NOAA does this 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 atmosphere, 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.

## **NOAA'S COST-PLUS-AWARD-FEE AND AWARD-TERM PROCESSES NEED TO SUPPORT FEES AND EXTENSIONS (OIG-12-027-A)**

In December 2007, the Office of Management and Budget's Office of Federal Procurement Policy issued guidance to chief acquisition officers and senior procurement executives to review and update their acquisition policies on the appropriate use of incentive contracts. As of June 2011, NOAA had nine active cost-plus-award-fee (CPAF) and cost-plus-award-term (CPAT) contracts, which provide financial incentives based on contractor performance. These contracts had a potential maximum value of approximately \$1.6 billion, including approximately \$87 million in available award-fee pools and about \$386 million in available award-term periods. While incentive contracts can encourage excellence in contractor performance, they can be burdensome to administer. These contracts also require effective monitoring to ensure that contract dollars are spent wisely and that award fees and terms are justified based on contractor performance.

NOAA gave contractors high ratings, resulting in substantial award fees or extended contract periods of performance, for eight of nine contracts. However, the ratings associated with four of these contracts lacked sufficient support to demonstrate that the contractor met or exceeded the award-fee or award-term evaluation criteria. As a result, approximately \$43.8 million was paid in award fees or was approved for contract extensions without proper justification.

We recommended that the Director of the NOAA Acquisition and Grants Office

- require performance monitors to provide narrative comments that identify specific strengths, weaknesses, and deficiencies to support assigned ratings;
- develop award-fee and award-term incentive structures that encourage contractor excellence;
- update the performance evaluation plans for two of the contracts to add more measurable award-fee criteria;
- develop measurable and outcome-based criteria for assessing contractor performance for award fees and award-term extensions;
- require a cost-benefit analysis in decisions on CPAF and CPAT contracts;
- establish clear division of responsibility for the evaluation team and prohibit the same official from performing multiple roles; and
- develop controls over the maintenance of contract files and contract data to ensure more immediate availability and completeness of documentation for contract actions.

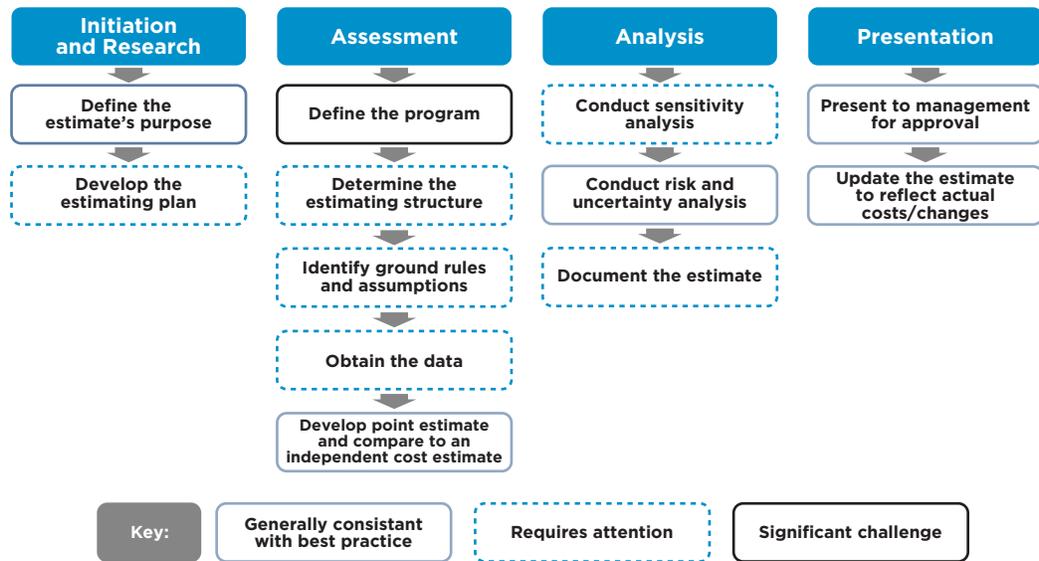
## **AUDIT OF THE JOINT POLAR SATELLITE SYSTEM: CONTINUING PROGRESS IN ESTABLISHING CAPABILITIES, SCHEDULES, AND COSTS IS NEEDED TO MITIGATE DATA GAPS (OIG-12-038-A)**

NOAA, in partnership with the National Aeronautics and Space Administration (NASA), is acquiring and developing the next generation of polar-orbiting satellites for its Joint Polar Satellite System (JPSS). JPSS components currently envisioned for the system comprise the Suomi National Polar-orbiting Partnership (Suomi NPP), JPSS-1, JPSS-2, and two free flyer satellites. NASA launched Suomi NPP on October 28, 2011.

In our September 2011 report *Challenges Must Be Met to Minimize Gaps in Polar Environmental Satellite Data* (OIG-11-034-A), we addressed the need for JPSS baseline capabilities, costs, and schedule to be finalized, because uncertain baselines translate to uncertain budget requirements. In this audit, we further examined the determination of program requirements and NOAA's process for estimating the program's life cycle cost. Our objectives were to (1) assess the adequacy of JPSS formulation activities and (2) monitor the program's efforts to maintain continuity of polar satellite data.

We found that NOAA must clearly define JPSS capabilities, schedule, and cost. By defining the program and refining its cost-estimating process (see figure below for the agency's JPSS cost estimation process), NOAA can ensure that the estimate for JPSS is reliable. Also, the program's artificially flattened budget profile needs to be independently validated. Further, Suomi NPP data validation and ground system improvements are needed for operational use. Finally, a 10–16-month gap between Suomi NPP and JPSS-1 operational data is expected.

### Evaluation of NOAA'S Cost Estimating Process for JPSS



Source: OIG analysis of NOAA cost-estimating activities against GAO-defined best practices

We recommended that the Deputy Secretary for Operations ensure that

- sufficient resources and attention are given to finalizing JPSS high-level requirements and completing system definition;
- the program's acquisition strategy for JPSS-3 and JPSS-4 is determined, documented, and shared with the Department, OMB, and Congress;
- the National Environmental Satellite, Data, and Information Service (NESDIS) and the JPSS program quantify cost savings while determining how to efficiently process environmental data records;
- NESDIS determines whether an enterprise approach to developing and maintaining data products from its environmental satellites could achieve economies of scale;
- sufficient resources and attention are given to permanently filling key management positions;
- a policy that requires major system acquisition programs to adhere to cost-estimating best practices is developed;
- cost-estimating best practices are more closely adhered to in the JPSS program and other major system acquisitions;
- an independent cost estimate adequately tests the viability of the program's funding profile; and
- stakeholders are sufficiently informed of unplanned schedule and capability trade-offs, if needed, to meet surges in effort necessary for launches.

## CONGRESSIONAL TESTIMONY (OIG-12-036-T)

On September 12, 2012, the Inspector General testified about the Department's response to the National Weather Service's (NWS's) unauthorized reprogramming of budgetary resources. His testimony focused on three areas: whistleblower complaints, dating back to 2010, many of which have since been validated by multiple reviews of NWS financial mismanagement; separate Departmental and NOAA internal inquiries, resulting in both the Department and NOAA undertaking significant corrective action; and recent and current OIG follow-up reviews, to measure the sufficiency of the internal inquiries and the resulting corrective actions.

*“Our focus has shifted from reviewing the reprogramming request to evaluating the Department's progress in taking corrective action.”*

IG testimony before a House Science, Space, and Technology Subcommittee, September 12, 2012

## FORMER EXECUTIVE DIRECTORS PLEAD GUILTY TO THEFT OF NOAA GRANT FUNDS

In May 2012, two former executive directors for the Alaska Eskimo Whaling Commission (AEWC) pled guilty to counts of fraud and money laundering. AEWC had received grant funds from NOAA to implement a whaling weapon improvement plan; undertake a census of whale species; and have employees and commissioners attend International Whaling Commission meetings and AEWC meetings.

In June 2011, a former AEWC executive director was indicted on two counts of theft or bribery concerning programs receiving federal funds in the U.S. District Court for the District of Alaska. In September 2011, a second former executive director of AEWC was indicted on one count of wire fraud, two counts of theft or bribery concerning programs receiving federal funds, and one count of money laundering in the U.S. District Court for the District of Alaska. A joint investigation with the FBI and the Internal Revenue Service's (IRS') Criminal Investigation Department disclosed that the former executive directors fraudulently obtained and misapplied approximately \$100,339 and \$475,000, respectively, in AEWC funds. Both defendants are awaiting sentencing, which is scheduled for November and December, 2012.

## NOAA OLE REVISES FIREARMS POLICY AND DISCIPLINES AGENT OVER INCIDENT

NOAA's Office of Law Enforcement (OLE) accepted our recommendations to change its firearms training to emphasize existing policy prohibiting alcohol consumption while armed after our investigation substantiated allegations that an agent had consumed numerous alcoholic beverages at a Super Bowl party while armed with his government-issued handgun. NOAA OLE also agreed to increase the frequency of its firearms qualifications from semiannual to quarterly, the standard among federal law enforcement agencies. We also referred the matter to NOAA OLE for any administrative action against the agent that it deems appropriate.



# NATIONAL TELECOMMUNICATIONS AND INFORMATION ADMINISTRATION

The **National Telecommunications and Information Administration** serves as the executive branch's principal advisor 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.

## **SIGNIFICANT IT SECURITY PROGRAM IMPROVEMENTS ARE NEEDED TO ADEQUATELY SECURE NTIA'S SYSTEMS (OIG-12-035-A)**

As a part of FISMA requirements, OIG evaluated seven NTIA systems and found that fundamental steps for securing its information and systems have not been taken. These deficiencies include (1) inadequate security categorizations that jeopardize critical bureau information, (2) significant weaknesses in IT software and hardware inventory practices, (3) major inadequacies in NTIA's process to remediate security weaknesses, (4) weaknesses in managing its IT security workforce and developing effective IT security policies and procedures, and (5) significant deficiencies in key IT security controls. These issues have resulted in ineffective management of security controls needed to protect NTIA's systems and information.

We recommended that the Assistant Secretary for Communications and Information ensure the following:

- the authorization status of NTIA's systems is revised to interim authorization to operate until (1) system owners and NTIA officials collaborate to identify and categorize all information types that are processed, stored, or transmitted by each system and categorize each system accordingly; (2) system owners develop and maintain an accurate hardware and software inventory for their systems; (3) NTIA implements and assesses appropriate IT security controls; and (4) NTIA follows the plan of action and milestones process required by the Department's IT security policy.
- system owners, IT security officers, authorizing officials, and other staff with critical IT security roles are appropriately trained, earn certifications as required by Department policy, and have the required metrics incorporated into their performance plans.
- NTIA's chief information officer and IT security officer develop and maintain NTIA security policies, procedures, standards, and guidance consistent with departmental and federal requirements.



# 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'S OTHER BACKLOG: PAST PROBLEMS AND RISKS AHEAD FOR THE BOARD OF PATENT APPEALS (OIG-12-032-A)

The Board of Patent Appeals and Interferences (BPAI) faces the challenge of a growing number and pendency of *ex parte* appeals (see figure below for appeals process). USPTO has accumulated a substantial backlog and pendency of patent appeals. Thus, applicants are waiting longer to receive a decision. The time spent by appellants awaiting a decision has almost doubled between FY 2010 and mid-FY 2012. An additional challenge, the America Invents Act of 2011 (AIA), gives BPAI operations additional responsibilities—including planning, implementing, and institutionalizing new proceedings for reviews and expanding the size of BPAI to meet these responsibilities. Because of these challenges, our review sought to determine (1) whether BPAI's staffing and resources have changed in relation to changes in its caseload and (2) to what extent BPAI operations and resources will be affected by the implementation of AIA.

Between FYs 2005 and 2011, as the number of appeals BPAI received for review rose substantially (as have the appeal backlog and pendency time), BPAI's staffing levels have remained essentially flat. Furthermore, until 2008, inaccurate data delayed efforts to address the growing backlog and increase in appeal pendency.

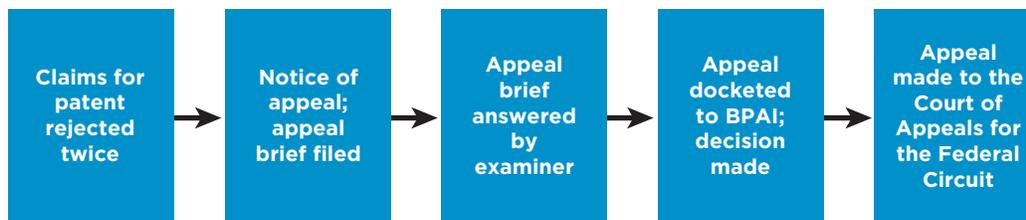
### USPTO's Board of Patent Appeals and Interferences<sup>a</sup>

USPTO's responsibilities include reviewing and deciding on patent applications, as well as providing the means for parties to appeal patent examiners' decisions. Although the backlog of patent applications remains at more than 600,000, USPTO has also accumulated another substantial backlog: patent appeals.

Responsibility for patent appeals rests with BPAI, USPTO's administrative law body. Most of BPAI's cases are *ex parte* appeals, which do not include all parties' presence or testimony. In addition, BPAI receives requests for *inter partes* and *ex parte* reexaminations from patent owners or third parties to evaluate the patentability of a claim or claims of an existing patent. BPAI also has jurisdiction for interferences, which are appeals from applicants who claim the same proposed invention as one already claimed by another applicant or patent owner. Patent applicants may submit an *ex parte* appeal to BPAI after any of their claims have been rejected twice by patent examiners.

<sup>a</sup> As of September 16, 2012, BPAI was officially changed to the Patent Trial and Appeal Board.

### Overview of BPAI Patent Appeals Process



Source: OIG, based on USPTO documentation

We recommended that the Under Secretary of Commerce for Intellectual Property and Director of USPTO

- align BPAI's resource planning with the hiring actions and expected production levels of patent examiners;
- require BPAI to annotate current information on public websites to indicate that backlog data prior to FY 2010 are underreported and therefore should be used with caution;

- direct BPAI to develop and publish performance measures and targets for *ex parte* appeals and other proceedings;
- develop comprehensive management plans (including how to measure progress, gauge performance, and identify risk) to address the implementation and operational oversight of the new BPAI proceedings under the AIA;
- ensure that data processing systems meet the needs of all four AIA proceedings; and
- explore the feasibility of BPAI's current management and administrative structure and staffing, given the increase in the number of proceedings and staff at BPAI.





# AMERICAN RECOVERY AND REINVESTMENT ACT

The Recovery Act—signed into law by President Barack Obama on February 17, 2009—has three immediate goals: (1) create new jobs and save existing ones, (2) spur economic activity and invest in long-term growth, and (3) foster unprecedented levels of transparency and accountability.

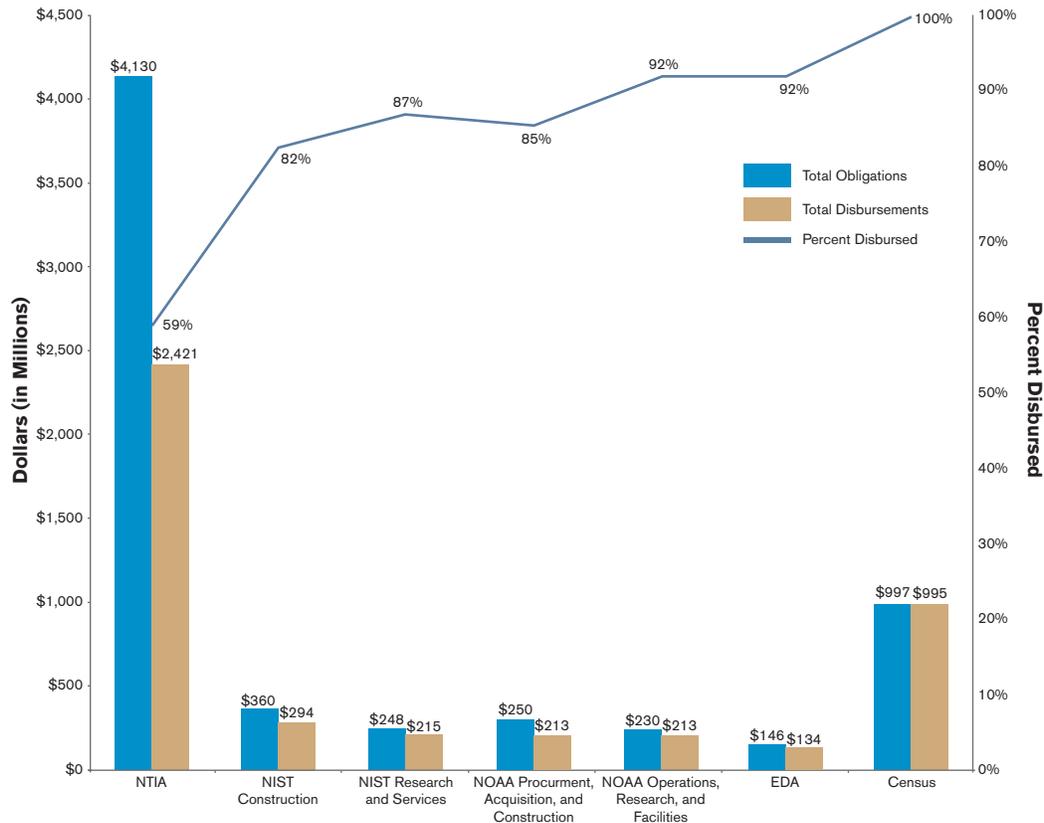
Five Department of Commerce bureaus—the Census Bureau, EDA, NIST, NOAA, and NTIA—and OIG received \$7.9 billion under the Act, with \$1.2 billion ultimately rescinded or transferred to other agencies. As of September 30, 2012, the Department had obligated almost all of the approximately \$6.7 billion remaining and had disbursed approximately \$4.8 billion. (The disbursement amount includes funding for the now-completed NTIA Digital Television Converter Box Coupon Program.)

## OIG RECOVERY ACT OVERSIGHT, FEBRUARY 2009–MARCH 2012

Funded by \$16 million for proactive oversight of the Department's Recovery Act programs and activities, OIG has been evaluating whether agencies are using Recovery Act funds efficiently and effectively and following up on complaints, including whistleblower reprisal allegations.

Key Activities	Cumulative Results
Published audit and evaluation reports	20
Unpublished work products	5
Audits/evaluations in progress	2
OIG recommendations for action, correction, or improvement	78
Recommendations implemented to take corrective action by making improvements, reducing risk, or preventing waste	57
Investigations completed	23
Investigations in progress	4
Whistleblower reprisal allegations received	9
Whistleblower reprisal allegations accepted	1
Debarments and corporate compliance agreements implemented	0
Proactive training and outreach sessions held	129
Individuals trained	6,624
Hours of training provided	8,259

## COMMERCE BUREAUS' RECOVERY ACT OBLIGATIONS AND DISBURSEMENTS AS OF SEPTEMBER 30, 2012



## **OVERSIGHT ACTIVITIES OF NIST'S RECOVERY ACT CONSTRUCTION CONTRACTS NEED IMPROVEMENT (OIG-12-028-A)**

The Recovery Act appropriated \$360 million to NIST to construct research facilities, including \$180 million in contracts for the construction and renovation of research facilities on NIST's headquarters in Gaithersburg, Maryland, and NIST's campus in Boulder, Colorado. The construction projects, as initially proposed, included a precision measurement laboratory; maintenance and repair projects to enhance NIST's aging facilities; Center for Neutron Research expansion for a high-efficiency cooling system and supporting infrastructure; and a National Structural Fire Resistance Laboratory, to study how fires start.

We found deficiencies in NIST's operating procedures and oversight practices. With tens of millions of dollars of Recovery Act funds remaining, NIST needs to strengthen its oversight of these construction projects. Specifically, we found

- inadequate controls over contract extensions jeopardized timely completion of projects,
- lack of adequate oversight allowed noncompliance with the Buy American provision of the Recovery Act,
- lack of adequate oversight resulted in inaccurate/incomplete data posted on government websites, and
- inadequate controls led to deficiencies in award administration.

Consequently, we recommended that the Under Secretary of Commerce for Standards and Technology direct NIST to

- establish standard operating procedures (SOPs) for reviewing, monitoring, and approving contracts for extensions; extend the performance period for six contracts that missed or are at risk of missing their performance end dates; and create a management tool for monitoring the progress of construction contracts;
- update the SOPs for Buy American exception determinations and waiver approvals and conduct Buy American procedures training for staff;
- provide training to staff and contractors on Recovery jobs calculation formula and ensure that data are correctly posted on government websites; and
- review the contract award process to correct inconsistencies in obtaining legal reviews, issuing contracting officer's technical representative (COTR) letters, and conducting fraud prevention training.

## **NTIA NEEDS STRONGER MONITORING OF BTOP GRANT RECIPIENTS' MATCH (OIG-12-029-A)**

By September 27, 2010, NTIA had awarded 233 Broadband Technology Opportunities Program (BTOP) grants, including Comprehensive Community Infrastructure (CCI), Public Computing Centers (PCC), and Sustainable Broadband Adoption (SBA) grants. By March 31, 2012, the number of BTOP grants had decreased to 228 due to grant cancelations and terminations.

To oversee grant recipients' match throughout the award, including postaward, NTIA monitors cash drawdowns, reviews grantees' quarterly financial reports for matching share, and documents proportionality waivers. In December 2010, NTIA developed a match matrix to review grant match. NTIA's reviews of CCI grants included an in-depth review of all proposed budgeted match line items. However, for the SBA and PCC grants, NTIA's match matrix did

not provide sufficient information to determine if NTIA's review was thorough and effective. We also found two internal control vulnerabilities with respect to access to the Treasury Automated Standard Application for Payment (ASAP) system to make cash drawdowns. In addition, 32 percent of our sample of grantees did not record all of their match amounts in their financial records. Finally, a significant number of grant recipients were not in compliance with the proportionality clauses of their grants.

We recommended that the Assistant Secretary for Communications and Information

- develop and implement improved processes for reviewing PCC and SBA grant match amounts;
- formally communicate the risk associated with third-party cash drawdowns to all grant recipients and stress the importance of increased monitoring on their behalf when allowing third parties to draw down grant funds from the Treasury ASAP system;
- implement program office controls to closely monitor ASAP drawdowns on a timely basis, especially those grant recipients that have delegated ASAP system access to third parties;
- communicate to recipients that match expenditures must be supported and correctly reflected in their financial records; and
- work with NIST and NOAA grants officers to provide NTIA with the BTOP grantees' quarterly financial status reports and monitor the contribution trends and proportionality waiver activity to ensure grantees are providing their required match.

## The Recovery Act and Broadband

The Recovery Act gave \$4.7 billion to NTIA to establish BTOP, a competitive grant program intended to provide funds for deploying broadband infrastructure in the United States in order to enhance broadband capacity at public computing centers, improve access to broadband services for public safety agencies, promote sustainable broadband adoption projects, and develop an interactive map showing broadband capabilities and availability.

Since enactment of the law, OIG has provided oversight of NTIA's administration of the \$4.4 billion program. The Recovery Act requires BTOP grantees to provide at least a 20 percent nonfederal matching share.

### REVIEW OF NTIA'S OVERSIGHT OF THE BOOZ ALLEN HAMILTON CONTRACT SUPPORTING THE BROADBAND TECHNOLOGY OPPORTUNITIES PROGRAM (OIG-12-031-M)

In August 2009, the Department of Interior, on behalf of NTIA, entered into a contract with Booz Allen for technical expertise during the BTOP grant-making process and a system to manage and monitor grant performance and oversight. In the course of this contract, NTIA identified the need for further support; it competitively awarded a second contract to Booz Allen for BTOP program management and support services. The subsequent contract for \$31 million began in April 2012 and extends through the estimated completion of the BTOP program, which is in February 2015. The two Booz Allen contracts total approximately \$106 million.

The Booz Allen contracts are predominantly time and materials (T&M) contracts, under which a contractor's base payments on the number of labor hours are billed at a fixed hourly rate and the cost of materials. The federal government considers these contracts high-risk because the contractor's profit is tied to the number of hours worked, although T&M contracts also must incorporate a ceiling price that the contractor exceeds at its own risk.

NTIA has generally met the requirements spelled out in the Federal Acquisition Regulation (FAR) for T&M contracts. In addition, NTIA's risk management for the Booz Allen contract includes regular invoice reconciliation, tracking of contractor performance, management of contract modifications to facilitate appropriate alignment of personnel overtime, and approvals for other direct costs and travel. Nonetheless, NTIA should consider improving contract oversight controls in (1) invoice and payroll reconciliation and (2) independent review.

## CONGRESSIONAL TESTIMONY (OIG-12-026-T)

*“For the Department to ensure effective implementation of BTOP, especially in light of fulfilling OMB and legislative requirements, OIG and NTIA will require Congress to continue your oversight efforts.”*

IG testimony before a House Energy and Commerce Subcommittee, May 16, 2012

On May 16, 2012, the Inspector General testified about the approximately \$4.7 billion in funds the Recovery Act initially provided to NTIA to establish BTOP. His testimony addressed five challenges confronting BTOP at that time:

1. *Slow awardee spending could result in unfinished grant projects.* OMB directed federal agencies to complete Recovery Act projects by September 30, 2013. OIG is primarily concerned with infrastructure projects which represent about \$3.2 billion in awards.
2. *NTIA is addressing program office monitoring issues but additional monitoring of equipment procurement may be needed.* OIG provided NTIA recommendations for improving internal controls over monitoring activities. The agency is addressing those recommendations; however, grantee equipment procurement and installation have become areas for NTIA to focus monitoring efforts.
3. *Issues with awardee grant match documentation require closer NTIA oversight.* NTIA should strengthen its oversight of recipients meeting their match requirements. Match funds should be contributed in proportion to drawdowns, to ensure that projects are appropriately funded throughout their development and remain on schedule.
4. *NTIA needs to assess the impact that the recently established First Responder Network Authority (FirstNet) program may have on existing BTOP public safety projects.* Seven BTOP projects involve public safety communication networks that will be impacted by FirstNet's public safety broadband network. Past BTOP oversight helps OIG anticipate issues and concerns that could potentially arise with FirstNet.
5. *Funding questions about 2013 and beyond raise concerns over continued BTOP oversight.* It is anticipated that OIG and NTIA will require BTOP funding beyond 2013 to oversee grant-funded projects, due largely to the need to close out projects and, in some cases, slower project spending that will likely result in the issuance of extension waivers.

## LESSONS LEARNED REVIEW FOR THE AMERICAN RECOVERY AND REINVESTMENT ACT

The Department of Commerce participated in a joint review initiated by the Recovery Accountability and Transparency Board (the Board) to document the lessons learned from implementing the Recovery Act. Using a set of standard questionnaires provided by the Board, OIG collected valuable input from Departmental management and the five bureaus that received Recovery Act funds—the Census Bureau, EDA, NIST, NOAA, and NTIA. Respondents reported on the following:

1. *Pre-award/award processes for awarding and dispersing Recovery Act funds.* The Department reported using various mechanisms to communicate with potential Recovery Act fund recipients, and communications were generally effective. The Department generally required and reviewed applications and plans before awarding Recovery Act funds.

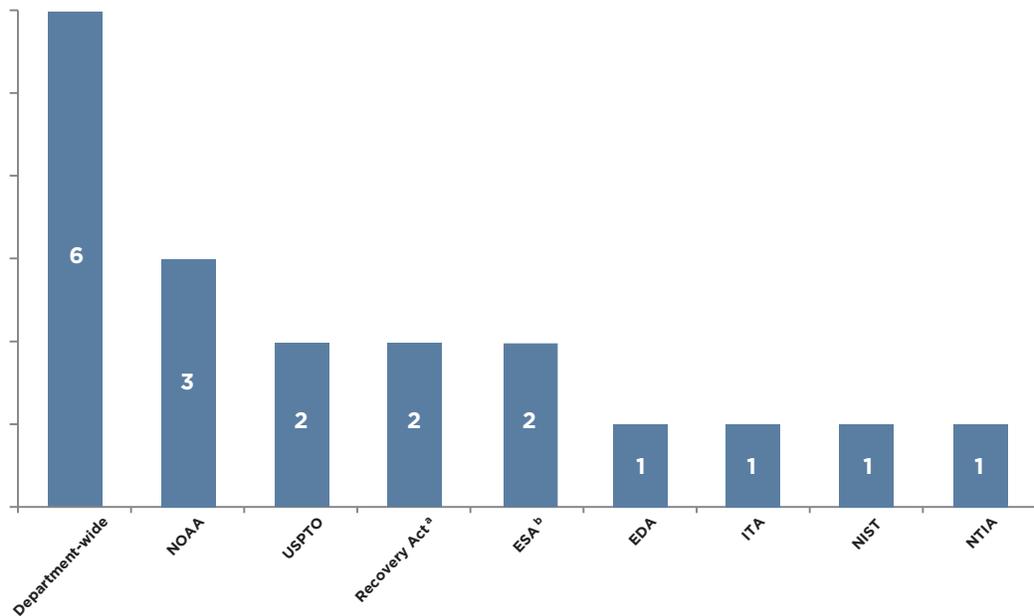
2. *Outreach, education, and technical assistance to engage Recovery Act fund recipients.* The Department reported using all mechanisms identified by the Board (except podcasts) to reach out to Recovery Act fund recipients. In addition, more than 1,000 recipients had attended NTIA's BTOP workshops, and hundreds of recipients attended workshops for other Recovery Act programs.
3. *Performance measures of the success of program implementation.* The Department reported using both outcome- and output-oriented measures to measure achievement of four of the five primary goals identified by the Board: to preserve/create jobs and promote economic recovery; assist those most impacted by the recession; increase economic efficiency by spurring technological advances in science and health; and invest in transportation, environmental protection, and other infrastructure for long-term economic benefits. However, the Department programs were not applicable to achieving the goal of stabilizing state and local government budgets to minimize or avoid reductions in essential services and counterproductive state and local tax increases.
4. *Monitoring and oversight of Recovery Act requirements.* The Department reported plans to continue some of the oversight mechanisms post-Recovery Act funding. Additionally, it reported various challenges experienced, such as difficulties in meeting quarterly Recovery Act reporting requirements and a negative impact on non-Recovery Act operations from competing priorities. While the Department has terminated some Recovery Act projects, it has not yet initiated any Recovery Act-related suspension or debarment actions directly. However, OIG assisted the Air Force in one matter that involved four suspension actions of parties associated with a recipient of Recovery Act funds from the Department.

Overall, the Department reported that guidance and oversight received from the Board and OIG were helpful.

# WORK IN PROGRESS

## WORK IN PROGRESS (BY OVERSIGHT AREA)

During this reporting period, 19 OIG audits and evaluation projects were initiated or under way.



<sup>a</sup> Both Recovery Act-related works in progress concern NTIA.

<sup>b</sup> The ESA works in progress concern the Census Bureau.

## DEPARTMENT-WIDE

### IT Security

Assess the effectiveness of the Department's IT security program by determining whether key security measures adequately protect the Department's systems and its information, as required by the Federal Information Security Management Act of 2002 (FISMA).

### Purchase Card Controls

Determine whether the Department has adequate transaction-level internal controls over purchase card transactions by reviewing a sample from all bureaus during FY 2011. During FY 2011, the Department had more than 4,500 purchase cards, which processed approximately \$118.6 million in purchase card transactions.

### **Time-and-Materials and Labor-Hours (T&M/LH) Contracts**

Assess whether the Department properly awards and administers these contracts. For FY 2011, Commerce awarded 2,893 high-risk T&M/LH contract actions for \$586 million. Both contract types provide for payment to contractors on the basis of fixed hourly billing rates, designed to recover the contractors' direct salaries, overhead, general and administrative expenses, and profit. T&M contracts also provide for reimbursement of the contractors' actual costs of supplies and materials.

### **Unliquidated Obligations**

Evaluate controls over the management and closeout of unused or unneeded (unliquidated) obligations. It is essential that the Department perform timely reviews of contract, grant, and other unliquidated obligations and deobligate funds no longer needed. This could result in funding available for other purposes.

### **Controls over Quarterly Conference Reporting**

Determine whether the Department has established controls and provided guidance to bureaus for reporting quarterly conference data.

### **FY 2012 Audit of the Department's Financial Statements**

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 controls 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.)

## **ECONOMIC DEVELOPMENT ADMINISTRATION**

### **Audit of EDA's IT Security Program**

As part of our FY 2012 FISMA audit, (1) assess the effectiveness of EDA's IT security program, (2) determine the significant factors that contributed to the cyber compromise of EDA's information systems, and (3) evaluate activities either completed or planned to reconstitute its information systems to support critical operational requirements.

## **ECONOMICS AND STATISTICS ADMINISTRATION**

### **Census 2020 Redesign**

Review the status of the Bureau's Census 2020 redesign. Determine if Census governance and internal controls are adequate; assess implementation of each research project, including time frames for completion and deliverables; and assess the Bureau's approach to evaluating each project, including whether accurate and reliable data will be available. Without changes, Census 2020 could cost up to \$30 billion (according to GAO's estimate).

### **Letter to Senator Coburn re: Census Bureau Administrative Records Use and Address Sharing**

Respond to the Senator's request during the July 18, 2012, hearing *Census: Planning Ahead for 2020* that OIG answer (1) what Congress can do to help the Census Bureau make greater use of administrative records and (2) how Congress can ease the Census Bureau's restrictions on sharing address information with state and local governments.

## INTERNATIONAL TRADE ADMINISTRATION

### Review of U.S. Export Assistance Centers (USEACs)

(1) Evaluate whether the U.S. & Foreign Commercial Service's (CS') allocation of domestic resources meets its mission and goals; (2) assess CS' level of cost recovery; and (3) determine the extent to which the level of coordination between the USEACs and their federal government agencies is sufficient to meet the President's priorities with respect to the National Export Initiative.

## NATIONAL INSTITUTE OF STANDARDS AND TECHNOLOGY

### Review of FYs 2011 and 2012 Manufacturing Extension Partnership (MEP) Conference Spending

Review federal spending at MEP conferences in FYs 2011 and 2012, including the May 2012 conference, to determine the legitimacy and reasonableness of related charges.

## NATIONAL OCEANIC AND ATMOSPHERIC ADMINISTRATION

### Fishery Management Councils (FMCs) and Rulemaking

Review controls, processes, and operational best practices used by NOAA FMCs to develop rules for the industry. Evaluate the role of NOAA and the FMCs in the fishery rulemaking process and the transparency of the rulemaking process prescribed under the Magnuson-Stevens Fishery Conservation and Management Act.

### Geostationary Operational Environmental Satellite-R Series (GOES-R) Acquisition and Development

Assess the adequacy of contract management and administration and the effectiveness of management's direction, monitoring, and collaboration for development of select components in the GOES-R program.

### Actions Taken to Correct Deficiencies Leading to Budget Reprogramming Requests

In response to a June 2012 request from the U.S. Senate to review materials and findings from a May 2012 internal inquiry report prepared by the Department, determine the adequacy of actions taken by NOAA in addressing issues arising from FY 2012 reprogramming requests.

## NATIONAL TELECOMMUNICATIONS AND INFORMATION ADMINISTRATION

### Public Safety Interoperable Communications (PSIC) Grant Program Costs and Equipment

Determine whether (1) costs incurred by grantees receiving PSIC funds from the Department are allowable and in accordance with grant requirements; (2) grantees are meeting matching share requirements; (3) equipment acquired by the grantees has been tested and certified before deployment, operates effectively, and improves interoperability in the state; and (4) grantees are on schedule to complete interoperable communications investments by September 30, 2011, or—with an approved extension—by September 30, 2012. (The Implementing Recommendations of the 9/11 Commission Act of 2007 require Commerce OIG to annually assess NTIA's management of PSIC and to transmit findings to the House Committee on Energy and Commerce and the Senate Committee on Commerce, Science, and Transportation. In addition, Congress specified that 25 financial audits be conducted on the PSIC program. This report will contain the remaining 16 financial audits.)

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## **UNITED STATES PATENT AND TRADEMARK OFFICE**

### **USPTO's Deployment of Public and Enterprise Wireless Capability**

As part of our FY 2012 FISMA audit, determine whether security requirements were adequately addressed during system development.

### **FY 2012 Financial Statement Audit**

Determine whether USPTO's financial statements are presented fairly, in all material respects, in accordance with generally accepted accounting principles. (The audit will also consider USPTO's internal controls 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.)

## **AMERICAN RECOVERY AND REINVESTMENT ACT**

### **Broadband Technology Opportunities Program (BTOP) Subrecipient Monitoring**

Assess whether all subrecipients have been identified and properly classified and determine whether adequate controls are in place to ensure effective subrecipient monitoring and compliance with award terms and conditions.

### **Review of Broadband Technology Opportunities Program Award to the Executive Office of the State of West Virginia**

In response to a June 2012 request from the U.S. House of Representatives, (1) determine whether BTOP funds associated with the award are being properly and efficiently spent; (2) assess the process West Virginia used to apply for a BTOP grant and whether the application contained any material misrepresentations; and (3) review the process used to evaluate West Virginia's application, including any steps NTIA took to verify claims in the application.

# STATISTICAL DATA

The Inspector General Act Amendments of 1988 require us to present the statistical data contained in Tables 1–8.

TABLES	Page
1. Office of Investigations Statistical Highlights for This Period	40
2. Audit Resolution and Follow-up	41
3. Audit and Evaluation Statistical Highlights for This Period	42
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7-a. Processed Reports with Audit Findings	48
8. Audits Unresolved for More Than 6 Months	49

## 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** presents 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 Commerce bureaus for internal administrative follow-up. Others were unrelated to Commerce 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.

<b>Investigative Activities</b>	
Investigations opened	44
Investigations closed	42
Arrests	0
Indictments/Informations	0
Convictions	3
Fines and other financial recoveries	\$11,414,884 <sup>a</sup>
<b>Allegations Processed</b>	
Hotline complaints	661
Total complaints, all sources	661
Referrals to bureaus or non-Commerce agencies	322
Referrals with response required	126
Responses received	127
From referrals made this reporting period	34
From referrals made prior	93
Referrals closed	111
Referrals with no response required	196
Evaluated but not accepted for investigation or referral	295

<sup>a</sup> This total is derived from our participation in two federal multi-agency investigations. It does not reflect actual monetary recoveries for the Department of Commerce.

## 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 (April 1, 2012) for which no management decision had been made by the end of the period (September 30, 2012). Six audit reports remain unresolved for this reporting period (see page 49).

**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 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. The following table summarizes modification and appeal activity during the reporting period.

<b>Report Category</b>	<b>Modifications</b>	<b>Appeals</b>
Actions pending (April 1, 2012)	0	1
Submissions	0	2
Decisions	0	1
Actions pending (September 30, 2012)	0	2

### TABLE 3. AUDIT AND EVALUATION 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.

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

Questioned costs <sup>a</sup>	\$ 46,093,633
Value of audit recommendations that funds be put to better use <sup>b</sup>	61,141,213
Value of audit recommendations agreed to by management <sup>c</sup>	17,282,491

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

<sup>a</sup> **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.

<sup>b</sup> **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 Commerce 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 Commerce, a contractor, or a grantee; (5) avoidance of unnecessary expenditures identified in preaward reviews of contracts or grant agreements; or (6) any other savings specifically identified.

<sup>c</sup> **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 during 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.

<b>Report Category</b>	<b>Number</b>	<b>Questioned Costs</b>	<b>Unsupported Costs</b>
A. Reports for which no management decision had been made by the beginning of the reporting period	12	\$24,701,929	\$4,819,060
B. Reports issued during the reporting period	19	46,093,633	44,396,905
Total reports (A+B) requiring a management decision during the period <sup>a</sup>	31	70,795,562	49,215,965
C. Reports for which a management decision was made during the reporting period <sup>b</sup>	12	10,465,386	4,341,321
i. Value of disallowed costs		14,846,282	10,296,829
ii. Value of costs not disallowed		10,036,316	2,610,151
D. Reports for which no management decision had been made by the end of the reporting period	19	60,330,176	44,874,644

<sup>a</sup> Three audit reports included in this table are also included among reports with recommendations that funds be put to better use (see table 5). However, the dollar amounts do not overlap.

<sup>b</sup> In Category C, lines i and ii do not always equal the total line in C because resolution may result in values greater than the original recommendations.

**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.”

<b>Report Category</b>	<b>Number</b>	<b>Value</b>
A. Reports for which no management decision had been made by the beginning of the reporting period	3	\$1,979,832
B. Reports issued during the reporting period	3	61,141,213
Total reports (A+B) requiring a management decision during the period <sup>a</sup>	6	63,121,045
C. Reports for which a management decision was made during the reporting period <sup>b, c</sup>	6	2,193,590
i. Value of recommendations agreed to by management		2,436,209
ii. Value of recommendations not agreed to by management		6,573
D. Reports for which no management decision had been made by the end of the reporting period	1	60,927,455

<sup>a</sup> Three audit reports included in this table are also included among reports with questioned costs (see Table 4). However, the dollar amounts do not overlap.

<sup>b</sup> In Category C, lines i and ii do not always equal the total line in C because resolution may result in values greater than the original recommendations.

<sup>c</sup> The reviewing grant office identified Funds to Be Put to Better Use during its audit resolution review, which resulted in an additional report for C.

**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 a criminal 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.

<b>Type</b>	<b>Number of Reports</b>	<b>Table Number</b>
Performance audits	7	Table 6-a
Evaluations and inspections	4	Table 6-b
Total	11	

**TABLE 6-A. PERFORMANCE AUDITS**

<b>Report Title</b>	<b>Report Number</b>	<b>Date Issued</b>	<b>Funds to Be Put to Better Use</b>	<b>Amount Questioned</b>	<b>Amount Unsupported</b>
<b>International Trade Administration</b>					
Improvements Are Needed to Strengthen ITA's Information Technology Security Program	OIG-12-037-A	09.27.2012	0	0	0
<b>National Institute of Standards and Technology</b>					
Oversight Activities of NIST's Recovery Act Construction Contracts Need Improvement	OIG-12-028-A	06.01.2012	0	0	0
<b>National Oceanic and Atmospheric Administration</b>					
NOAA's Cost-Plus-Award-Fee and Award-Term Processes Need to Support Fees and Extensions	OIG-12-027-A	05.18.2012	\$60,927,455	\$43,802,965	0
Audit of the Joint Polar Satellite System: Continuing Progress in Establishing Capabilities, Schedules, and Costs Is Needed to Mitigate Data Gaps	OIG-12-038-A	09.27.2012	0	0	0
<b>National Telecommunications and Information Administration</b>					
NTIA Needs Stronger Monitoring of BTOP Grant Recipients' Match	OIG-12-029-A	06.18.2012	0	0	0
Significant IT Security Program Improvements Are Needed to Adequately Secure NTIA's Systems	OIG-12-035-A	09.07.2012	0	0	0
<b>U.S. Patent and Trademark Office</b>					
USPTO's Other Backlog: Past Problems and Risks Ahead for the Board of Patent Appeals and Interferences	OIG-12-032-A	08.10.2012	0	0	0

**TABLE 6-B. EVALUATIONS AND INSPECTIONS**

<b>Report Title</b>	<b>Report Number</b>	<b>Date Issued</b>	<b>Funds to Be Put to Better Use</b>	<b>Amount Questioned</b>	<b>Amount Unsupported</b>
<b>Office of the Secretary</b>					
Nonfederal Audit Results for the 6-Month Period Ending June 30, 2012	OIG-12-034-M	08.23.2012	\$229,095	\$1,209,815	\$286,783
<b>Economics and Statistics Administration</b>					
2020 Census Planning: Delays with 2010 Census Research Studies May Adversely Impact the 2020 Decennial Census	OIG-12-023-I	04.05.2012	0	0	0
High-Quality Maps and Accurate Addresses Are Needed to Achieve Census 2020 Cost-Saving Goals	OIG-12-024-I	05.10.2012	0	0	0
<b>National Telecommunications and Information Administration</b>					
Review of NTIA's Oversight of the Booz Allen Hamilton Contract Supporting the Broadband Technology Opportunities Program	OIG-12-031-M	08.09.12	0	0	0

## TABLE 7. SINGLE AUDIT AND PROGRAM-SPECIFIC AUDITS

OIG reviewed and accepted 188 audit reports prepared by independent public accountants and local, state, and other federal auditors. The reports processed with questioned costs, recommendations that funds be put to better use, and/or nonfinancial recommendations are listed in table 7-a.

<b>Agency</b>	<b>Audits</b>
Economic Development Administration	34
Minority Business Development Agency	1
National Institute of Standards and Technology <sup>a</sup>	56
National Oceanic and Atmospheric Administration	19
National Telecommunications and Information Administration <sup>b</sup>	26
Multi-bureau	49
No Commerce expenditures	3
<b>Total</b>	<b>188</b>

<sup>a</sup> Includes 47 program-specific audits.

<sup>b</sup> Includes 16 program-specific audits.

**TABLE 7-A. PROCESSED REPORTS WITH MATERIAL AUDIT FINDINGS**

Report Title	Report Number	Date Issued	Funds to Be Put to Better Use	Amount Questioned	Amount Unsupported
<b>Economic Development Administration</b>					
Acadiana Regional Development District	ATL-09999-12-4446	04.25.12	0	\$150,000	0
Iosco County	ATL-09999-12-4551	08.30.12	0	168,500	0
North Central Planning and Development District, Inc.	ATL-09999-12-4417	04.25.12	75,048	0	0
Northern Enterprises, Inc.	ATL-09999-12-4369	04.25.12	0	0	0
Southeastern Arizona Governments Organization	ATL-09999-12-4464	06.27.12	0	33,240	0
Southern Iowa Council of Governments and Affiliate	ATL-09999-12-4444	05.03.12	138,710	0	0
<b>National Institute of Standards and Technology</b>					
Chevron Energy Technology Company	ATL-09999-12-4371	07.18.12	0	629,115	49,137
ELSXI Corporation	ATL-09999-12-3842	07.27.12	0	16,532	0
Konarka Technologies Inc.	ATL-09999-12-4566	07.26.12	0	144,717	0
Pranalytica Inc.	ATL-09999-12-4108	08.02.12	0	46,239	0
SC Solutions Inc.	ATL-09999-12-4570	07.27.12	0	30,101	0
Velcura Therapeutics Inc.	ATL-09999-12-4106	08.02.12	0	152,945	0
Velcura Therapeutics Inc.	ATL-09999-12-4107	08.02.12	0	88,769	0
XRadia Inc.	ATL-09999-12-4586	07.31.12	0	261,300	261,300
XRadia Inc.	ATL-09999-12-4547	07.31.12	0	204,416	0
<b>National Oceanic and Atmospheric Administration</b>					
Nevada Hospital Association Inc. and Affiliates	ATL-09999-12-4553	08.30.12	0	12,624	0
New Jersey Sea Grant Consortium	ATL-09999-12-4554	08.30.12	0	15,787	0
State of Texas	ATL-09999-12-4485	05.23.12	0	20,648	0
State of Washington	ATL-09999-12-4495	06.27.12	0	283,503	283,503
<b>National Telecommunications and Information Administration</b>					
Silver Star Telephone Company, Inc.	ATL-09999-12-4310	05.04.12	0	10,433	0
Silver Star Telephone Company, Inc.	ATL-09999-12-4311	05.04.12	0	21,799	0
Virgin Islands Public Finance Authority	ATL-09999-12-4498	08.03.12	0	0	0

**TABLE 8. AUDITS UNRESOLVED FOR MORE THAN 6 MONTHS**

<b>Census Bureau</b>	<b>Computer &amp; High Tech Management, Inc.</b>
	In our September 2005 <i>Semiannual Report</i> , we reported the results of audits of 2 of the 21 task orders for IT services that Computer & High Tech Management, Inc., was providing to Census. We sought to determine whether the firm had complied with contract terms and conditions and federal regulations and had billed Census for work performed in accordance with specifications of the task order. We found that the firm failed to comply with numerous contract and federal requirements, which caused us to question more than \$10.7 million in direct labor and other reimbursable costs. We have suspended audit resolution on these two audits pursuant to an agreement with Census.
<b>National Institute of Standards and Technology</b>	<b>Manufacturing Extension Partnership Program</b>
	NIST has not reached resolution on findings and questioned costs identified in OIG audit reports of the Hollings Manufacturing Extension Partnership program in California. We issued our audit report covering California Manufacturing Technology Consulting in July 2010. We have reported the findings and questioned costs contained in this report as unresolved in previous <i>Semiannual Reports</i> . NIST intends to resolve this audit by January 31, 2013.
<b>National Oceanic and Atmospheric Administration</b>	<b>Alaska Eskimo Whaling Commission</b>
	As reported in our March 2009 <i>Semiannual Report</i> , a single audit review of this NOAA grant questioned costs totaling \$66,353 in expenditures that were not adequately documented. We have suspended audit resolution on this grant audit pursuant to an agreement with NOAA.

# 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	Topic	Page
4(a)(2)	Review of Legislation and Regulations	50
5(a)(1)	Significant Problems, Abuses, and Deficiencies	6-35
5(a)(2)	Significant Recommendations for Corrective Action	6-35
5(a)(3)	Prior Significant Recommendations Unimplemented	50
5(a)(4)	Matters Referred to Prosecutorial Authorities	40
5(a)(5) and 6(b)(2)	Information or Assistance Refused	51
5(a)(6)	Listing of Audit Reports	45-46
5(a)(7)	Summary of Significant Reports	6-35
5(a)(8)	Audit Reports—Questioned Costs	43
5(a)(9)	Audit Reports—Funds to Be Put to Better Use	44
5(a)(10)	Prior Audit Reports Unresolved	51
5(a)(11)	Significant Revised Management Decisions	51
5(a)(12)	Significant Management Decisions with Which OIG Disagreed	51
5(a)(13)	Results of Peer Review	51

## 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 Commerce 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. However, information on the status of any audit recommendations can be obtained through OIG upon request.

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## **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. There were no reports to the Secretary during this semiannual period.

## **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 two Census, one NIST, and one NOAA reports more than 6 months old for which no management decision has been made.

## **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 Resolution and Follow-up*, provides procedures for revising a management decision. For financial assistance audits, OIG must concur with any decision that would change the audit resolution proposal in response to an appeal by the recipient. There are two appeals 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)(13): RESULTS OF PEER REVIEW**

The most recent peer review of the Office of Audit and Evaluation was conducted in 2012 by the Office of Personnel Management (OPM) Office of Inspector General. OPM OIG's *System Review Report* of our audit operations is available on our website. We received a *pass* rating, the highest available rating. We are implementing all of OPM OIG's recommendations for process and policy improvements.

In 2012, we conducted our latest peer review, which examined the National Aeronautics and Space Administration (NASA) OIG's audit operations. NASA's OIG has informed us that it is implementing the recommendation we made in our review.

The most recent peer review of the Office of Investigations was conducted in 2011 by the Office of Personnel Management's OIG. We received a *compliant* rating. The final report of this peer review was issued on April 30, 2012.

# ACRONYMS AND ABBREVIATIONS

<b>ACS</b>	American Community Survey	<b>ITA</b>	International Trade Administration
<b>AEWC</b>	Alaska Eskimo Whaling Commission	<b>JPSS</b>	Joint Polar Satellite System
<b>AFF</b>	Asset Forfeiture Fund	<b>MAF/TIGER</b>	Master Address File/Topologically Integrated Geographic Encoding and Referencing
<b>AIA</b>	America Invents Act of 2011	<b>MEP</b>	Manufacturing Extension Partnership
<b>ASAP</b>	Automated Standard Application for Payment	<b>MTdb</b>	MAF/TIGER database
<b>ATP</b>	Advanced Technology Program	<b>NASA</b>	National Aeronautics and Space Administration
<b>BayWEB</b>	San Francisco Bay Area Wireless Enhanced Broadband	<b>NESDIS</b>	National Environmental Satellite, Data, and Information Service
<b>BEA</b>	Bureau of Economic Analysis	<b>NIST</b>	National Institute of Standards and Technology
<b>BIS</b>	Bureau of Industry and Security	<b>NOAA</b>	National Oceanic and Atmospheric Administration
<b>BPAI</b>	Board of Patent Appeals and Interferences	<b>NPP</b>	National Polar-orbiting Partnership
<b>BTOP</b>	Broadband Technology Opportunities Program	<b>NTIA</b>	National Telecommunications and Information Administration
<b>CCI</b>	Comprehensive Community Infrastructure	<b>NWS</b>	National Weather Service (NOAA)
<b>COTR</b>	contracting officer's technical representative	<b>OIG</b>	Office of Inspector General
<b>CPAF</b>	cost-plus-award-fee	<b>OLE</b>	Office of Law Enforcement (NOAA)
<b>CPAT</b>	cost-plus-award-term	<b>OHRM</b>	Office of Human Resources Management (Commerce)
<b>CPEX</b>	Census Program Evaluation and Experiments	<b>OMB</b>	Office of Management and Budget
<b>CS</b>	Commercial Service (ITA)	<b>OPM</b>	Office of Personnel Management
<b>DOJ</b>	Department of Justice	<b>ORCA</b>	On-Line Representations and Certifications Application
<b>EDA</b>	Economic Development Administration	<b>PCC</b>	Public Computing Centers
<b>ESA</b>	Economics and Statistics Administration	<b>PSIC</b>	Public Safety Interoperable Communications
<b>FAR</b>	Federal Acquisition Regulation	<b>SBA</b>	Sustainable Broadband Adoption
<b>FBI</b>	Federal Bureau of Investigations	<b>SCBA</b>	Second Chance Body Armor
<b>FISMA</b>	Federal Information Security Management Act of 2002	<b>SOP</b>	standard operating procedure
<b>FMC</b>	Fishery Management Council	<b>T&amp;M/LH</b>	Time-and-Materials and Labor-Hour
<b>FY</b>	fiscal year	<b>TAAC</b>	Trade Adjustment Assistance Center (EDA)
<b>GAO</b>	Government Accountability Office	<b>TIP</b>	Technology Innovation Program
<b>GOES</b>	Geostationary Operational Environmental Satellite	<b>USEAC</b>	U.S. Export Assistance Center (ITA)
<b>GOES-R</b>	Geostationary Operational Environmental Satellite-R series	<b>USPTO</b>	U.S. Patent and Trademark Office
<b>IRS</b>	Internal Revenue Service		
<b>IT</b>	information technology		

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#### **OUR MISSION**

To improve the programs and operations of the Department of Commerce through independent and objective oversight.