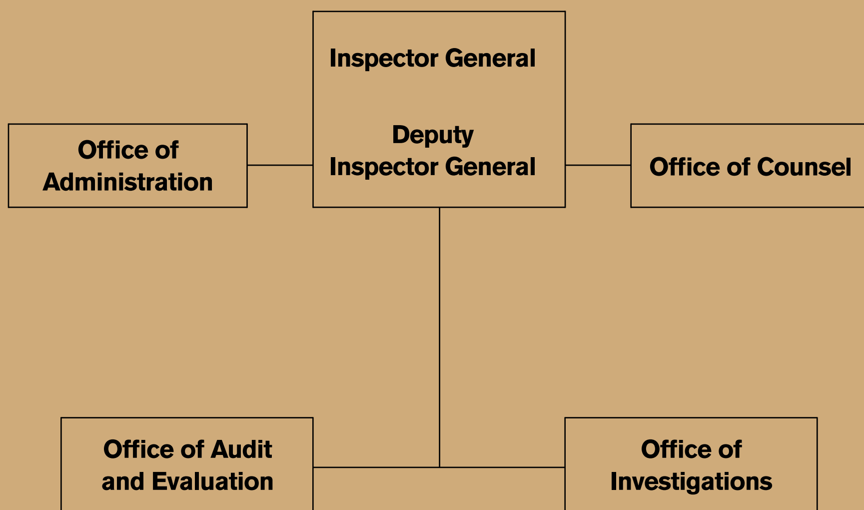
U.S. Department of Commerce
Office of Inspector General

Semiannual Report to Congress

March 2013

OFFICE OF INSPECTOR GENERAL



Oversight Areas

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

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U.S. Department of Commerce
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 March 31, 2013.

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 18 audit, evaluation, and inspection reports addressing programs overseen by the Economics and Statistics Administration, International Trade Administration, National Oceanic and Atmospheric Administration, National Telecommunications and Information Administration, U.S. Patent and Trademark Office, and the Department itself.

In November 2012, we issued our annual report, identifying the top management challenges facing the Department in fiscal year 2013, a summary of which appears on page 2. We will work closely with the Department and Congress in the months ahead to meet these and other challenges facing Commerce as it fulfills its complex mission.

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

We would also like to convey our appreciation of Deputy Secretary Rebecca Blank's outstanding service to the Department and her support of our office over the past 4 years. We wish her well in her new role as chancellor of the University of Wisconsin at Madison.

Todd J. Zinser

TODD J. ZINSER

TOP MANAGEMENT CHALLENGES FACING THE DEPARTMENT

The Reports Consolidation Act of 2000 requires inspectors general to identify the top management challenges facing their departments. In November 2012, the Department of Commerce OIG identified five challenges that require significant departmental attention in FY 2013 and beyond.

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 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.

Stimulate Economic Growth in Manufacturing, Intellectual Property, and Wireless Industries. The Department led several initiatives to help stimulate manufacturing, which plays an important role in creating high-paying jobs. These include a Repatriation Task Force led by the Secretary's office to help bring manufacturing jobs back to America and initiatives led by NIST to stimulate manufacturing technologies. Success in these efforts requires integrating Commerce resources, collaborating with interagency partners, and securing congressional support. Also, timely decisions on patent applications are key to fostering innovation and protecting inventors' intellectual property rights, critical to the U.S. economy.

While USPTO successfully reduced the patent applications backlog from more than 700,000 to around 600,000 by the end of FY 2012, it has a long way to go to achieve its goal of reducing the backlog to a 10-month inventory (approximately 350,000). Also, implementing the Leahy-Smith America Invents Act on patent reform requires significant management planning, oversight, and outreach. Finally, radio frequency spectrum provides an array of wireless communication services critical to the U.S. economy. While recent technology advances make the shared (more efficient) use of spectrum feasible, it requires a strong partnership between NTIA and the Federal Communications Commission and commercial providers to overcome challenges such as bidding incentives, revenue generation, and rights of use.

Promote and Regulate Exports. To promote the President's National Export Initiative, ITA shifted resources to support higher priority markets and has proposed a reorganization to enhance foreign market access and U.S. competitiveness. The Department must continue to strategically reorganize its personnel and resources while providing seamless assistance to the public and enhance collaboration and information sharing with partner agencies. The Department is also responsible for maintaining strong trade enforcement and export control programs. For example, BIS administers and enforces dual-use export controls. In April 2010, the Administration proposed the Export Control Reform initiative to streamline the country's export control system. BIS has worked with its interagency partners to review the munitions and dual-use lists to assess whether changes to controls on certain products are warranted. Commerce must ensure its continued support of these important enforcement and control initiatives through leveraging existing federal resources.

Protect and Promote Marine Fisheries. For several years, we have reported on NOAA's challenge of balancing two competing interests: promoting commercial and recreational fishing as vital elements of our national economy and preserving populations of fish and other marine life. In recent years, members of the fishing industry and elected officials from the New England region have repeatedly questioned certain fishery regulations and whether NOAA has abandoned its core mission of developing the commercial fishing industry and increasing industry participation. In its rulemaking, the Department and NOAA will continue to balance the competing interests of promoting fishing and preserving populations of fish and other marine life.

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

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 these programs.

Increase Internal Controls and Oversight of Departmental Operations Under a Constrained Budget. Since FY 1999, the Department has received unqualified audit opinions on its financial statements. While this is a testimony of the health of departmental financial reporting systems, it is not an adequate benchmark for internal controls and management oversight of day-to-day operations. Recent concerns over conference spending, unauthorized reprogramming of funds, and ethical violations committed by Commerce fund recipients have highlighted the importance of strong internal controls and the continued need for effective management oversight.

Invest for Efficiencies and Long-Term Benefits. Smart investment for long-term benefits, when combined with responsible spending, is key to success in today's constrained budget environment. The Department has endorsed several efforts to modernize its mission-support functions, which require senior management attention. The planned replacement of all legacy financial systems between FYs 2014 and 2018 is critical to the Department's future and Census's 2020 decennial readiness. With the diverse cultures in the Department, synchronizing bureau financial operations to limit the amount of software customization in replacement systems will require strong departmental governance. In addition, the Department needs to work with the U.S. General Services Administration and Congress to secure funding for continued safety improvement in the Herbert C. Hoover headquarters building.

Implement Bold Design Changes to Contain 2020 Decennial Costs While Maintaining Enumeration Quality. The Census Bureau has vowed to contain the costs of the 2020 decennial to an amount close to final costs of the 2010 census. To achieve cost savings, the bureau is exploring new and innovative design alternatives but has already encountered challenges, such as cancellation of lessons-learned studies due to funding constraints, uncertainty surrounding the American Community Survey, and difficulties in accessing administrative records maintained by other government entities—critical to cost containment. In addition, the leadership void at the director's position raises serious concerns. Because the bureau operates on long planning cycles for the decennial census, it is difficult to maintain leadership with a consistent vision throughout the cycles—and much easier to fall back on old ways and institutional habits.

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. While the Department's Chief Information Officer (CIO) 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.

Continue Improving Commerce's IT Security Posture by Addressing Persistent Security Weaknesses. Over the years, we have repeatedly identified significant flaws in basic security measures protecting IT systems and information. We have continually called for greater attention and stronger commitment from the Department's senior management to basic security practices. In response to our recommendations, the Department has updated its IT security policy for vulnerability scanning, secure configurations, and management of plans of action and milestones. However, the Department needs to better enforce these polices to prevent recurrence of security weaknesses.

Develop Resilient Incident Response and Recovery Capabilities with Increased Monitoring of Internet Traffic. Several bureaus in Commerce headquarters rely on the Department's Computer Incident Response Team (DOC CIRT) to provide forensic analysis when a cyber incident occurs. However, while investigating a malware infection concerning EDA during FY 2012, DOC CIRT faced technical challenges and had to depend on several internal and external groups for assistance. The Department needs to strengthen its incident response capabilities to deal with ever-increasing cyber events. Also, implementing the Office of Management and Budget's Trusted Internet Connection (TIC) initiative is critical to monitoring cyber threats from the Internet. While all bureaus have acquired or planned to acquire TIC service by 2014, the Census Bureau has no definite timeline. The Department needs to assign a high priority to help Census resolve its concern that the TIC inspection process may violate Title 13 of the U.S. Code, which guarantees the confidentiality of census information.

Manage Commerce's IT Portfolio with Enhanced Governance Structure. In June 2012, the Acting Secretary issued the "Department IT Portfolio Management Strategy," which expanded the oversight role of the Department's CIO. This new strategy is an important step, but it is too early to judge its effectiveness for two reasons. First, historically, bureaus have functioned independently on IT matters with little departmental direction. Second, the new strategy focuses on increasing the Department CIO's influence on IT shared commodity services, which account for only about 25 percent of the Department's total IT investments. Senior management should consider further enhancing the IT governance structure to help ensure the Department's success with major IT investments.

Strengthen Oversight of IT Investments. The Department's CIO has taken steps to improve the IT investment review process. However, three of six troubled IT investments have remained at high risk for more than 12 months, and about 25 percent of Commerce's major IT investments are 30 percent or more behind schedule. The CIO and Chief Financial Officer need to ensure that program management is more aggressively addressing investments with a history of high risk.

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. While it has made some progress in enhancing acquisition management, such as reorganizing the Office of Acquisition Management, our audits continue to find weaknesses in how the Department plans, administers, and oversees its contracts and acquisition programs.

Implement the Planned Framework for Acquisition Project Management. Because of the challenges the Department encountered in earlier acquisitions, in June 2010, the former secretary mandated a study be conducted on ways to improve the acquisition process. The resulting study identified several problems with the system, including requirements, cost analysis, and oversight of major projects. To address these concerns, the Office of Acquisition Management developed an Acquisition Project Management Framework/Guidebook. The new framework, if implemented consistently, should increase the transparency of bureau acquisition programs and help mitigate risks of cost overruns, schedule delays, and performance shortfalls. The Department needs to ensure that the departmental policy requiring the use of the uniform acquisition framework is issued and followed by all bureaus.

Oversee High-Risk Contracts. In FY 2011, the Department reported progress in reducing dollar amounts of high-risk contract awards. Nonetheless, overseeing existing high-risk contracts remains a challenge to management. We continue to find weaknesses in the use of cost-plus-award-fee and cost-plus-award-term contracts. For example, in May 2012, we reported that NOAA consistently gave contractors high ratings and substantial award fees and contract extensions, despite the lack of adequate support for their actual performance. Based on our audit, we found that more than $40 million was paid in award fees or approved for contract extensions without proper justification. Effective implementation of NOAA measures will be critical to ensuring it does not pay improper award fees and extend contract terms.

Maintain an Acquisition Workforce That Holds Bureau Officials Accountable. Commerce acquisition workforce's capability to oversee and manage contracts faces major challenges due to high turnover and employee retirement, coupled with a significantly reduced budget, gaps in key competency areas, and expanded workload. Also, our investigations have continuously identified the need for more vigilant oversight and stronger process controls to detect and prevent procurement fraud, waste, and abuse. The Department needs to continue its recruitment efforts at the acquisition entry levels and focus on staff retention to maintain corporate knowledge.

Implement an Effective Suspension and Debarment Program. Since finalizing its first suspension or debarment action in over 15 years, in April 2011, the Department has made progress toward establishing an efficient and durable suspension and debarment program. However, certain issues present ongoing challenges. Specifically, while the Office of the Suspending and Debarring Official has begun drafting policy documents to institutionalize processes regarding the referral, review, and issuance of suspension and debarment matters, the adoption process needs to be finalized. Also, there is room for improvement regarding the prompt review of referral, and the program lacks a clear delineation of roles and responsibilities.

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 satellites will provide data and imagery for weather forecasting and the study of climate change. Operating environmental satellites and weather forecasting are primary mission-essential functions of the Department, 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.

Communicate with Stakeholders to Define Joint Polar Satellite System (JPSS) Capabilities, Schedule, and Cost Baselines. In our September 2011 audit report, we recommended that NOAA develop a mechanism to provide executive and legislative decision makers with complete, objective, and understandable information that illustrates the consequences of limiting satellite observational capabilities. This was driven, in part, from congressional concerns regarding NOAA's limited communication of plans for its satellite programs. During FY 2012, NOAA has made progress in prioritizing and finalizing high-level JPSS requirements to support its commitment to capping the life-cycle costs at $12.9 billion. Nonetheless, fitting requirements into a previously authorized budget increases project risks. NOAA needs to revisit the cost estimates after finalizing lower-level JPSS requirements, acquisition strategies, and system design—particularly for the ground system and "free-flyer" satellites—and work with the Department and Congress in adjusting its budget estimates.

Ensure Adequate Leadership and Governance Structure over JPSS Development. More progress in JPSS development may have been possible if not for delays in defining the program's governance structure and staffing key positions. NOAA and NASA did not agree to a management control plan for JPSS until February 2012, nearly 2 years after the program was started. Also, only two of the top five management positions overseeing JPSS development were permanently filled since program inception. Qualified officials, who can make timely decisions and take management action, are essential for the success of JPSS development. NOAA needs to fill open positions overseeing JPSS development and govern the program according to the management plan accepted by NASA.

Develop a Plan to Support NOAA Weather Forecasting Capabilities During Coverage Gaps. We project a 10–16-month gap between Suomi National Polar-orbiting Partnership's (Suomi NPP's) end of design life and when JPSS-1 data become available. NOAA's medium-range weather forecasting (3–7 days) could be significantly degraded during the time that JPSS data are unavailable. In our September 2011 report, we recommended that NOAA take actions to minimize the degradation of weather and climate forecasting during coverage gaps. NOAA agreed but did not fully develop a strategy and mitigation plan. NOAA needs to develop a timetable to having a mitigation plan in place before Suomi NPP's end of design life: November 2016.

Reduce Program Risks Associated with GOES-R Development. There is less than a 50 percent chance the Geostationary Operational Environmental Satellite-R Series (GOES-R) will be launched on schedule, based on the program's own models used to assess GOES-R development. NOAA must implement solid program management and system engineering principles to control costs, keep schedules on track, and maintain required technical performance. The program's standing review board has also warned that should the program's request in the President's FY 2013 budget submission not be realized, a launch delay is nearly certain. NOAA needs to adequately communicate to decision makers its justification for the significant funding increase for FY 2013.

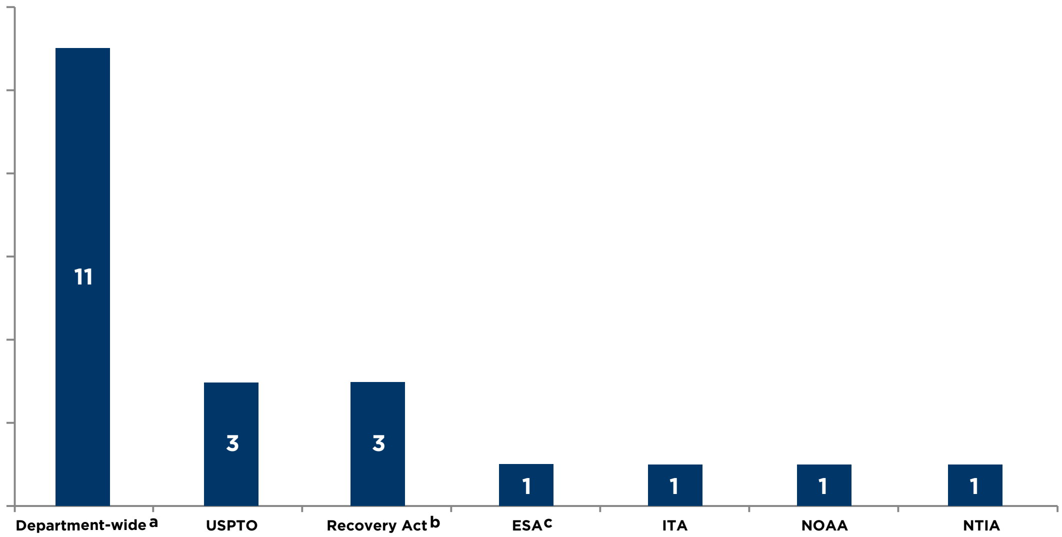
DEPARTMENT-WIDE MANAGEMENT

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 18 audits, evaluations, and inspections, as well as 3 congressional testimonies.



[a] Department-wide completed works include 2 testimonies.

[b] Recovery Act-related completed works concern NTIA, including 1 testimony.

[c] ESA completed work concerns the Census Bureau.

QUARTERLY CONFERENCE REPORTING PROCESSES NEED IMPROVEMENT (OIG-13-001-I)

In FY 2012, the Department received an appropriations provision in the Consolidated and Further Continuing Appropriations Act, 2012 (P.L. 112-55) requiring it to submit to OIG quarterly reports on the costs and contracting procedures related to FY 2012 departmental conferences for which the government's costs exceeded $20,000. In the Department's first conference spending report to OIG, five bureaus—Census Bureau, ITA, NOAA, NTIA, and USPTO—reported 24 conferences, totaling over $1.7 million, in the first quarter of FY 2012.

In March 2012, the Department submitted its first quarter conference report to OIG, along with a summary of its report validation process and an explanation of ongoing improvements to conference reporting guidance. In April, we initiated an evaluation of the conference reporting process; our objective was to determine whether the Department had established controls and provided guidance to bureaus for reporting quarterly conference data. We limited the scope of our evaluation to processes for reporting the Department's conference data for the first quarter FY 2012–October 1, 2011, through December 31, 2011.

Our review found that, for this first conference report, the Department established initial operational processes and reporting guidance. However, these processes were still in development and needed to become clearly established before the information in its periodic reports is fully reliable. We noted the following:

- The bureaus over- and underreported costs by $37,000 and $70,000, respectively, and reported $280,000 in unsupported costs.

- The Department accepted bureaus' conference spending data with only a limited validation of the reported data and planning procedures, which resulted in incorrect reporting for select conferences.

We made a number of policy, process, training, and testing recommendations to the Department's director of the Office of Administrative Services to ensure the reliability of conference data in future submissions.

FY 2012 FEDERAL INFORMATION SECURITY MANAGEMENT ACT (FISMA) ANNUAL REPORT (OIG-13-008-M)

To meet OIG obligations under FISMA, we reviewed the Department's IT security policies and procedures. We also assessed the effectiveness of the information security programs of four bureaus—EDA, ITA, NTIA, and USPTO—by evaluating key security measures in place to protect mission-critical information that is processed, stored, or transmitted on 17 information systems.

While the Department had taken steps to improve its IT security posture, we found significant security weaknesses in basic security practices. Specifically, our FY 2012 FISMA audit work identified weaknesses in security categorization, patch management, secure configuration settings, vulnerability scanning, tracking and remediation of security weaknesses, and incident response capabilities.

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

The Federal Information Security Management Act of 2002 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.

FY 2012 COMPLIANCE WITH IMPROPER PAYMENT REQUIREMENTS (OIG-13-020-I)

We initiated this engagement to review the Department's compliance with the Improper Payments Information Act of 2002 (IPIA)—as required by the Office of Management and Budget's (OMB's) government-wide implementation guidance, Circular A-123, Management's Responsibility for Internal Controls, Appendix C, "Requirements for Effective Measurement and Remediation of Improper Payments." Specifically, we (1) assessed whether the Department complied with all reporting requirements and (2) evaluated the accuracy and completeness of its reporting as well as its performance in reducing and recapturing improper payments.

To comply with IPIA and OMB Circular A-123, Appendix C, the Department implemented procedures in FY 2012 to detect and prevent improper payments—conducting program risk assessments, reviewing a sample of FY 2012 disbursements, performing payment recapture audits, and conducting routine monitoring procedures. These assessments revealed no programs or activities susceptible to significant risk of improper payments.

In addition, the Department's review did not identify any significant improper payments among its approximately $14.8 billion in outlays. The Department's routine monitoring efforts in FY 2012 identified almost $1.2 million in improper payments, of which more than $1 million was confirmed by the Department as recaptured. The Department also implemented corrective actions to address some of the issues identified in our March 2012 report on improper payment practices and reporting. A summary of the Department's relevant FY 2012 practices and results appears in the U.S. Department of Commerce FY 2012 *Performance and Accountability Report (PAR)*.

While the Department met the applicable compliance requirements for FY 2012, we determined that the Department could further improve its improper payment implementation strategy related to payments made without sufficient documentation. An OIG audit found that the Department paid more than $300,000 in award fees without proper justification for one contract. This amount was considered an unsupported cost. Any such payment made without sufficient documentation to determine propriety represents an improper payment. However, this amount was not included in the Department's FY 2012 improper payment reporting in the *PAR*.

We recommended that the Department identify items that lack sufficient documentation from OIG audits and reviews of its programs and activities and report the unsupported costs related to those items as improper payments in its annual *PAR*.

Improper Payments Elimination and Recovery Act of 2010 (IPERA) (P.L. 111-204)

IPERA amended the Improper Payments Information Act of 2002 (P.L. 107-300), by expanding on the previous requirements for identifying, estimating, and reporting on programs and activities that were vulnerable to significant improper payments and broadening recovery requirements for overpayments. (*Improper payments* are those made by the federal government in the wrong amount, to the wrong entity, or for the wrong reason.)

LETTER TO REPRESENTATIVES ISSA AND CUMMINGS REGARDING THE OIG WORK PLAN AND UNIMPLEMENTED RECOMMENDATIONS (OIG-13-025-M)

In response to a congressional request, the Inspector General provided information about OIG's work plan and highest-priority unimplemented recommendations to the Department or its bureaus. In his reply, he noted that OIG's annual risk-based work plan includes legislatively mandated work, such as reviews of IT security and annual financial statement audits, as well as other priorities discussed in the annual *Top Management Challenges* report. OIG's plan contains the flexibility to perform critical unplanned additional work that is either required by new legislation or requested directly by Congress.

OIG's most important unimplemented short-term recommendations concern the following program areas: NOAA deficiencies in budgetary controls and accounting procedures, NOAA environmental satellite programs, NOAA acquisitions, and NTIA's and ITA's IT security. The most important unimplemented long-term recommendations concern NOAA deficiencies in budgetary controls, USPTO IT automation, and the Census Bureau's 2020 decennial census. The issues, recommendations, and implementation status were summarized in more detail in two enclosures.

A third enclosure described ways in which the Department and bureau management solicit OIG input on how to improve efficiency and reduce waste. For the Recovery Act, the Department and bureau management reached out to OIG for assistance in several ways, including involvement in NTIA's oversight of the Broadband Technology Opportunities Program through workshops, training sessions, assistance in drafting program-specific audit guides, and site visits. Bureau and departmental management requested audit data and analysis as well as assistance in resolving operational issues. In addition, the Inspector General attends select departmental meetings to keep posted on bureau events. OIG is also working with the Department to identify additional departmental and bureau oversight meetings at which OIG could participate in an advisory capacity.

FY 2012 CONSOLIDATED FINANCIAL STATEMENT AUDITS (OIG-13-006-A, OIG-13-007-A, OIG-13-009-A)

Independent auditor KPMG LLP found that the Department's consolidated financial statements were fairly presented in all material respects and in conformity with U.S. generally accepted accounting principles. It found no instances in which the Department's financial management systems did not substantially comply with the requirements of the Federal Financial Management Improvement Act of 1996.

KPMG found one material weakness in internal control over financial reporting related to NOAA's financial management oversight of budgetary controls and accounting for general property and satellites. The budgetary control issues related to moving expenses between accounts to prevent exceeding budget authority, and using appropriations for program activities that may not meet the intended purpose. The property issues, including satellites, related to proper and timely accounting for acquisitions, transfers, construction work-in-process, asset retirements, and impairment assessments. As a result of these matters, NOAA needs to make significant improvements in its financial management oversight of its budget execution processes, as well as the effective accounting for its property, including satellites. (A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.)

In addition, KPMG noted one significant deficiency related to controls over general information technology (which was not considered to be a material weakness). KPMG identified new deficiencies in FY 2012 relating to control weaknesses in IT security, access, and configuration management that require management's attention. Despite the positive efforts made by the Department, the Department needs to make continued improvements in its IT controls to fully ensure that financial data processed on the Department's systems has integrity, is securely maintained, and is available only to authorized users. (A *significant deficiency* in internal control exists when the design or operation of a control does not allow management or employees—in the normal course of performing their assigned functions—to prevent or detect and correct misstatements on a timely basis and merits attention by those charged with governance.)

KPMG also noted a reportable noncompliance with the Antideficiency Act. During FY 2012, the Department determined that the National Weather Service, a component of NOAA, circumvented budgetary controls by moving expenses between accounts to prevent exceeding budget authority.

KPMG also audited the Department's special-purpose financial statements and determined its compliance with financial reporting requirements in the *Treasury Financial Manual*. These statements are used to assist in preparing the *Financial Report of the U.S. Government*. In its unqualified opinion on these statements, KPMG reported no material weaknesses in internal control and no instances of noncompliance.

NONFEDERAL AUDIT RESULTS FOR THE 6-MONTH PERIOD ENDING DECEMBER 31, 2012 (OIG-13-015-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 December 31, 2012, OIG reviewed 115 reports by recipients of grants from EDA, MBDA, NIST, NOAA, and NTIA. The audits identified approximately $2,355,151 in questioned costs. 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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, section 235. During the reporting period, OIG analyzed 27 audits submitted for awards to commercial and other organizations for NIST's Advanced Technology Program (ATP) and NIST's Technology Innovation Program (TIP). The audits identified approximately $1,655,673 in questioned costs for these program-specific audits.

AUDITS OF COMMERCE FUND RECIPIENTS BY INDEPENDENT AUDITORS (REVIEWED BY OIG DURING THE 6 MONTHS ENDING MARCH 31, 2013)

In addition to undergoing OIG-performed audits, certain recipients of Department of Commerce financial assistance or cost-reimbursable contracts 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 are audited in accordance with *Government Auditing Standards*. For-profit organizations include those that receive TIP funds and funds from NIST's Measurement and Engineering Research and Standards program. In addition, organizations that received ATP funds are audited in accordance with NIST *Program-Specific Audit Guidelines for Advanced Technology Program Cooperative Agreements*.

We examined 144 audit reports during this semiannual period to determine whether they contained audit findings related to departmental programs. For 89 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 55 reports cover entities for which other federal agencies have oversight responsibility. We identified 14 reports with material findings related to the Department.

Report Category	OMB A-133 Audits	Program-Specific Audits	Total
Pending Review (October 1, 2012)	23	2	**25**
Received	118	20	**138**
Examined	125	19	**144**
Pending Review (March 31, 2013)	16	3	**19**

The following table shows a breakdown by bureau of approximately $538 million in Department funds audited through the A-133 or program-specific guidelines.

Agency	Funds
Economic Development Administration	76,744,846
Minority Business Development Agency	0
National Institute of Standards and Technology[a]	45,320,189
National Oceanic and Atmospheric Administration	15,513,242
National Telecommunications and Information Administration	142,605,296
Multi-bureau	257,712,441
Total	**537,896,014**

[a] Includes $41,137,120 in program-specific audits; A-133 audits account for the remaining amount of $4,183,069.

The audits identified a total of $2,773,970 in the federal share of questioned costs, $145,356 in federal unsupported costs and $2,450,174 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 14 reports with departmental findings are listed in table 7-a on page 52.

CONGRESSIONAL TESTIMONY (OIG-13-018-T)

On February 28, 2013, the Deputy Inspector General testified before the House Science, Space, and Technology's Subcommittee on Oversight about the top management challenges facing the Department in FY 2013. (These are summarized on pages 2–6 of this report.) Before discussing the individual challenges, he noted that the Department plays a pivotal role in implementing the President's initiatives for economic recovery and job creation and, like other federal agencies, faced significant financial uncertainties in the upcoming year.

CONGRESSIONAL TESTIMONY (OIG-13-019-T)

On March 5, 2013, the Inspector General testified before the House Appropriations Committee's Subcommittee on Commerce, Justice, Science, and Related Agencies about the Department's FY 2013 top management challenges. He focused on specific aspects of four of the five challenges. NOAA satellite-related challenges, he said, include reducing the risk of cost overruns, schedule delays, and coverage gaps. For the 2020 Census, the bureau needs to implement design changes to contain life-cycle costs while maintaining enumeration quality. The U.S. Patent and Trademark Office must reduce the patent backlog, improve processing times, and effectively implement patent reform. The fourth area—departmental operational controls and oversight—requires strengthened operational controls and oversight under constrained budgets.

BODY ARMOR MANUFACTURER SETTLES IN DEFECTIVE MERCHANDISE CASE

In October 2012, First Choice Armor & Equipment (First Choice); Edward Dovner; Karen Herman; Exotic Cars, LLC; Excel Aviation, LLC; and MRSA Jets, LLC (collectively, "the Dovner Corporations") agreed to settle a civil false claims case for $250,000 as the result of an investigation into the manufacture and sale of bulletproof vests containing Zylon. This settlement is part of a larger investigation of the body armor industry's use of Zylon ballistic material in body armor, as we previously reported in prior *Semiannual Reports*. 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 First Choice 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.

FORMER DEPARTMENT EMPLOYEE REMOVED FOLLOWING DISCLOSURE OF PERSONALLY IDENTIFIABLE INFORMATION AND PROVIDING FALSE INFORMATION

In December 2012, a Department employee resigned from federal service after our investigation determined she had committed several improprieties in the course of performing her official job duties, as well as in her role as a supervisor. We found that the former employee provided false information to the Department's Computer Incident Response Team (DOC-CIRT) when she asserted she had encrypted the social security numbers of over 30,000 Department employees within files she e-mailed. Our investigation, performed jointly with CIRT, found the e-mailed files clearly exposed the employees' social security numbers. In the course of our investigation, we also determined the former employee had inappropriately approved a $1,000 cash award to a subordinate for performance in order to offset the subordinate's loss of salary resulting from a change in the subordinate's tax withholdings. Further, we found the former employee had not followed Department policy when she approved over $100,000 in student loan repayments for three employees.

NINE ADDITIONAL MULTIMILLION DOLLAR GUILTY PLEAS IN PRICE-FIXING CASE

In November 2012, 10 Japanese shipping companies pled guilty for their roles in a conspiracy to fix certain fees in the provision of freight forwarding services for air cargo shipments from Japan to the United States between September 2002 and November 2007. In the September 2010 *Semiannual Report*, we reported on guilty pleas by six companies for their violations of the Sherman Antitrust Act by conspiring to create and fix fees related to export surcharges, currency adjustments, and peak season surcharges. As a result of this multiyear investigation, 16 companies have either pled guilty or agreed to plead guilty and have agreed to pay criminal fines totaling more than $120 million. The investigation was conducted in conjunction with DOJ's Antitrust Division–National Criminal Enforcement Section, and the Federal Bureau of Investigation's Washington Field Office.

ECONOMIC DEVELOPMENT ADMINISTRATION

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

EDA INSTITUTES NEW SAFEGUARDS TO ADDRESS GRANT MANAGEMENT CONCERNS

Our office initiated a joint investigation with the Federal Bureau of Investigation (FBI) into the potential forgery of grant documents on an EDA grant. We confirmed multiple instances of evident forgery and fraud related to grant beneficiary assurances on two occasions, although there was insufficient evidence to prove who actually forged the documents. We found EDA lacked a clear policy across its regional offices on the amount of pre-award due diligence that must be conducted on grant applicants and beneficiaries. We also identified concerns with the enforcement of regulations limiting the extent to which grantees may use private consultants to prepare their grant applications. In January 2013, EDA responded to our findings by (1) withholding final payment to the grantee, pending administrative action with respect to the grantee's employees who had not properly vetted the beneficiary assurances, and (2) restating existing EDA policies regarding the required due diligence for review and approval of applications and related documentation, as well as recordkeeping and internal controls.

EDA REVISES POLICY TO ENSURE BETTER MONITORING OF HIGH-RISK GRANTEES

In June 2010, our office opened an investigation regarding misuse of EDA grant funds by an EDA grantee in Arizona and determined the grantee had used EDA grant funds to pay an employee who worked on non-EDA projects, resulting in an improper payment of $17,337.83 in federal funds to the grantee. Subsequently, EDA designated the grantee as high-risk and instituted policy changes to ensure proper training and compliance for both the grantee and the regional office in charge of oversight of the grantee. This case originated from a hotline complaint.

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.

LETTER TO SENATOR COBURN REGARDING IMPROVING THE 2020 CENSUS THROUGH ADMINISTRATIVE RECORDS AND GEOSPATIAL INFORMATION (OIG-13-002-M)

In October 2012, the Inspector General responded to a request from Senator Coburn made during a July 2012 hearing about 2020 Census planning before the U.S. Senate Committee on Homeland Security and Governmental Affairs, Subcommittee on Federal Financial Management, Government Information, Federal Services, and International Security. Senator Coburn asked OIG to 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.

The Inspector General's response outlined that data collected by federal agencies for program purposes (typically referred to as *administrative records*) contain personally identifiable information that, when combined with other records, can produce statistical information such as demographic, labor force, and socioeconomic indicators. Administrative records have the potential to decrease data collection costs, reduce respondent burden, and produce additional data that are not collected by questionnaires. However, accumulating person-level information from multiple sources must be balanced against privacy and confidentiality concerns. Consequently, OIG suggests that Congress consider (1) playing a role in compelling other federal agencies to provide their data to the Census Bureau and (2) easing the Bureau's restrictions on sharing address information with state and local governments.

INTERNATIONAL
TRADE
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-size 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 promotion 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.

U.S. EXPORT ASSISTANCE CENTERS COULD IMPROVE THEIR DELIVERY OF CLIENT SERVICES AND COST RECOVERY EFFORTS (OIG-13-010-I)

CS is a key player in the National Export Initiative (NEI), the Administration's plan to double U.S. exports by the end of 2014 over 2009 levels. The NEI calls on more than a dozen federal agencies and offices to help U.S. companies increase their exports and create jobs. This initiative was announced by the President during the 2010 State of the Union address and promulgated by executive order.

Our review sought to (1) evaluate whether CS' allocation of domestic resources meets its mission and goals, (2) assess CS's level of cost recovery, and (3) determine the extent to which the level of coordination between USEACs and their federal and nonfederal partners is sufficient to meet Administration priorities with respect to the NEI.

Overall, we found the USEACs deliver a broad range of services to U.S. companies seeking to export. Trade specialists counsel clients, attend networking events, conduct outreach, and work with partners to deliver services that U.S. exporters need.

However, we found that CS could improve resource allocation by closing offices that are vacant, poorly located, or producing consistently lower output relative to other offices. CS could further maximize resources by minimizing the administrative tasks performed by specialists, as well as addressing issues with overseas offices that negatively impact service delivery. Additionally, CS could improve its level of cost recovery by (a) updating its cost model with current and more accurate information and (b) resolving weaknesses with certain internal financial controls. Finally, CS could improve collaboration and coordination with partners by providing enhanced guidance and online training and work to address statutory limitations that prevent the sharing of client information. As a result of this work, OIG identified $1.5 million in funds put to better use over 2 fiscal years.

U.S. Export Assistance Centers

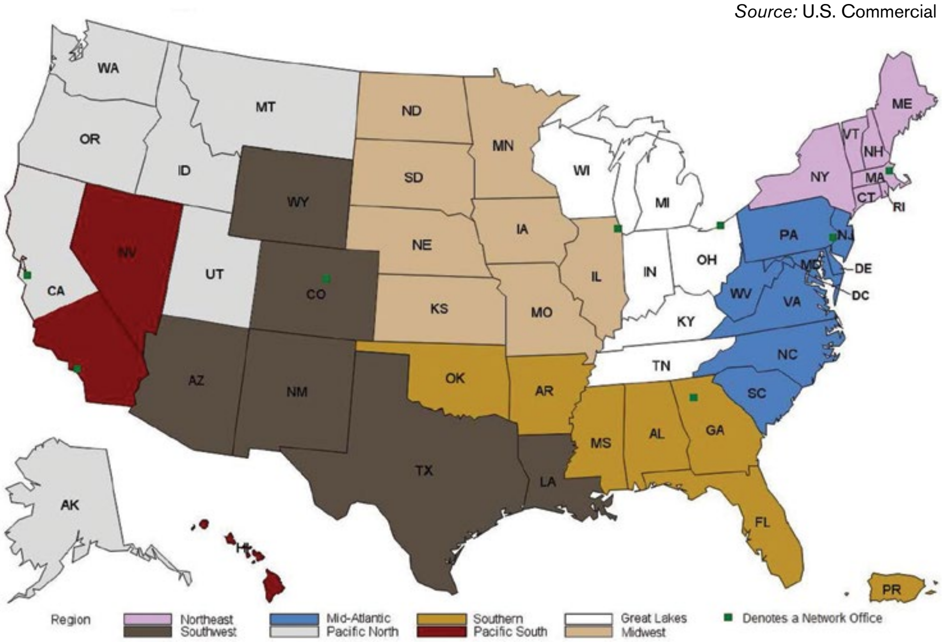
The Office of Domestic Operations of the United States & Foreign Commercial Service (CS) employs around 350 staff, most of whom are trade specialists. This domestic unit operates 107 field offices, known as U.S. Export Assistance Centers (USEACs) located across eight networks nationwide.

Domestic trade specialists at USEACs provide export counseling to small- and medium-size businesses, helping them identify foreign markets and facilitate the sale of their products. They work closely with overseas CS staff to set up interviews with foreign buyers, compile financial reports on foreign companies, and screen foreign business contacts for U.S. companies. The vast majority of services that USEACs deliver are free of charge.

A CS service that results in an actual export sale or the appointment of a foreign agent/distributor is recorded as an export success, which is among the organization's primary performance measures.

Commercial Service USEAC Networks

Source: U.S. Commercial Service



MINORITY BUSINESS DEVELOPMENT AGENCY

The **Minority Business Development Agency** was created to help minority owned and operated businesses achieve effective and equal participation in the American free enterprise system and overcome the social and economic disadvantages that have limited their participation in the past. MBDA provides management and technical assistance to minority firms upon request, primarily through a network of business development centers. It also promotes and coordinates the efforts of other federal agencies in assisting or providing market opportunities for minority businesses.

MBDA INSTITUTES POLICY CHANGES IN RESPONSE TO REVIEW OF REGIONAL LOCAL TRAVEL PRACTICES

In response to a congressional request, our office reviewed travel reimbursement documents and policies for MBDA's Chicago regional office and identified several internal control weaknesses in its processing of travel reimbursements. Our investigation found that between October 1, 2008, and May 25, 2011, eight employees of MBDA's Chicago office, including the regional director, received reimbursements totaling approximately $25,700 for travel expenditures. These were claimed in a total of 551 vouchers, which appear to encompass both local cab fares (e.g., in or around Chicago) and cab fares while on agency-approved travel outside the local area. We identified internal control issues related to how travel vouchers are reviewed and approved and made several recommendations to MBDA. In response to our findings, MBDA revised its *Financial Management Guide* and now requires supervisory approval of travel vouchers for all MBDA staff, as well as receipts for all travel expenses.

NATIONAL INSTITUTE OF STANDARDS AND TECHNOLOGY

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

FORMER NIST EMPLOYEE ORDERED TO REPAY FEDERAL GOVERNMENT

In March 2013, based on the results of OIG's investigation, NIST sent a collection letter to a former employee ordering repayment of $10,221.97 for expenses she improperly charged to her government purchase card. The employee had previously resigned from federal service and signed a resolution agreement stating she would be liable for any debt established during her federal employment.

NIST EMPLOYEE RESIGNS AFTER COMMITTING ETHICAL VIOLATIONS

During this semiannual reporting period, an official at NIST's Gaithersburg campus resigned from service after our investigation determined he had engaged in multiple ethics violations and had maintained improper content on his government e-mail account, including racially offensive material and pornographic content. Our office initiated the investigation following concerns of a large copper theft ring originating at NIST and found internal control deficiencies regarding the procurement, inventory, use, and recycling of materials from NIST's Facilities Management Division, creating opportunity for widespread copper theft, which may have involved the official. In the course of our investigation, we learned of several improprieties on the part of the official and identified several violations of the Standards of Ethical Conduct for Employees of the Executive Branch, leading to the supervisor's resignation. This case originated from a hotline complaint.

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 NEEDS TO CONTINUE STREAMLINING THE RULEMAKING PROCESS AND IMPROVE TRANSPARENCY AND CONSISTENCY IN FISHERIES MANAGEMENT (OIG-13-011-I)

In August 2011, Congressmen Barney Frank and John F. Tierney asked OIG to review controls and processes used by NOAA's Fishery Management Councils (FMCs) to develop rules for the commercial fishing industry—known as fishery rulemaking. The request was prompted by concerns that NOAA's National Marine Fisheries Service (NMFS) had abandoned its core missions of "development of the commercial fishing industry" and "increasing industry participation." We are conducting this review of rulemaking in several phases and plan to generate additional reports. In this first phase, we evaluated 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. Subsequent products will look further into NOAA and the FMCs and the rules they develop.

We found the following:

- FMC voting members' financial disclosures do little to increase transparency and lack effective review.
- NMFS has not fully implemented regulatory streamlining remedies.
- Maintenance of rules packages and administrative records needs to be consistent.

We recommended that the Assistant Administrator for NOAA Fisheries

- strengthen policy guidance on financial disclosure by FMC voting members, with emphasis on how NOAA intends to handle specific consequences for conflicts or potential conflicts it identifies;
- strengthen processes for formal reviews of financial interest disclosures, considering the time period that the disclosure covers, how financial interest amounts relate to voting restrictions, and when affiliations with outside organizations should be reported;
- strengthen criteria for identifying conflicts of interest and processes to follow up on any conflicts that are identified;
- finalize draft Operational Guidelines and provide them to NMFS regional offices;
- finalize regional operating agreements between NMFS regional offices and FMCs; and
- develop uniform procedures for the collection, management, and maintenance of documents supporting decisions and administrative records associated with fishery regulations.

Magnuson-Stevens Fishery Conservation and Management Act

The legislation that directs how NOAA manages the nation's fisheries and the principal law that governs the fishery rulemaking process is the Magnuson-Stevens Fishery Conservation and Management Act (MSA). A primary goal of the MSA is to end and prevent overfishing through the use of annual catch limits and accountability measures.

Eight regional Fishery Management Councils, established by the MSA, work with NOAA and the public to prepare and maintain fishery management plans for fisheries under their authority. Fishery management plans are intended to preserve and repair fisheries while minimizing adverse effects on dependent communities through a formal process that incorporates scientific data, the knowledge of council members and advisory bodies, and public input.

Fishery Management Rulemaking

Source: OIG

LETTER TO REPRESENTATIVE JONES RE: NATIONAL MARINE FISHERIES SERVICE'S RESPONSE TO THE 2006 DISCOVERY OF A NORTH ATLANTIC RIGHT WHALE CALF CARCASS

In response to a congressional request, OIG examined issues related to NMFS' response to the January 2006 discovery of a dead North Atlantic right whale calf off the coast of Jacksonville, Florida. The North Atlantic right whale is designated as an endangered species under the Endangered Species Act (ESA) and listed as depleted under the Marine Mammal Protection Act (MMPA). Historically, right whale populations were depleted by commercial whaling; more recently, however, vessel collisions and entanglement in fishing gear have contributed to their lack of recovery.

As part of our inquiry, we reviewed the temporary, emergency, and final rules that NMFS enacted under the MMPA and the ESA. These rules severely restricted the activities of fishermen using small mesh gill nets to target whiting in the Southeastern U.S. critical habitat for northern right whales during annual restricted periods associated with the right whale calving season. We also reviewed the March 2006 necropsy (autopsy) report and scientific journal articles on large whale (including right whale) entanglements, and interviewed representatives of the whiting component of the Southeast Atlantic gillnet fishery, the necropsy team lead, and various NMFS officials. Our efforts alerted us to several matters that we felt warranted further action.

We found a January 2006 letter in which the Humane Society of the United States (HSUS) urged NMFS to close gillnet fisheries in the Southeast U.S. Restricted Area immediately, indicating that HSUS had been made privy to the preliminary necropsy results. While we did not find that NMFS officials communicated with HSUS concerning the necropsy findings, the necropsy team lead said it was possible that he conveyed this information to HSUS and that he was unaware of any confidentiality provision restricting him from doing so. Accordingly, we recommended that NMFS establish protocols to safeguard the integrity of such information in the future so as to ensure full compliance with NOAA's Information Quality Guidelines and the Federal Information Quality Act.

We examined information related to NMFS' and the Department's Office of General Counsel's (OGC's) respective processing of a January 2007 Freedom of Information Act (FOIA) request and subsequent March 2008 appeal submitted by representatives of the whiting component of the Southeast Atlantic gillnet fishery. We found that NMFS failed to meet FOIA's 20-business day response period by 6 weeks, while OGC responded to the associated appeal 23 months late. As such, we recommended that both offices streamline and coordinate their FOIA processes so that they are better able to meet these statutory guidelines.

We also found that after the FOIA requesters asked for a fee waiver, NMFS changed their classification from "other" to "commercial," raising concerns that NMFS sought to penalize the requesters for seeking the waiver. While we did not find evidence to suggest that this action was improper or that it adversely impacted the requesters in this case, we recommended that NMFS ensure that it properly categorizes FOIA requesters in accordance with FOIA at the outset when it determines that FOIA fees will be charged to avoid the appearance of impropriety.

Finally, we found that OGC could not determine in the course of the appeal process whether NMFS wrongly withheld records from the FOIA requesters, because OGC could not ascertain from the records it was provided how NMFS applied particular FOIA exemptions to withhold entire records. While neither FOIA nor the Department's FOIA regulations require that this information be provided to OGC, an OGC attorney said that not doing so is a problem because it slows down the appeal process. The chief of OGC's General Law Division reported that OGC attorneys are working with NOAA's FOIA coordinator and various NMFS personnel to improve this and other shortcomings that OGC has observed in NMFS' processing of FOIA requests.

TWO FORMER EXECUTIVE DIRECTORS OF ALASKA ESKIMO WHALING COMMISSION SENTENCED FOR FRAUD

In November and December 2012, two former executive directors for the Alaska Eskimo Whaling Commission (AEWC) were sentenced to 41 months, and 6 months in prison, respectively, for their roles in defrauding AEWC. They were also ordered to pay restitution in the amounts of $383,193.90 and $100, 339. AEWC had received grant funds from NOAA for implementing a whaling weapon improvement plan, undertaking a census of whale species, and paying for employees and commissioners to attend International Whaling Commission and AEWC meetings. Previously, in the September 2012 *Semiannual Report*, we reported on the guilty pleas entered by the two former AEWC executive directors for counts of fraud and money laundering. Our joint investigation with the FBI and the Internal Revenue Service disclosed that in 2007 and 2008 the former executive directors misapplied over $600,000.

NOAA EMPLOYEE REPRIMANDED FOR IMPROPER USE OF GOVERNMENT OWNED VEHICLES

In February 2013, NOAA issued a Letter of Caution to a NOAA law enforcement officer for repeated improper incidental use of a government vehicle for personal errands both on his way to and from work over the course of a number of years. As a response to our investigation, NOAA instituted new policies and procedures with respect to use of government vehicles, including a prohibition on home-to-work vehicles.

SCIENTIST FORMERLY ON ASSIGNMENT TO NOAA SENTENCED FOR CLEAN WATER ACT VIOLATION

In March 2013, an engineer formerly assigned to NOAA's National Environmental Satellite, Data, and Information Service was sentenced to 2 years' probation after pleading guilty to discharging fill material into the Chesapeake Bay without a permit, in violation of the Clean Water Act. Further, the engineer was ordered to remove, at his own expense, all fill material discharged into the Chesapeake Bay. Our office provided the forensic analysis support for the case, jointly investigated by the Environmental Protection Agency–Criminal Investigative Division and the U.S. Fish and Wildlife Service, Office of Law Enforcement. The investigation determined the engineer had discharged fill material from his home into the Chesapeake Bay, scraping away significant soil on the cliff face and interfering with the critical habitat of the Puritan Tiger Beetle, an endangered species as identified by the Endangered Species Act.

NOAA EMPLOYEE RETIRES FOLLOWING FINDINGS OF MISMANAGEMENT

During this semiannual reporting period, a NOAA employee retired from federal service after our investigation found the employee had engaged in poor contract management and failed to effect strong internal controls for procurements. In particular, we found the employee had engaged in questionable noncompetitive contracting practices, unauthorized procurement actions, and potential organizational conflicts of interest. Further, in the course of our investigation, we found the employee demonstrated an evident lack of candor regarding his knowledge and involvement in these activities.

NATIONAL TELECOMMUNICATIONS AND INFORMATION ADMINISTRATION

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

FOURTH ANNUAL ASSESSMENT OF THE PSIC GRANT PROGRAM (OIG-13-016-A)

Our assessment found that, overall, NTIA is providing effective oversight of PSIC grants. However, we identified instances where additional communication from NTIA to recipients could have clarified the unique requirements of this grant program, resulting in greater recipient compliance. In addition, although NTIA faced many significant challenges in administering this grant program, a higher level of monitoring by NTIA could have prevented many instances of recipient noncompliance that we found. In particular, the number of late report submissions and necessary approvals and authorizations could have been reduced with improved continuous trend analysis monitoring.

We identified two common areas of concern: (1) unallowable costs and (2) internal control weaknesses in the areas of noncompliance with reporting requirements, compliance with grant requirements, subrecipient monitoring, and cost-match monitoring.

We made the following recommendations to the Assistant Secretary for Communications and Information:

1. Pursue the recovery of questioned unallowable costs for each grant recipient and determine the most appropriate process to recover questioned costs in the future.
2. Require recipients to submit all necessary reports in conformance with grant terms and conditions.
3. Institute a routine follow-up process with recipients, to ensure that grant requirements are understood and met.
4. Strengthen existing requirements for grant recipients to perform subrecipient monitoring.
5. Calculate the impact of the unrealized cost match on the PSIC program and alert those recipients who have not met this match of their responsibilities under their grants.
6. Document the follow-up conducted with PSIC grant recipients on recommendations included in appendices to this report.

We included recommendations addressing internal control weaknesses, as well as other state recommendations, in the report's appendices.

Public Safety Interoperable Communications Program

The Public Safety Interoperable Communications (PSIC) program is a nearly $1 billion formula-based matching grant program. PSIC enables public safety agencies to establish interoperable emergency communication systems using reallocated radio spectrum.

NTIA, in consultation with the Department of Homeland Security, executes PSIC. NTIA awarded PSIC grants to all 50 states, 5 territories, and the District of Columbia in amounts ranging from $692,000 to $94 million.

The Implementing Recommendations of the 9/11 Commission Act of 2007 (P.L. 110-53) requires 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. Also, Congress specified that 25 financial audits be conducted on the PSIC program. We previously reported the results of 9 PSIC financial audits. The Fourth Annual Assessment of the PSIC Grant Program consolidates the results of the remaining 16 financial audits.

ENGINEERING CONSULTANT ON NTIA GRANT PLEADS GUILTY TO FELONY THEFT OF GRANT FUNDS

In November 2012, an engineering consultant on an NTIA grant pled guilty to one felony count of violating 18 U.S.C. § 641, Theft of Public Money, and agreed to repay the U.S. Treasury $190,396 in restitution. The engineering consultant, scheduled for sentencing in April 2013, faces a fine of up to $250,000, a maximum of 10 years in prison, or both, as well as up to 3 years of supervised release. Our office opened this case based on information referred by NTIA regarding suspicious activity observed on a 2009 Public Telecommunications Facilities Program grant for the construction and operation of a radio station on a Navajo reservation in the Shiprock, New Mexico, area. Our investigation determined the engineering consultant had misappropriated grant funds for personal use. Specifically, he named himself as the authorized person for the drawdown of grant funds and wired nearly all of the $322,364 grant award to his personal bank account. He subsequently used the grant funds for personal purposes such as dining, foreign and domestic travel, retail goods, and the purchase of a car. OIG traced the stolen grant funds and seized $131,964, which was returned to the U.S. Treasury.

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 DEPLOYED WIRELESS CAPABILITY WITH MINIMAL CONSIDERATION FOR IT SECURITY (OIG-13-014-A)

We evaluated the Public and Enterprise Wireless Local Area Network (PEWLAN) as part of our FY 2012 Federal Information Security Management Act of 2002 (FISMA) audit. Our objective was to assess the effectiveness of USPTO's IT security program by determining whether key security measures adequately protect its systems and its information. To do so, we assessed security measures USPTO employed during development of its PEWLAN system.

When we began our audit in June 2012, USPTO insisted that PEWLAN was under development and was not operational, requesting that we wait until 2013 to review the system. However, we independently verified that USPTO had inappropriately connected PEWLAN to its operational environment (e.g., production systems and critical information). We also determined that USPTO placed PEWLAN into operation—despite serious security weaknesses and significant vulnerabilities—and had not implemented the required security controls and conducted proper control assessment as defined by FISMA. Thus, USPTO put its critical operational systems at risk.

PEWLAN

The PEWLAN system provides wireless access on USPTO's Alexandria, Virginia, campus. Through PEWLAN, USPTO employees and contractors access internal USPTO systems and information, which can include financial and patent application data.

We made the following recommendations to the Under Secretary of Commerce for Intellectual Property and Director of the U.S. Patent and Trademark Office:

1. Ensure that system owners register all systems under development in Cyber Security Assessment and Management during the initiation phase of the system development life cycle (SDLC).

2. Ensure that USPTO rigorously applies its SDLC process and the risk management framework to all IT system development projects. This should include ensuring that required system security documents are appropriately developed and updated and that security controls required to protect a system are implemented and assessed.

3. Ensure that system owners, information system security officers, technical leads, project managers, and program managers attend the SDLC role-based training course regularly.

4. Ensure that the Cybersecurity Division representatives have a role in deciding whether IT system development projects should transition to a subsequent phase in the SDLC, based on their assessment of the effectiveness of incorporating security into the process.

FY 2012 FINANCIAL STATEMENT AUDIT (OIG-13-004-A, OIG-13-005-A)

Independent auditor KPMG LLP found that USPTO's FY 2012 financial statements were fairly presented in all material respects and in conformity with U.S. generally accepted accounting principles. During the audit, KPMG also assessed the IT controls supporting financial management systems. KPMG found one significant deficiency related to controls over general information technology; this deficiency was not considered a material weakness. (A *significant deficiency* in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis, and merits attention by those charged with governance.) USPTO needs to continue improving its IT general control environment to ensure that financial data processed on USPTO's systems are complete, reliable, and have integrity. KPMG found no instances of reportable noncompliance with applicable laws, regulations, and contracts.

AMERICAN RECOVERY AND REINVESTMENT ACT

The Recovery Act—signed into law by President Barack Obama on February 17, 2009—had 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.

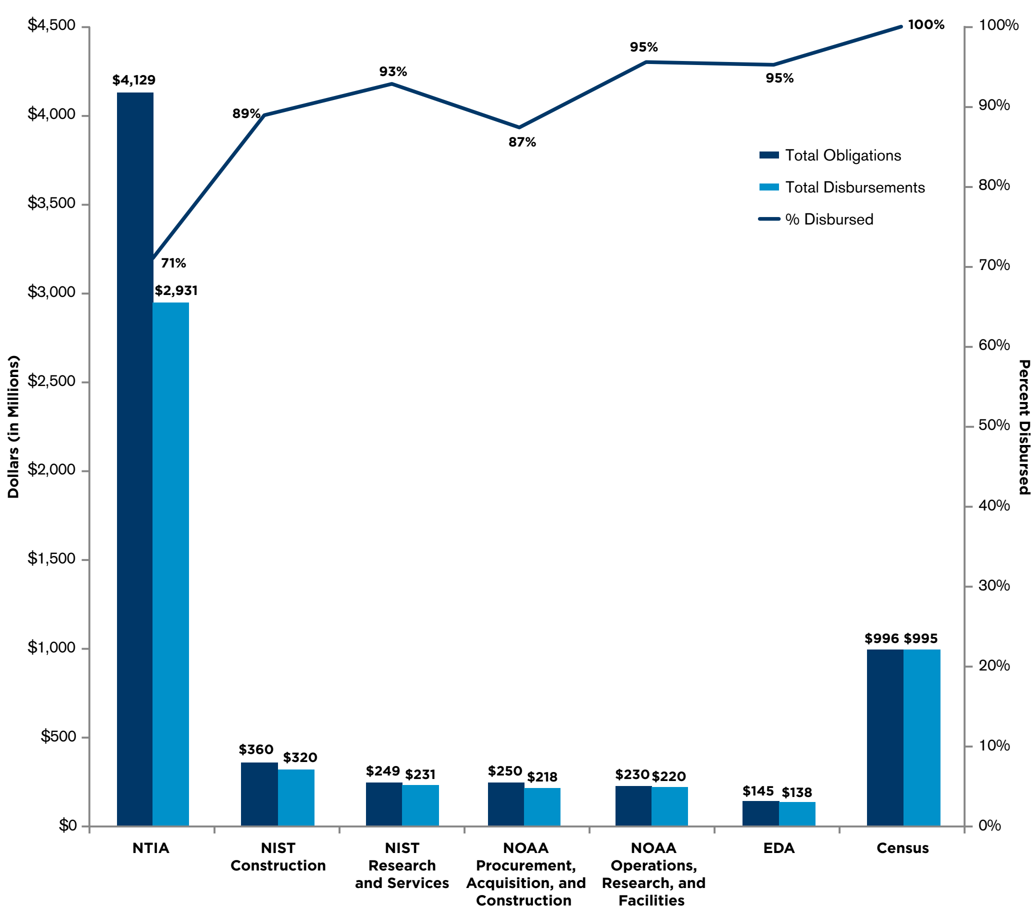
Five Department of Commerce bureaus—the Census Bureau, EDA, NIST, NOAA, and NTIA—and OIG received $7.9 billion under the Act, with $1.2 billion ultimately rescinded or transferred to other agencies. As of March 31, 2013, the Department had obligated almost all of the approximately $6.7 billion remaining and disbursed approximately $5.4 billion. (The disbursal amount includes funding for the now-completed NTIA Digital Television Converter Box Coupon Program.)

OIG RECOVERY ACT OVERSIGHT, FEBRUARY 2009–MARCH 2013

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	22
Other work products (correspondence to Congress and the Recovery Accountability and Transparency Board)	7
Audits/evaluations in progress	2
OIG recommendations for action, correction, or improvement	88
Recommendations implemented to take corrective action by making improvements, reducing risk, or preventing waste	58
Investigations completed	24
Investigations in progress	5
Whistleblower reprisal allegations received	12
Whistleblower reprisal allegations accepted	6
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 MARCH 31, 2013



PROPER CLASSIFICATION AND STRENGTHENED MONITORING OF SUBRECIPIENTS ARE NEEDED FOR THE BROADBAND TECHNOLOGY OPPORTUNITIES PROGRAM (OIG-13-013-A)

At the conclusion of the Broadband Technology Opportunities Program (BTOP) award process on September 30, 2010, NTIA had awarded 233 grants. Over time, this number has decreased slightly to 225 due to grant cancellations, modifications, and terminations. As of January 26, 2012, when OIG initiated this audit, the FederalReporting.gov data extract reported 217 BTOP awards with payments and disbursements greater than $100,000. Recipients responsible for approximately $3.8 billion in BTOP awards reported subrecipient awards of $850 million and vendor payments of $602 million.

For this audit, we reviewed 56 of these awards, totaling $1.9 billion. We divided the recipients into subgroups based on whether they made payments and disbursements to subrecipients, vendors, or both. Effective monitoring of subrecipients is necessary to ensure that project costs are allowable, allocable, and reasonable and that program goals are achieved. Recipients, rather than NTIA, are directly responsible for the oversight of subrecipients. NTIA, in turn, is responsible for ensuring that recipients effectively oversee their projects. This includes ensuring that the recipient adequately selects subrecipients and has controls in place to effectively and efficiently monitor the projects.

While NTIA and the recipients of BTOP awards have taken steps to oversee subrecipients, additional operating procedures should be implemented. We reviewed 56 awards to determine whether entities had been classified properly as vendors or subrecipients and performed testing on 26 awards to assess the effectiveness of subrecipient monitoring. Specifically, our audit found the following:

- Two of the 56 awards reviewed (4 percent) have a vendor that may not be properly classified.
- Eleven of 26 awards reviewed (42 percent) may not be completed on time.
- Subrecipient monitoring plans are not in place for 3 of 26 awards reviewed (12 percent).
- Seven of 26 subrecipient agreements reviewed (27 percent) do not contain all required provisions.
- For 15 of 56 awards reviewed (27 percent), recipients are not reporting required information to FederalReporting.gov.

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 this program. The Recovery Act requires BTOP grantees to provide at least a 20 percent nonfederal matching share.

LETTER TO REPRESENTATIVES WALDEN AND SHIMKUS RE: REVIEW OF NTIA'S BTOP GRANT AWARD TO THE EXECUTIVE OFFICE OF STATE OF WEST VIRGINIA (OIG-13-012-I)

In January 2013, the Inspector General responded to a request from the chairmen of House Energy and Commerce Subcommittees on Communication and Technology and on Environment and the Economy to review a $126 million BTOP grant awarded by NTIA in 2010 to the Executive Office of the State of West Virginia (EOWV). The grant was for the creation of a fiber and radio broadband network to serve community anchor institutions formerly not connected and improve existing bandwidth to these public facilities, as well as emergency responder networks. Members of the Subcommittee on Communications and Technology raised concerns about the BTOP grant awarded to EOWV at a May 2012 hearing on broadband grants and loans and requested that OIG conduct additional analysis.

OIG found that EOWV could have better managed its execution of its $126.3 million BTOP grant. Specifically, EOWV did not demonstrate the most efficient use of BTOP funds to purchase routers, nor did it effectively manage and track router inventory. It also did not execute agreements for the receipt of federal property. However, OIG did not find any material misrepresentations in EOWV's submitted application. OIG also found that, prior to issuance of the award, NTIA followed its defined process to evaluate the application submitted by EOWV, a process that both OIG and GAO found to be reasonable in separate reports.

CONGRESSIONAL TESTIMONY (OIG-13-017-T)

On February 27, 2013, the Principal Assistant Inspector General for Audit and Evaluation testified about OIG's continued oversight of BTOP, as well as the challenges that NTIA faces in its oversight of BTOP projects as they are completed and the grant awards closed out.

The Principal Assistant IG described OIG's oversight efforts, which have (1) assessed the establishment, implementation, and program operations of BTOP and (2) reviewed specific issues with some individual awards. At the time of her testimony, OIG's work included 10 published products and 44 recommendations developed to improve the administration of BTOP and monitoring of approximately $4 billion in grant awards. She added that OIG has also provided training to NTIA and grant recipients on the need for compliance with award terms; conducted nonfederal audit reviews of single and program-specific audit reports; and established procedures to closely monitor, follow up on, and analyze trends for hotline complaints.

> *"For the Department to ensure effective implementation of BTOP, especially in light of fulfilling OMB and legislative requirements, OIG and NTIA will need Congress to continue your oversight efforts."*
>
> Principal Assistant IG testimony before a House Energy and Commerce Subcommittee, February 27, 2013

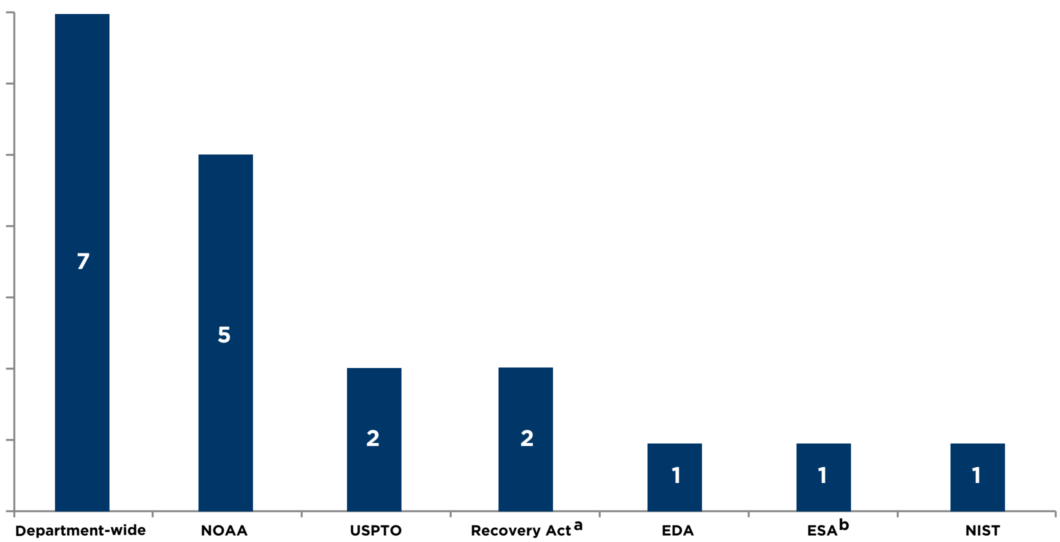
The Principal Assistant IG concluded by addressing five challenges facing NTIA:

- Some BTOP projects are at risk of not being completed by September 30, 2013.
- Additional monitoring of equipment may be needed.
- Findings from OIG and nonfederal audits require close attention.
- NTIA needs to address challenges associated with the First Responder Network Authority (FirstNet) program and BTOP public safety projects that were affected by its establishment.
- Effective oversight remains essential as awards are closed out.

WORK IN PROGRESS

WORK IN PROGRESS (BY OVERSIGHT AREA)

During this reporting period, 19 OIG audit and evaluation projects were initiated or underway.



[a] Both Recovery Act-related works in progress concern NTIA.

[b] The ESA work in progress concerns the Census Bureau.

DEPARTMENT-WIDE

Department's Management of Classification Policies and Procedures
Assess whether applicable classification policies, procedures, rules, and regulations have been adopted, followed, and effectively administered. Identify policies, procedures, rules, regulations, and management practices that may be contributing to persistent misclassification of material.

Department's Incident Detection and Response Capabilities
Determine whether key security measures are in place to adequately monitor networks, detect malicious activities, and handle cyber incidents.

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, when the Department had more than 4,500 purchase cards and 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, the Department awarded 2,893 high-risk T&M/LH contract actions for $586 million).

Unliquidated Obligations

Evaluate controls over the management and closeout of unused or unneeded (unliquidated) obligations.

Letter to Congressional Bicameral Task Force on Climate Change

Respond to a congressional request to review the Department's policies, environmental program, and activities to carry out requirements that federal agencies address climate change. Assess the Department's authority to reduce emissions of heat-trapping pollution and make the nation more resilient to the effects of climate change, as well as the most effective additional steps that could be taken to reduce emissions and strengthen resiliency.

FY 2013 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

Assess, as part of our FY 2012 Federal Information Security Management Act of 2002 audit, the effectiveness of EDA's IT security program, determine the significant factors that contributed to the cyber compromise of EDA's information systems, and 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 whether Census Bureau 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.

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

Results of Commerce OIG's Online Survey of Fishery Management Council (FMC) Members and Staff

In response to a request from Congressmen Barney Frank and John F. Tierney, review fisheries management at NOAA and eight regional FMCs regarding interactions with NOAA's National Marine Fisheries Service; regulatory requirements; interactions with the fishing industry and nongovernment organizations; FMC operations and training; and rules of conduct, conflict of interest, and ethics.

Review of NOAA's Catch Share Program

In response to Congressmen Frank and Tierney, review fisheries management at NOAA and eight regional FMCs regarding NOAA's catch share programs (i.e., allocation of the total allowable fishery catch or a specific fishing area to individuals, cooperatives, communities, or other entities) to determine the adequacy of related NOAA controls and processes.

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.

Joint Polar Satellite System (JPSS) Implementation Risks

Review the adequacy of JPSS development activities, including the flight, ground, and "free-flyer" projects, as the program completes system definition and transitions to implementation per NOAA and NASA standards. Monitor NOAA's overall progress in establishing the program's capabilities (requirements), schedule, and cost baselines by the end of summer 2013 and its efforts in mitigating the projected data gap between Suomi National Polar-orbiting Partnership satellite's end-of-design life and the planned operational availability of the first JPSS satellite (JPSS-1).

Audit of NOAA's IT Security Program

Assess, as part of our FY 2013 FISMA audit, the effectiveness of NOAA's information security program by determining whether key security measures adequately protect NOAA's systems.

UNITED STATES PATENT AND TRADEMARK OFFICE

Leahy-Smith America Invents Act (AIA) Implementation and Lessons Learned

Evaluate the effectiveness of USPTO's efforts to train employees and provide the IT infrastructure to implement provisions of the AIA. Review whether and to what extent USPTO is collecting the necessary information to provide Congress with an assessment of AIA implementation due by September 2015. Review whether and how USPTO will incorporate lessons learned while implementing initial AIA provisions. Review the extent to which USPTO is carrying out the expansion of satellite offices in a cost-effective manner and in accordance with relevant regulations.

FY 2013 Financial Statement Audit

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 bureau'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) Equipment Review

Determine whether NTIA has the personnel and processes in place to monitor BTOP grantees' equipment acquisitions; assess whether grantees have appropriately acquired, tested, and implemented the most effective equipment; and evaluate whether grantees are on track to complete BTOP projects on schedule and achieve project goals.

BTOP Award Closeout Audit

Determine whether the NTIA has established adequate policies and procedures to effectively close out the approximately 230 BTOP awards (valued at approximately $3.8 billion) and assess if closeout procedures are being followed as the awards are completed and closed.

STATISTICAL DATA

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

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 bureaus for internal administrative follow-up. Others were unrelated to departmental activities or did not provide sufficient information for any investigative follow-up and so were not accepted for investigation or referral. Fines and other financial recoveries refer only to agreements that a judge accepted.

Investigative Activities	
Investigations opened	37
Investigations closed	28
Arrests	0
Indictments/Informations	1
Convictions	9
Fines and other financial recoveries	$41,244,893.90[a]
Allegations Processed	
Hotline complaints	628
Total complaints, all sources	628
Referrals to bureaus or non-Commerce agencies	279
Referrals with response required	74
Responses received	63
From referrals made this reporting period	12
From referrals made prior	51
Referrals closed	57
Referrals with no response required	205
Evaluated but not accepted for investigation or referral	312

[a] A portion of this total is derived from our participation in federal multiagency investigations. It does not reflect actual monetary recoveries for the Department.

TABLE 2. AUDIT RESOLUTION AND FOLLOW-UP

The Inspector General Act Amendments of 1988 require us to present in this report audits issued before the beginning of the reporting period (October 1, 2012) for which no management decision had been made by the end of the period (March 31, 2013). Seven audit reports remain unresolved for this reporting period (see page 53).

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.

Report Category	Modifications	Appeals
Actions pending (October 1, 2012)	0	2
Submissions	0	4
Decisions	0	4
Actions pending (March 31, 2013)	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[a]	$ 3,246,924
Value of audit recommendations that funds be put to better use[b]	3,978,174
Value of audit recommendations agreed to by management[c]	116,038,608

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

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

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

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

TABLE 4. AUDITS WITH QUESTIONED COSTS

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

Report Category	Number	Questioned Costs	Unsupported Costs
A. Reports for which no management decision had been made by the beginning of the reporting period[a]	20	$64,230,176	$ 48,774,644
B. Reports issued during the reporting period	15	3,246,924	427,993
Total reports (A+B) requiring a management decision during the period[b]	35	67,477,100	49,202,637
C. Reports for which a management decision was made during the reporting period[c]	17	50,753,607	48,246,902
i. Value of disallowed costs		50,261,979	47,985,602
ii. Value of costs not disallowed		500,708	261,300
D. Reports for which no management decision had been made by the end of the reporting period	18	16,723,493	955,735

a The beginning balance of table 4 (category A) is $3.9 million greater than the ending balance of table 4 (category D) in the September 2012 *Semiannual Report* because $3.9 million in questioned costs from *More Action Needed to Improve Controls in Asset Forfeiture Fund* (OIG-12-019-I) was erroneously omitted from the September 2012 report.

b Two 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.

c 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.”

Report Category		Number	Value
A.	Reports for which no management decision had been made by the beginning of the reporting period[a]	2	$61,798,455
B.	Reports issued during the reporting period	2	3,978,174
Total reports (A+B) requiring a management decision during the period[b]		4	65,776,629
C.	Reports for which a management decision was made during the reporting period[c]	4	65,776,629
	i. Value of recommendations agreed to by management		65,776,629
	ii. Value of recommendations not agreed to by management		0
D.	Reports for which no management decision had been made by the end of the reporting period	0	0

[a] The beginning balance of table 5 (category A) is $871,000 greater than the ending balance of table 5 (category D) in the September 2012 Semiannual Report because $871,000 in funds be put to better use from More Action Needed to Improve Controls in Asset Forfeiture Fund (OIG-12-019-I) was erroneously omitted from the September 2012 report.

[b] Two audit reports included in this table are also included among reports with questioned costs (see table 4). However, the dollar amounts do not overlap.

[c] 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 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.

Financial statement audits provide reasonable assurance through an opinion (or disclaimer of an opinion) about whether an entity’s financial statements are presented fairly in all material respects in conformity with generally accepted accounting principles, or with a comprehensive basis of accounting other than these principles.

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.

Type	Number of Reports	Table Number
Performance audits	3	Table 6-a
Financial statement audits	5	Table 6-b
Evaluations and inspections	10	Table 6-c
Total	**18**	

TABLE 6-A. PERFORMANCE AUDITS

Report Title	Report Number	Date Issued	Funds to Be Put to Better Use	Amount Questioned	Amount Unsupported
National Telecommunications and Information Administration					
Proper Classification and Strengthened Monitoring of Subrecipients Are Needed for the Broadband Technology Opportunities Program (BTOP)	OIG-13-013-A	01.31.2013	0	0	0
Fourth Annual Assessment of the Public Safety Interoperable Communications Grant Program	OIG-13-016-A	02.22.2013	0	190,317	0
U.S. Patent and Trademark Office					
USPTO Deployed Wireless Capability with Minimal Consideration for IT Security	OIG-13-014-A	02.01.2013	0	0	0

TABLE 6-B. FINANCIAL STATEMENT AUDITS

Report Title	Report Number	Date Issued	Funds to Be Put to Better Use	Amount Questioned	Amount Unsupported
Office of the Secretary					
FY 2012 Consolidated Financial Statements	OIG-13-006-A	11.15.2012	0	0	0
FY 2012 Financial Statements Audit: Assessment of Information Technology Controls Supporting Financial Management Systems	OIG-13-007-A	11.15.2012	0	0	0
FY 2012 Special Purpose Financial Statements	OIG-13-009-A	11.15.2012	0	0	0
U.S. Patent and Trademark Office					
FY 2012 Financial Statements	OIG-13-004-A	11.15.2012	0	0	0
FY 2012 Financial Statements Audit: Assessment of Information Technology Controls Supporting Financial Management Systems	OIG-13-005-A	11.15.2012	0	0	0

TABLE 6-C. EVALUATIONS AND INSPECTIONS

Report Title	Report Number	Date Issued	Funds to Be Put to Better Use	Amount Questioned	Amount Unsupported
Economics and Statistics Administration					
Letter to Senator Coburn re: Improving the 2020 Census Through Administrative Records and Geospatial Information	OIG-13-002-M	10.25.2012	0	0	0
International Trade Administration					
U.S. Export Assistance Centers Could Improve Their Delivery of Client Services and Cost Recovery Efforts	OIG-13-010-I	11.30.2012	1,528,000	0	0
National Oceanic and Atmospheric Administration					
NOAA Needs to Continue Streamlining the Rulemaking Process and Improve Transparency and Consistency in Fisheries Management	OIG-13-011-I	01.16.2013	0	0	0
Office of the Secretary					
Quarterly Conference Reporting Processes Need Improvement	OIG-13-001-I	10.17.2012	0	282,637	282,637
Top Management Challenges Facing the Department of Commerce	OIG-13-003-I	11.09.2012	0	0	0
FY 2012 Assessment of Key System Security Measures	OIG-13-008-M	11.15.2012	0	0	0
Letter to Representatives Issa and Cummings re: the OIG Work Plan and Unimplemented Recommendations	OIG-13-025-M	12.28.2012	0	0	0
Nonfederal Audit Results for the 6-Month Period Ending December 31, 2012	OIG-13-015-M	2.11.2013	0	0	0
FY 2012 Compliance with Improper Payment Requirements	OIG-13-020-I	03.15.2013	0	0	0
National Telecommunications and Information Administration					
Response to Chairmen Walden and Shimkus re: BTOP grant to the Executive Office of the State of West Virginia	OIG-13-012-I	1.23.2013	0	0	0

TABLE 7. SINGLE AUDIT AND PROGRAM-SPECIFIC AUDITS

OIG reviewed and accepted 144 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.

Agency	Audits
Economic Development Administration	58
Minority Business Development Agency	0
National Institute of Standards and Technology[a]	25
National Oceanic and Atmospheric Administration	18
National Telecommunications and Information Administration	14
Multibureau	26
No Departmental expenditures	3
Total	**144**

[a] Includes 19 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
Economic Development Administration					
Borough of Paulsboro	ATL-09999-13-4416	11.30.2012	0	665,958	
Scioto County	ATL-09999-13-4621	12.04.2012	0	21,557	
Community Investment Corp. of Decatur Inc.	ATL-09999-13-4649	1.15.2013	2,450,174	0	0
Acadiana Regional Development District	ATL-09999-13-4729	3.05.2013	0	40,000	0
Kerr Tar Regional Council of Governments	ATL-09999-13-4742	3.13.2013	0	103,903	0
National Institute of Standards and Technology					
Coherix, Inc.	ATL-09999-13-4642	12.21.2012	0	81,539	0
America Society of Heating, Refrigerating, and Air-Conditioning Engineers Inc. and Affiliates	ATL-09999-13-4695	01.24.2013	0	66,820	0
Fluke Electronics	ATL-09999-13-4716	02.20.2013	0	15,803	15,803
Caterpillar Inc. Product Development & Global Technology Division	ATL-09999-13-4713	02.21.2013	0	17,885	0
Angstron Materials	ATL-09999-13-4710	03.29.2013	0	55,130	0
Angstron Materials	ATL-09999-13-4711	03.29.2013	0	32,030	0
National Oceanic and Atmospheric Administration					
Institute for Wildlife Studies	ATL-09999-13-4679	01.15.2013	0	89,274	0
National Telecommunications and Information Administration					
Florida Rural Broadband Alliance, LLC	ATL-09999-13-4681	12.19.2012	0	1,454,518	0
North Florida Broadband Authority	ATL-09999-13-4687	02.12.2013	0	129,553	129,553

TABLE 8. AUDITS UNRESOLVED FOR MORE THAN 6 MONTHS

Census Bureau	**Computer & High Tech Management, Inc.** In our September 2005 *Semiannual Report*, 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 the Census Bureau. 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.
Economic Development Administration	**Southeastern Arizona Governments Organization** A single audit review noted that two reimbursement requests were submitted to the Department and contained the same expenditures. The result was that the organization received a reimbursement of $33,240 in excess of expenditures. EDA is still reviewing the audit resolution proposal.
National Institute of Standards and Technology	**Manufacturing Extension Partnership Program** OIG is reviewing NIST's audit resolution proposal for OIG's July 2010 audit report on California Manufacturing Technology Consulting. We have reported the findings and questioned costs contained in this report as unresolved in previous *Semiannual Reports*.
National Institute of Standards and Technology	**Chevron Energy Technology Company** This program-specific audit questioned some direct and indirect costs. NIST's grants office is trying to resolve the audit with the recipient.
National Oceanic and Atmospheric Administration	**Alaska Eskimo Whaling Commission** As reported in our March 2009 *Semiannual Report*, a single audit review of this NOAA grant questioned costs totaling $66,353 in expenditures that were not adequately documented.
National Telecommunications and Information Administration	**Virgin Islands Public Finance Authority** The audit report noted material findings and noncompliance with five different compliance requirements. There were no questioned costs associated with the findings. NTIA is reviewing the audit resolution proposal.

REPORTING REQUIREMENTS

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

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

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

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

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

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

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

On November 30, 2012, the NOAA Deputy Secretary for Operations informed the Inspector General via e-mail that OIG and GAO staff—both of whom had been routine observers at past Program Management Council (PMC) meetings—would no longer be invited to attend the monthly PMC meetings, where the National Environmental Satellite, Data and Information Service environmental satellite program management offices report progress and issues to NOAA executives. Because PMCs are the highest decision-level forum within NOAA for satellite programs, attending these meetings has helped OIG gain valuable insight into NOAA leadership's direction and program execution, as well as effectively providing independent assessments to Congress and other stakeholders, for ongoing satellite audits and oversight activities. The Inspector General reported OIG's concerns to NOAA and the Deputy Secretary and has requested that OIG attendance be reinstated. The matter remains unresolved.

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 Bureau, one EDA, two NIST, one NOAA, and one NTIA 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 pending at the end of this period.

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

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

SECTION 5(A)(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.

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

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

ACRONYMS AND ABBREVIATIONS

ACS	American Community Survey
AEWC	Alaska Eskimo Whaling Commission
AIA	America Invents Act
ATP	Advanced Technology Program (NIST)
BEA	Bureau of Economic Analysis
BIS	Bureau of Industry and Security
BTOP	Broadband Technology Opportunities Program
CIO	Chief Information Officer
CIRT	Computer Incident Response Team
CS	Commercial Service (ITA)
DOJ	Department of Justice
EDA	Economic Development Administration
ESA	Economics and Statistics Administration
ESA	Endangered Species Act
EOWV	Executive Office of the State of West Virginia
FAR	Federal Acquisition Regulation
FBI	Federal Bureau of Investigation
FirstNet	First Responder Network Authority
FISMA	Federal Information Security Management Act of 2002
FMC	Fishery Management Council (NOAA)
FOIA	Freedom of Information Act
FY	fiscal year
GAO	Government Accountability Office
GOES	Geostationary Operational Environmental Satellite
GOES-R	Geostationary Operational Environmental Satellite-R Series
HSUS	Humane Society of the United States
IPERA	Improper Payments Elimination and Recovery Act of 2010
IPIA	Improper Payments Information Act of 2002
IT	information technology
ITA	International Trade Administration
JPSS	Joint Polar Satellite System
MBDA	Minority Business Development Agency
MEP	Manufacturing Extension Partnership (NIST)
MMPA	Marine Mammal Protection Act
MSA	Magnuson-Stevens Fishery Conservation and Management Act
NASA	National Aeronautics and Space Administration
NEI	National Export Initiative
NIST	National Institute of Standards and Technology
NMFS	National Marine Fisheries Service
NOAA	National Oceanic and Atmospheric Administration
NTIA	National Telecommunications and Information Administration
OGC	Office of General Counsel
OIG	Office of Inspector General
OMB	Office of Management and Budget
OPM	Office of Personnel Management
PAR	Performance and Accountability Report
PEWLAN	Public and Enterprise Wireless Local Area Network (USPTO)
PSIC	Public Safety Interoperable Communications
SDLC	system development life cycle
Suomi NPP	Suomi National Polar-orbiting Partnership
T&M/LH	Time-and-Materials and Labor-Hour
TIC	Trusted Internet Connection
TIP	Technology Innovation Program (NIST)
USEAC	U.S. Export Assistance Center (ITA)
USPTO	U.S. Patent and Trademark Office

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