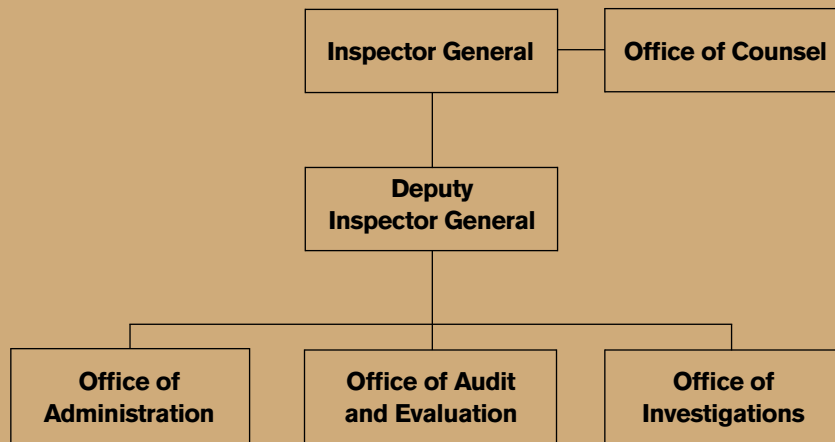**U.S. Department of Commerce**
Office of Inspector General

Semiannual Report to Congress

March 2014

OFFICE OF INSPECTOR GENERAL

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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

Semiannual Report to Congress

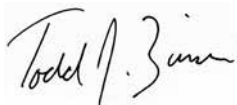**March 2014**

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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, 2014.

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 13 audits, inspections, and responses to Congressional requests addressing programs carried out by the Economics and Statistics Administration, National Institute of Standards and Technology, National Telecommunications and Information Administration, National Oceanic and Atmospheric Administration, U.S. Patent and Trademark Office, and the Department itself.

In November 2013, we issued our annual report identifying what we consider from our oversight perspective to be the top management challenges facing the Department in fiscal year 2014, a summary of which appears on page 2. We will continue to work closely with the Department and with Congress to meet these and other challenges facing Commerce, especially as it tackles the ambitious strategies and initiatives outlined in *America Is Open for Business*, its strategic plan for fiscal years 2014–2018.

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

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 2013, the Department of Commerce OIG identified five challenges that require significant Departmental attention in FY 2014 and beyond.

1. STRENGTHEN COMMERCE INFRASTRUCTURE TO SUPPORT THE NATION'S ECONOMIC GROWTH

As reflected in the President's FY 2014 proposed budget, the Department is a key player in the federal government's efforts to stimulate economic growth and job creation. Four bureaus that hold pivotal roles in providing the infrastructure for economic growth—the International Trade Administration (ITA), the Bureau of Industry and Security (BIS), the U.S. Patent and Trademark Office (USPTO), and the National Telecommunications and Information Administration (NTIA)—face a variety of challenges.

Promoting U.S. Exports While Protecting National Security Interests. Promotion and regulation of U.S. exports are two critical missions of the Department. With the approved FY 2014 budget, the Department received $470 million for export promotion (ITA) and $101.5 million for export regulation (BIS). ITA's U.S. and Foreign Commercial Service provides a broad range of services and counseling to U.S. exporters while other ITA business units enforce trade agreements and protect domestic industries such as manufacturing and textiles.

ITA plays a leading role as one of 16 executive departments and federal agencies that support the National Export Initiative (NEI), which was formalized by executive order in March 2010. The NEI aims to double 2009 U.S. export levels by the end of 2014 and, in turn, help grow the nation's $17 trillion economy. To support many of its priorities, the NEI called for enhanced collaboration among federal trade agencies and strategic partnerships with state, local, and other trade organizations. In our 2012 review of the U.S. Export Assistance Centers we noted that—while protections of client data inhibited information sharing and guidance on collaboration was limited—fostering partnerships with other federal agencies such as the Small Business Administration and the Export–Import Bank can enhance service to exporters. In FY 2014, ITA will be challenged to improve and build on the coordination and partnership efforts developed to date.

BIS programs ensure that trade in dual-use exports is consistent with national security interests. Future trade in controlled dual-use exports is expected to increase significantly as a result of the current Export Control Reform Initiative. Launched by the Administration in 2010, the initiative aims to streamline the country's export control system and facilitate U.S. export of high-tech goods while protecting U.S. national security interests. Beginning October 15, 2013, new rules transferred the first of many items from the U.S. Munitions List to the Commerce Control List in a process expected to continue throughout FY 2014. To address the increase of licensable items under its jurisdiction, BIS has requested additional resources in its FY 2014 budget for its licensing and enforcement units. To complete its mission, BIS' challenge is to coordinate with its federal partners, such as the Departments of Defense and State, to revise federal export control regulations to effectively implement export control reform.

Enhancing Economic Growth Through Intellectual Property and Wireless Initiatives.
USPTO, in its mission to foster innovation through high-quality patent and trademark examination, must implement several remaining provisions of the 2011 America Invents Act (AIA) and faces several difficulties in reducing backlogs associated with initial patent applications, requests for continued examination, and appeals. The agency's recent efforts to address its application and appeal backlogs and related pendency issues have yielded mixed results. Both the backlog and pendency for patent applications decreased in FY 2013. The patent appeals backlog, which we reported on in our 2012 audit, has stabilized—yet, as of May 2013, still stood at more than twice the size of the backlog in October 2010. However, USPTO's backlog for requests for continued examination (RCE) has grown from 17,800 applications in October 2009 to approximately 78,000 in September 2013, an increase of more than 340 percent. As a consequence, during the same period, the average waiting time between filing an RCE and receiving an initial decision has grown from 2.1 to 7.8 months. In June 2013, OIG initiated an audit to evaluate the reason for the increase in the RCE backlog and review USPTO's efforts to address the issue. As it works to reduce its patent backlog and pendency, USPTO's challenge is to ensure that the quality of its patent examination process is not adversely affected and to avoid requiring applicants and the public to file unnecessary and costly challenges to examiners' decisions.

Due to the increase in spectrum demand and the limitations of available spectrum capacity, NTIA must increase spectrum access for commercial wireless broadband use—via sharing between federal and commercial users or sale of spectrum for commercial use—while protecting federal missions and overseeing development of a broadband network for public safety.

In June 2010, the President directed that 500 megahertz (MHz) of federal or nonfederal spectrum be freed up for commercial wireless broadband. In response, NTIA announced in March 2012 that the federal government intends to repurpose 95 MHz of prime spectrum for commercial use. However, the $18 billion that NTIA estimates it will cost to relocate existing federal users to other parts of the spectrum could make this cost prohibitive. Recent technology advances will make such shared-use architecture feasible in the near future. However, many challenges—such as lack of incentive for commercial providers to bid for shared spectrum (i.e., the cooperative use of common spectrum by accessing the same frequencies in different geographical areas or at different times), revenue generation, and rights-of-use issues—must be addressed to make this effort a possibility.

The February 2012 Middle Class Tax Relief and Job Creation Act allocated some existing public safety radio frequency spectrum, along with the D-Block spectrum, and authorized $7 billion in funding for the establishment of an interoperable Nationwide Public Safety Broadband Network (NPSBN). The law established the First Responder Network Authority (FirstNet) as an independent authority within NTIA. The law requires FirstNet to oversee the existing public-safety spectrum and the establishment and deployment of the NPSBN. FirstNet faces several challenges in establishing the NPSBN, including (1) fostering cooperation among various state and local public-safety agencies, (2) integration of seven Broadband Technology Opportunities Program (BTOP) grants funded by the American Recovery and Reinvestment Act of 2009 into the NPSBN, and (3) the physical construction of a nationwide long-term evolution network.

2. STRENGTHEN OVERSIGHT OF NOAA PROGRAMS TO MITIGATE POTENTIAL SATELLITE COVERAGE GAPS, ADDRESS CONTROL WEAKNESSES IN ACCOUNTING FOR SATELLITES, AND ENHANCE FISHERIES MANAGEMENT

NOAA plays a critical role in protecting life and property, as well as supporting national economic vitality. To achieve these missions, NOAA must overcome the challenges associated with the acquisition, accounting, and operation of weather satellites and has to balance the competing interests concerning marine fisheries.

Enhancing Weather Satellite Development and Mitigating Coverage Gaps. Cost increases and budget shortfalls may delay the development and launch of two of NOAA's most vital environmental satellite systems. The Joint Polar Satellite System (JPSS) and the Geostationary Operational Environmental Satellite-R Series (GOES-R) are the Department's largest investments, accounting for more than 20 percent of its 2014 budget request. These environmental satellites are essential components in weather forecasting: they provide data used to track severe storms and predict climate. However, long-standing cost overruns and schedule delays—as well as the aging of the current constellation of satellites—are threatening adequate coverage of these critical functions.

Strong program management and close oversight of these programs are needed to reduce risks associated with their development. The JPSS program must successfully execute to cost, schedule, and performance baselines established August 1, 2013. The program must also ensure that its flight and ground segments' schedules are fully integrated. JPSS must also effectively coordinate with the newly established NOAA Polar Free Flyer program, the planned NASA climate instrument project, and NOAA's data distribution and archive systems. Over the course of the JPSS program, we have analyzed the schedules of the JPSS predecessor Suomi National Polar-orbiting Partnership (Suomi NPP) and JPSS, to assess potential gaps in weather forecast data. Consistent with our September 2012 JPSS audit report, we continue to project a 10–16-month gap between the Suomi NPP's end of design life and when JPSS-1 satellite data become available for operational use. NOAA's medium-range weather forecasting (3–7 days) could be significantly degraded during the period of time JPSS data are unavailable.

The GOES-R program must continue to manage its development to meet requirements within its long-standing baselines. The program also needs to ensure sufficient ground system, instrument, and spacecraft development maturity to enter and successfully complete the integration and test phase. In addition, the program must effectively manage activities between flight and ground projects in a compressed development schedule and constrained budget environment. In our 2013 GOES-R audit report, we found that schedule slips and a potential reduction in testing activities have raised concerns about the satellite's readiness to launch. NOAA needs to implement a comprehensive plan to mitigate the risk of potential launch delays and communicate to users (e.g., in the National Weather Service and Department of Defense) and other stakeholders (e.g., the Administration, Congress) the changes that may be necessary to maintain GOES-R's launch readiness date.

Addressing Material Weakness over Satellite Accounting. During FY 2012, the accounting firm KPMG noted several material control weaknesses at NOAA related to accounting for satellites—which, as of the end of FY 2012, totaled more than $6 billion (or approximately more than one-fifth of the Department's assets). NOAA's accounting for satellites is highly complex; challenges have resulted in material deficiencies in NOAA's satellite accounting during FY 2012. Specifically, KPMG identified the incorrect classification of a satellite ground system, unrecorded transfer of a satellite from another federal agency, and corrections to the satellite impairment amount. These errors resulted in approximately $900 million in adjustments to correct the amount of satellites included in NOAA's accounting records. In addition, KPMG identified uncapitalizable costs included in construction work-in-progress, as well as a lack of documentation evidencing review and approval of intragovernmental payments related to satellites. Program and finance officials must work together to ensure that satellite investments are accurately identified, recorded, and reported—a basic principle of asset management.

Enhancing Fisheries Management. In 2011, commercial fishing accounted for approximately 1 million jobs and recreational fishing accounted for 327,000 jobs. U.S. fishermen at ports in the 50 states brought in 9.9 billion pounds of fish valued at $5.3 billion in 2011—an increase of 1.63 billion pounds (up 19.7 percent) and $769 million (up 17 percent) compared to 2010. Fishing is an important industry in our nation's economy as a whole and in the many coastal

communities and port towns. However, NOAA—as part of its mission—also considers the health of our oceans and coastal ecosystems, which are impacted by coastal development, pollution, and the destructive impact of invasive species. For several years, we have reported on NOAA's challenges in 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.

Considering the importance of fisheries to the U.S. economy, it is critical that NOAA and the fishery management councils balance the interests of the fishing community with conservation concerns. Regardless of long-term sustainability and conservation concerns, many stakeholders claim that measures such as limiting catch in fisheries and enforcing limited access privilege programs have had a negative impact on some local fishing communities. NOAA's challenge is to effectively balance those interests—and effectively communicate to stakeholders how the agency's efforts serve the long-term economic interests of the fishing industry.

3. CONTINUE ENHANCING CYBERSECURITY AND MANAGEMENT OF INFORMATION TECHNOLOGY INVESTMENTS

The administration has identified cybersecurity as among the most serious economic and national security challenges we face. To bolster the national cybersecurity program, federal agencies have been asked to implement cross-agency cybersecurity priorities—including strong authentication, Trusted Internet Connections (TIC), and continuous monitoring.

We reported our concerns about the Department's fragmented information technology (IT) governance in previous years. In response to Office of Management and Budget (OMB) direction, the Acting Secretary issued a June 2012 memorandum that described a strategy to strengthen the Department's Chief Information Officer's (CIO's) ability to oversee the bureaus' annual $2.5 billion IT investments. The CIO has leveraged this increased authority to lead the effort to consolidate commodity IT Department-wide—and continues to strengthen IT oversight through the Commerce IT Review Board. However, the CIO's responsibility to oversee satellite IT investments has been diminished, and IT investments still need to close the gap between planned and actual schedule and cost performance.

Establishing a Robust Capability to Respond to Cyber Incidents. Our June 2013 review of a perceived massive malware infection at the Economic Development Administration also highlighted challenges for the Department when responding to a cyber incident. We made recommendations to improve the Department's Computer Incident Response Team (DOC CIRT), which provides response services to the seven bureaus located in the Department's headquarters at the Herbert C. Hoover Building (HCHB). To deal successfully with cyber threats, the Department needs to establish a robust incident response capability at DOC CIRT. Furthermore, because DOC CIRT primarily provides incident response services to bureaus located at HCHB, ensuring productive collaboration among all bureaus is critical for the Department to effectively respond to a cyber event. This includes bureaus that have their own CIRT capabilities, such as the Census Bureau, the International Trade Administration, the National Institute of Standards and Technology, the National Oceanic and Atmospheric Administration, and the U.S. Patent and Trademark Office. OIG is currently conducting an audit of the incident detection and response capabilities of several bureaus within the Department.

Continuing Sustainable Implementation of Enterprise Cybersecurity Initiatives. The Department has three enterprise cybersecurity initiatives underway to address mandates from OMB. The Enterprise Cybersecurity Monitoring and Operations and Enterprise Security Oversight Center initiatives support OMB's mandate to continuously monitor security-related information from across the enterprise. The TIC initiative supports the mandate that federal agencies optimize and standardize their individual external network connections, including connections to the Internet. Collectively, these undertakings should significantly improve the Department's

cybersecurity posture. The Department needs to ensure that current efforts for these initiatives move forward as planned and that operating units cooperate and participate to the fullest extent.

Preserving the CIO's Oversight Responsibility of Satellite-Related IT Investments. OMB has directed agencies to expand federal CIO responsibility from a traditional role of policymaking and infrastructure maintenance to managing the agency's entire major IT investment portfolio. However, the CIO oversaw about a quarter fewer IT investments in FY 2013 than in FY 2012. In particular, in an effort to streamline oversight, the Department has waived the requirement to follow CIO oversight practices for six satellite-related investments totaling $642 million in FY 2013 spending. In particular, four satellite-related investments—the maintenance and enhancement of two satellite ground systems and two satellite data processing and distribution systems—do not receive as much oversight as the JPSS and GOES-R programs. Although the Department has established quarterly reviews for executives to discuss high-level investment issues, the reviews do not replace the CIO's in-depth tracking and evaluation of these satellite investments. The Department should reinstate the CIO oversight process for these four investments.

Continuing Vigilant Oversight of IT Investments. We remain concerned, as we reported last year, about IT investments with a history of being high-risk. For example, in December 2010, the Department's CIO assessed one National Weather Service (NWS) investment and designated it a high-risk project. In that same year, OMB designated a Bureau of Industry and Security system as a high-risk Departmental project. Although both investments have made some progress since 2010, the former is still assessed as a high-risk investment and the latter recently ran into significant development roadblocks and was again evaluated high-risk in FY 2013. Both investments now require re-planning to move forward. The challenge for Departmental IT investment oversight is to identify the fundamental reasons that high-risk projects continue not to make adequate progress; implement necessary changes to their acquisition approach, management structure, and development plans; and, if necessary, bring in outside expertise to identify weaknesses and recommend mitigation actions.

Maintaining Momentum in Consolidating Commodity IT to Cut Costs. The Department's CIO is leading the effort to reduce commodity IT costs per full-time equivalent by about 25 percent annually to be more in line with costs at comparable agencies. Departmental and bureau CIOs are employing three basic approaches to break down costly and inefficient IT: (1) consolidating infrastructure, (2) sharing procurement vehicles to leverage economies of scale, and (3) hosting services for other Department bureaus. Department and bureau heads must ensure that their respective CIOs continue to have full cooperation in overcoming bureaucratic impediments to consolidating and sharing IT commodity resources.

4. EXERCISE STRONG PROJECT MANAGEMENT CONTROLS OVER 2020 CENSUS PLANNING TO CONTAIN COSTS

The Census Bureau has promised bold design changes for the 2020 Census, seeking to reduce per household costs (on an inflation-adjusted basis) to an amount lower than the 2010 Census. To reach this goal, the Bureau must complete research and testing early enough in the decade to plan and build the necessary infrastructure for the projected workload and workforce. The Bureau will be making key 2020 Census design decisions during FYs 2015–16 that drive the program's methodology, quality, and cost. As a result of our 2010 Census oversight, we noted challenges the Census Bureau faces to innovate its 2020 Census design. Overcoming these challenges calls for fundamental improvements in decennial planning, management, testing, and transparency, to help ensure that the missed opportunities of previous decades are not repeated in 2020.

Ensuring Timely Design Decision Making. The Census Bureau is approaching critical 2020 Census design decision points that require planning and developing a decennial census in a significantly more constrained budget environment than experienced during the 2010 Census.

Soon, the Bureau must rapidly analyze 2020 decennial design alternatives and make key design decisions based on the results of its research and testing phase. Our office has conducted several reviews of the Census Bureau's approach and progress toward the planning and development of a new cost-effective 2020 decennial design (e.g., research and testing programs). We found that, as research and testing continues, the Bureau must contend with and plan for several challenges that could adversely impact the next decennial census.

Focusing on Human Capital Management, Timely Research, and Testing Implementation.
During our December 2013 evaluation of 2020 Census redesign efforts, we noted significant schedule slippage in the Census Bureau's key research and testing programs. If continued, missed deadlines will translate into an untenable continuation of an already expensive design. The cost (in constant dollars) of counting each housing unit could reach $151, compared with $97 for 2010. Through our ongoing work on the Bureau's approach to and progress on planning for 2020 decennial census we have identified three time-sensitive Bureau management priorities: managing human capital to align with the Bureau's mission and programmatic goals; completing timely research for making evidence-based design decisions; and implementing a stable, agile field-testing strategy.

5. CONTINUE TO FOSTER A CULTURE OF MANAGEMENT ACCOUNTABILITY TO ENSURE RESPONSIBLE SPENDING

As the government experiences an extended period of tightened budgets, it is imperative to foster a culture of management accountability. OIG's determination to audit, investigate, or provide hotline complaint information to Departmental or bureau management for appropriate action helps to instill a culture of ethical conduct and ensure that spending is appropriate, complies with laws and regulations, and promotes investments with long-term benefits. The increasing number of hotline complaints related to the use of appropriated funds by NOAA, as well as complaints about other bureaus, highlights the Department's need to implement stricter control over funds Department-wide. The Department and most of its bureaus use outdated financial management systems that impede the Department's ability to oversee and manage Department-wide financial activities. Plans to replace the legacy systems by FY 2018 face significant challenges. Regarding its annual acquisitions, the Department reported it exceeded its goals in reducing the dollar amount of high-risk contracts, per 2009 OMB guidance. However, our audits indicate that reducing the use of several types of high risk contracts remains a critical challenge. Finally, the potential misuse of federal funds by award recipients requires stronger oversight of Departmental programs that award grants or cooperative agreements.

Responding to Concerns of Mismanagement and Ethical Violations. OIG operates a hotline for reporting information about alleged wrongdoing, misconduct, waste, or mismanagement. Some hotline complaints become the basis of OIG audits and investigations. Complaints that detail management issues are provided promptly to Departmental and bureau leadership for inquiry and action. Over the past year, bureaus have worked closely with OIG to look into and resolve many management issues raised through OIG's hotline. Timely and thorough action to resolve these issues helps to create a culture of compliance and accountability in the Department. While the Department's management has increased its capacity and ability to deal with hotline complaints, employees and members of the public have provided an increasing volume of complaints to OIG. In order to continue managing potential issues and resolving problems, Departmental management must remain vigilant in its efforts to seriously look into and address hotline complaints.

Implementing Stricter Controls over Funds. In response to hotline complaints about mismanagement of appropriated funds within NOAA NWS in 2010 and 2011, the Department conducted a May 2012 review—and the then-Deputy Secretary and then-Under Secretary of Commerce for Oceans and Atmosphere issued separate decision memorandums in the same

month. Their memorandums required a total of 20 specific actions for correcting the conditions that led to the report's findings. In our September 2013 review of these actions, we found that the Department and NOAA have taken steps to address the findings identified in the Department's internal inquiry and completed many action items, but additional work is needed to complete several key action plan items and ensure proper stewardship of funds and compliance with laws and regulations. Continued Departmental leadership attention is essential to ensuring a culture of transparency, accountability, and effective oversight.

Modernizing the Enterprise Financial Management System to Strengthen Financial Oversight. A lack of centralized data systems poses reporting and oversight challenges to the Department, such as effectively reporting financial data and monitoring financial activity across its bureaus. The Department and most of its bureaus use a financial system developed with aging technology and augmented with in-house software increasingly difficult to maintain. Limitations such as high support costs and a lack of system integration and lack of centralized reporting capability impede the Department's ability to oversee and manage Department-wide financial activities. The Department plans to replace these legacy systems—collectively known as the Commerce Business System—with Business Application Solutions, a commercially available system, by FY 2018. While the Department has provided OIG with regular updates on the status of this modernization project, significant challenges remain.

Strengthening Controls over High-Risk Contract Actions and Developing the Acquisition Workforce. In FY 2012, the Department obligated about $2.4 billion for goods and services that include satellite acquisitions, intellectual property protection, broadband technology opportunities, management of coastal and ocean resources, information technology, and construction and facilities management. Although the Department's requirements have not diminished, available funding resources likely will. Continuing to address high-risk contracts and maintaining a qualified acquisition workforce will enable better management of the Department's day-to-day spending.

Addressing Grant Management Issues. OIG also provides oversight of the Department's management of more than 70 programs authorized to award grants or cooperative agreements. Annually, we review an average of 340 reports with findings; of those, about 6 percent will have significant procedural or internal control findings. Grant oversight requires that recipients of awards meeting certain dollar thresholds submit either a single audit report or a program-specific audit report. These types of awards pose particular oversight challenges for the Department. OIG continues to review these audit reports to identify trends in findings across bureau programs, as well as to monitor whether findings are resolved in a timely manner.

With approximately $3.8 billion in grant awards, the Broadband Technology Opportunities Program (BTOP)—funded by the Recovery Act—represents the Department's largest grant program. Management must remain committed to monitoring BTOP recipient compliance with grant award terms and achievement of intended benefits. Awards for which the grantee has requested extensions to complete projects merit close attention. As grant awards end, the audit closeout process—how the award recipient and the grants office ensure that project activity is complete and the award recipient has met all the requirements under applicable laws, regulations, OMB circulars, and award terms and conditions—calls for particular attention.

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 13 audits, inspections, and responses to Congressional requests.
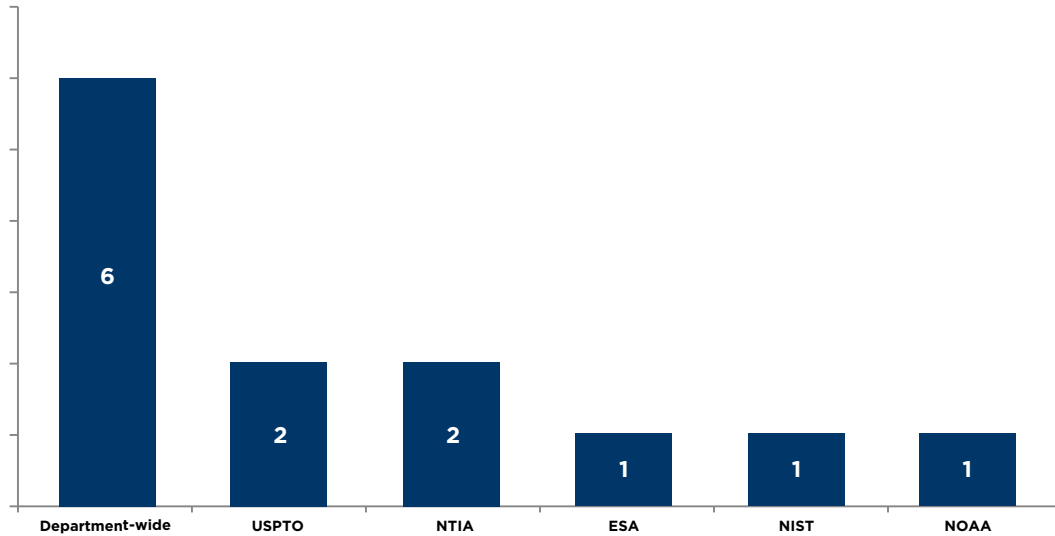
THE DEPARTMENT'S AWARDING AND ADMINISTERING OF TIME-AND-MATERIALS AND LABOR-HOURS CONTRACTS NEEDS IMPROVEMENT (OIG-14-001-A)

For FYs 2009–2011, the Department awarded 1,383 time-and-materials (T&M) and labor-hour (LH) contracts, with a total obligated value of approximately $1.3 billion. In our Department-wide audit, we reviewed 43 contracts composed of 62 various T&M/LH contract actions to determine whether NOAA, the Census Bureau, and NIST properly awarded and administered these contract actions.

We determined that contracting and program officials did not properly award and administer T&M/LH contracts and task orders for work performed. These conditions occurred because contracting and program officials did not follow Federal Acquisition Regulation and the *Commerce Acquisition Manual* for awarding and administering T&M/LH contract actions, specifically regarding contract and task order award procedures and contract oversight procedures. Our findings include potential monetary benefits to the Department—in the form of unsupported costs and funds put to better use—totaling more than $170 million.

Further, we found that

- The Department's volume of T&M/LH contracts was unclear because bureaus' reported data and maintained records on T&M/LH contracts were inaccurate and incomplete.

- Contract files were missing or lack key contract documentation.

- Funds on completed T&M/LH contracts were not always deobligated.

Time-and-Materials and Labor-Hour (T&M/LH) Contracts

These contract types require contractors to provide their best effort, up to a maximum number of hours authorized. Each hour of work authorizes a contractor to charge the government an established labor rate, which includes profit. T&M/LH contracts are considered high risk because the government assumes the risk for cost overruns.

Because of this high risk, the Federal Acquisition Regulation (FAR) requires appropriate government monitoring of contractor performance for reasonable assurance of efficient methods and effective cost controls. Further, FAR directs that T&M/LH contracts may only be used when it is not possible at the time of award to estimate accurately the extent or duration of the work or to anticipate costs with any reasonable degree of confidence.

We recommended that the Director of Acquisition Management

- Include a review of T&M/LH contracts, as part of the Department's annual acquisition management reviews, for (a) proper determination and findings, (b) documented changes in established ceiling prices, (c) quality assurance surveillance plans to document contractor performance, and (d) verified contractor invoices with supporting documentation.

- Monitor and evaluate the use and management of T&M/LH contracts through the acquisition review board and investment review board processes.

- Improve the process for entering accurate and complete data into FPDS-NG.

- Improve controls to properly maintain and safeguard contract files.

LETTER TO BICAMERAL TASK FORCE ON CLIMATE CHANGE RE: REVIEW OF COMMERCE DEPARTMENT'S CLIMATE CHANGE-RELATED POLICIES, ENVIRONMENTAL PROGRAMS, AND ACTIVITIES (OIG-14-004-M)

In December 2013, the Inspector General responded to a February 2013 request from the Bicameral Task Force on Climate Change to review the Department's policies, environmental programs, and activities to carry out requirements that federal agencies address climate change.

Overall, we found that Commerce views federal sustainability directives and the pursuit of a robust sustainability policy as central to the Department's core values and mission. The Commerce Strategic Sustainability Performance Plan, issued in June 2012, put forth a number of priorities and initiatives for Commerce. Among these are

- adding six sustainable buildings to its real property portfolio.

- ensuring at least 5 percent of the Department's electricity comes from renewable energy.

- continuing to right-size its vehicle fleet.

- empowering employees to approach energy-conservation challenges creatively through energy working groups, employee "Green Teams," and energy-awareness campaigns.

- continuing to implement EPA's Energy Star® Portfolio Manager to track energy usage and overall building performance across Commerce facilities.

Despite notable initiatives undertaken by the Department in response to congressional and executive directives, we had concerns about the completeness of sustainability data being reported. Even though the most recent OMB Sustainability and Energy Scorecard shows the Department to be on track for 3 of the 7 federal sustainability goals, not all bureaus provide complete data. Based on our discussions with the Office of Sustainable Energy and Environmental Programs (OSEEP) and NOAA, we determined that NOAA does not report accurate or complete information for the OMB Scorecard for reasons that include

- historical records contain incomplete and estimated information.

- NOAA headquarters staff are unable to compel the bureau's operating units to comply with sustainability directives.

- sustainability reporting is an additional duty beyond the typical work assignments for many NOAA staff members, which often results in inattention to implementation and reporting.

January 2013 OMB Scorecard on Sustainability/Energy

Department of Commerce

Scope 1&2 GHG Emission Reduction Target

For Scope 1&2 GHG Reduction Target of 21% by 2020:
1.1% **increase** in 2012 and behind schedule

Score: **YELLOW**

Scope 3 GHG Emission Reduction Target

For Scope 3 GHG Reduction Target of 6% by 2020:
3.2% **increase** in 2012 and behind schedule

Score: **YELLOW**

Reduction in Energy Intensity

Reduction in energy intensity in goal-subject facilities compared with 2003:
21.0% and on track for 30% by 2015

Score: **GREEN**

Use of Renewable Energy

Use of renewable energy as a percent of facility electricity use:
4.8%

Score: **RED**

Reduction in Potable Water Intensity

Reduction in potable water intensity compared with 2007:
46.8% and on track for 26% in 2020

Score: **GREEN**

Reduction in Fleet Petroleum Use

Reduction in fleet petroleum use compared to 2005:
27.6% and on track for 20% by 2015

Score: **GREEN**

Green Buildings

Sustainable green buildings:
7.65% of buildings sustainable

Score: **RED**

We recommended that the Deputy Assistant Secretary for Administration take action to improve the Department's sustainability performance and the accuracy and completeness of Commerce's data in order to identify ways to reduce emissions or strengthen resiliency throughout the Department.

FY 2013 CONSOLIDATED FINANCIAL STATEMENTS AUDITS
(OIG-14-006-A, OIG-14-007-A, OIG-14-009-A)

KPMG LLP, an independent public accounting firm, performed the audit in accordance with U.S. generally accepted government auditing standards and OMB Bulletin 14-02, *Audit Requirements for Federal Financial Statements*. In its audit of the Department, KPMG determined that the financial statements were fairly presented in all material respects and in conformity with U.S. generally accepted accounting principles.

KPMG identified two significant deficiencies in (a) internal control over financial reporting related to accounting for NOAA's property and (b) controls over information technology access, configuration management, and segregation of duties. (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.)

Specifically, KPMG found that accounting for NOAA property needs improvement. NOAA made improvements in its satellite accounting during FY 2013 including the formation of a Satellite Accounting Review Board to identify and deliberate on complex accounting issues regarding satellites. Despite those improvements, KPMG identified control deficiencies related to accounting for property other than satellites, such as unclear policies, timeliness issues, and enforcement issues. In addition, KPMG identified areas for improvement related to the consistent application of accounting standards for accounting for satellites. Because of these matters, NOAA needs to continue making improvements to effectively account for its property, including satellites.

IT access, configuration management, and segregation of duties controls also need improvement. While KPMG noted some progress towards remediating prior year control deficiencies during FY 2013, it identified control deficiencies relating to systems access, configuration management, and segregation of duties that require management's attention. Despite the progress made by the Department, the Department needs to make improvements in its general 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.

KPMG also reported that potential Antideficiency Act compliance matters at NOAA, the Census Bureau, and the Department are under review.

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

AUDITS OF COMMERCE FUND RECIPIENTS BY NONFEDERAL INDEPENDENT AUDITORS (REVIEWED BY OIG DURING THE 6 MONTHS ENDING MARCH 31, 2014)

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 establishes requirements for most of these audits. For-profit organizations audited in accordance with *Government Auditing Standards* include those that receive NIST awards from both the Technology Innovation Program and the Measurement and Engineering Research and Standards

program. Some for-profit organizations are audited in accordance with other specific audit guides. These include Advanced Technology Program awards that are audited in accordance with the NIST *Program-Specific Audit Guidelines for Advanced Technology Program Cooperative Agreements*, as well as BTOP awards that are audited in accordance with the NTIA *Program-Specific Audit Guidelines for the Broadband Technology Opportunities Program*.

We examined 118 audit reports during this semiannual period to determine whether they contained audit findings related to departmental programs. For 84 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 34 reports cover entities for which other federal agencies have oversight responsibility. We identified 18 reports with material findings related to the Department.

Report Category	OMB A-133 Audits	Program-Specific Audits	Total
Pending Review (October 1, 2013)	47	9	56
Received	78	29	107
Examined	84	34	118
Pending Review (March 31, 2014)	41	4	45

The following table shows a breakdown by bureau of approximately $768 million in Department funds audited through the A-133 or program-specific guidelines.

Agency	Funds Audited
Economic Development Administration	41,529,719
Minority Business Development Administration	262,939
National Institute of Standards and Technology[a]	42,629,740
National Oceanic and Atmospheric Administration	27,537,350
National Telecommunications and Information Administration[b]	579,096,516
Multibureau	76,533,637
Total	**767,589,901**

[a] Includes $10,598,818 in program-specific audits; A-133 audits account for the remaining amount of $32,030,922.

[b] Includes $401,160,183 in program-specific audits; A-133 audits account for the remaining amount of $177,936,333.

The audits identified a total of $2,598,627 in the federal share of questioned costs, $574,760 in federal unsupported costs and $152,000 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 18 reports with material findings are listed in table 7-a on page 47.

DEPARTMENT MAKES PROGRESS ADDRESSING HOTLINE ISSUES

During the last reporting period, the Department continued to make progress dealing with issues raised by whistleblowers and the public via OIG's hotline. OIG refers hotline complaints from employees and members of the public about ethics, compliance, or management issues to operating unit leadership to address and resolve. This program ensures that information about

potential risks is communicated promptly so that operating unit management can quickly address any problems. In some cases, OIG asks that operating units respond to us with a summary of their findings.

Since the beginning of FY 2013, operating units have worked effectively to resolve hotline-referred issues, reducing by more than half what had become a major backlog in early FY 2013. As of March 31, 2014, the Department had only 40 hotline complaints for which OIG was awaiting an initial findings report—compared with 98 pending only 1 year prior. In FY 2013, OIG received almost 1,300 contacts over our hotline, of which about 600 were whistleblower complaints related to the Department's programs and operations.

As a result of the Department and operating units prioritizing and addressing OIG hotline referrals several issues have been resolved, resulting in better management practices and administrative remedies. In fact, of the hotline referrals resolved in FY 2013, the Department's leadership found about one in four contained matters that were substantiated in their management inquiries. Even in cases where inquiries did not find issues, the process of looking into issues often helps communicate to staff that compliance and ethics issues are taken seriously.

Complaint Referrals to Bureaus Awaiting Initial Response
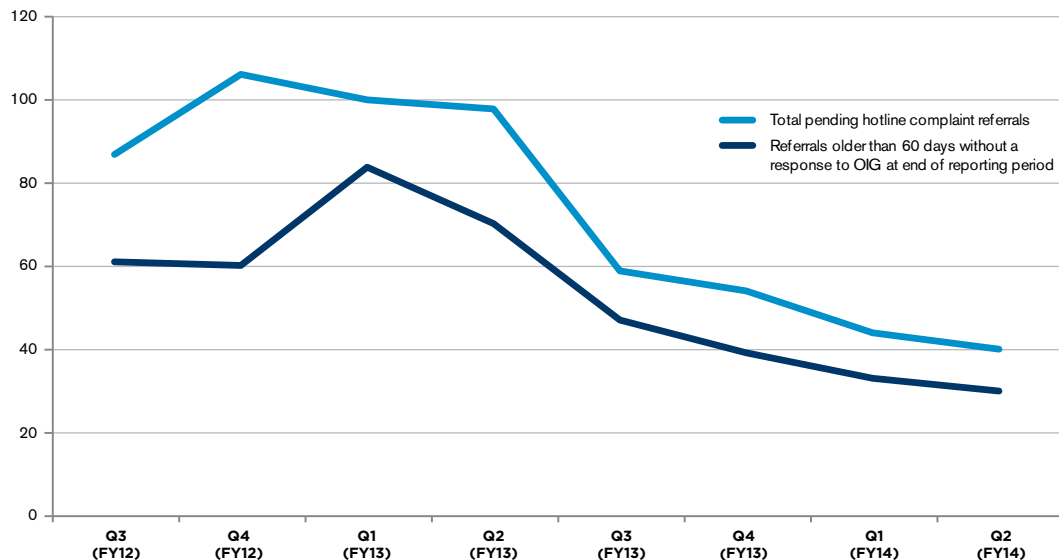
Source: OIG

Although not all fall within this reporting period, examples of successfully resolved issues from OIG hotline referrals include the following:

- In mid-2013, as the result of a whistleblower tip to OIG's hotline, USPTO confirmed that an employee had been improperly claiming work time and overtime while on vacation in a foreign country. During the course of its inquiry, USPTO discovered that the employee had provided username and password information to a second USPTO employee, who logged into his account and submitted previously completed work while on leave. This gave management the impression that the employee was working while actually on vacation. Administrative action is pending against both.

- In early FY 2013, OIG referred a whistleblower complaint to NTIA, which confirmed that a BTOP grantee had not paid employees appropriate wages as mandated by the Davis-Bacon Act. NTIA informed the grantee of the issue and appropriate action was taken to remunerate employees as required by the law.

▪ In late 2011, OIG received a whistleblower's hotline complaint alleging that a Census Bureau employee was publishing political opinions while on duty. Census looked into the issues and, with additional support from OIG, uncovered evidence demonstrating that the employee had used Twitter to publish political opinions while at work. In 2012, we referred our file to the Office of Special Counsel (OSC), which has the authority to look into Hatch Act violations. In February 2014, OSC issued a press release announcing that it had confirmed the allegations and was concluding its investigation. The employee resigned prior to OSC concluding its case.

While the Office of the Secretary and most operating units have made progress handling OIG hotline complaints, NOAA still faces challenges in this area. Leadership needs to give more timely attention to resolving recommendations made at the conclusion of OIG investigations and its own management reviews. When OIG or management substantiates allegations, we frequently transmit to program management our concluding report, which may be accompanied by recommendations to take appropriate administrative, disciplinary, or other policy actions. Departmental policy requires operating units to respond to OIG within 60 days of receiving our report to inform us of any actions that have been taken or that are planned. Improved coordination among the Department's Office of General Counsel, operating unit leadership, and human resources offices would help ensure that appropriate action is executed in a timely manner.

FUNDS REMITTED TO THE GOVERNMENT IN FALSE CLAIMS CASE RELATED TO BULLETPROOF VESTS

Early in the current reporting period OIG learned that, in June 2013, the trustee for Second Chance Body Armor, Inc. (SCBA) remitted $384,429 to the government as a result of a prior civil false claims settlement with the company. After filing for bankruptcy protections, SCBA's assets were placed into receivership with a trustee organizing the distribution of debts to SCBA's creditors. In July 2012, the court approved that $36.3 million be paid to the government to settle claims brought as part of an investigation into the body armor industry's use of Zylon ballistic material in body armor. Prior to the latest money being transferred to the government, $3.6 million had been transmitted. OIG is including the latest disbursement in the statistical appendix with an asterisk, as the $36.3 million figure was reported in a prior period.

The companies manufactured and sold Zylon bulletproof vests despite possessing information showing that the Zylon materials degraded quickly over time and were not suitable for ballistic use. The SCBA vests were purchased by the federal government and by various state, local, and tribal law enforcement agencies that were partially reimbursed by the United States under the U.S. Department of Justice's (DOJ's) Bulletproof Vest Partnership Grant Program. This payout, along with others reported in previous *Semiannual Reports to Congress*, was the result of a joint investigation involving DOJ and investigative units from our office and eight other federal departments and agencies. Our office coordinated with NIST scientists for expert support at various phases of this investigation.

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 CONTRACTOR DEBARRED AFTER VIOLATING THE BUY AMERICA ACT

In January 2013, we transmitted to EDA the findings from our investigation into allegations that an entity supplying materials on a grant award violated the Buy America Act. Our investigation found evidence that the owner of the contracting company falsely certified that products were made in the United States, when they were actually made in China. By creating a fraudulent letter made to appear as though it was on letterhead from an American manufacturer, the contracting company owner created a false statement.

The cognizant U.S. Attorney's Office declined to prosecute the matter, and we advised the Department and EDA to work together to suspend and debar the contractor from engaging in future business with the government. In December 2013, the Department notified the contractor that he had been debarred from directly or indirectly benefiting from federal assistance programs for a period of 3 years.

ECONOMICS AND STATISTICS ADMINISTRATION

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

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

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

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

2020 CENSUS PLANNING: RESEARCH DELAYS AND PROGRAM MANAGEMENT CHALLENGES THREATEN DESIGN INNOVATION (OIG-14-003-A)

Our audit objectives for reviewing the 2020 Census research program were to (1) assess the implementation status of each individual project in the 2020 Census design effort, including the extent of implementation, time frames for completion, milestones, deliverables, and impact on the overall design program, (2) assess the bureau's plans to evaluate each research project, including whether accurate and reliable data will be available to determine each project's impact on design efforts, and (3) determine whether governance and internal controls are adequate to manage the design effort.

We found that

- The current Census schedule shows research delays and lacks budget integration.

- Research quality assurance strategy is undeveloped.

- Program management plans incorporate best practices, but implementation is inconsistent.

We recommended that the director of the Census Bureau

- Determine when 2020 Census design decisions must be made; adhere to an activity schedule that aligns with those decision points; and develop a critical path for the 2020 Census R&T schedule.

- Determine whether efforts to resolve internal data-sharing problems are progressing adequately.

- Incorporate earned value management and budgets at the project level to prioritize projects as well as assess and quantify 2020 Census research program results.

- Define and adhere to a final testing schedule. Determine how iterative testing and the American Community Survey can be used for the operational testing phase.

- Require research and testing (R&T) teams to update the Knowledge Management Database with the status of current Census Program Evaluation and Experiments recommendations and develop a bureau-wide solution for knowledge management.

- Create a more structured process for R&T review by drafting guidelines that specify responsibilities of the Scientific and Methodological review panels and the research teams.

- Ensure research outputs are usable and on time to drive the trade-off analysis process and develop a vehicle for communicating key decisions and events.

- Establish a formal process to review, approve, and monitor R&T project teams' risk registers to ensure timely identification of risks and development of mitigation and contingency plans as appropriate.

2020 Census

Though several years away, the 2020 Census is a massive undertaking that requires extensive planning and testing. For 2020, the Census Bureau plans to design and conduct a high-quality decennial operation that will cost less per household on an inflation-adjusted basis than the 2010 Census.

To achieve this goal, the bureau is focusing on three primary design features: (1) offering the Internet as a response option, (2) targeted address canvassing, and (3) using administrative records to follow up on cases of non-response. Implementing these changes could save the government hundreds of millions of dollars.

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.

MANUFACTURING EXTENSION PARTNERSHIP INCURRED AVOIDABLE CONFERENCE COSTS (OIG-14-013-A)

In response to a July 2012 request from U.S. Senator Susan Collins, OIG conducted an audit of NIST-Manufacturing Extension Partnership (MEP) conference spending over FYs 2011 and 2012. Our audit's objectives were to (a) develop a reasonable cost estimate for the 2012 NIST-MEP annual conference held in Orlando and (b) determine the legitimacy and reasonableness of travel costs for major NIST-MEP conferences in FYs 2011 and 2012.

Despite media allegations that $3–5 million in federal funds were spent at the May 2012 Manufacturing Innovation Event in Orlando, we found that federal conference costs were estimated at $1.1 million. We calculated the NIST-MEP share of this amount to be almost $710,000.

We concluded that

- The NIST-MEP event planner retained concessions and benefits for the May 2012 conference that could have been used to reduce the government's conference cost.

- The NIST-MEP event planner raised funds to pay for an evening reception by selling sponsorships in exchange for conference attendee lists and logo branding opportunities on conference materials; none of the sponsorship fees were used to reduce the cost of the conference to the federal government.

- The NIST-MEP event planner retained and/or spent $236,341 in sponsorship fees, commissions, concessions, and excess registration fees instead of returning these funds and benefits to the government.

- NIST-MEP management agreed to room rates for government attendees that exceeded allowable maximum conference lodging rates in order to standardize rates for government and nongovernment attendees.

- NIST-MEP did not sufficiently process travel claims to guard against waste.

We recommended that the Director, NIST-MEP, implement controls to ensure that

- Contractors comply with Federal Travel Regulation (FTR) cost restrictions when choosing a conference location; NIST-MEP monitors contractor performance thoroughly; and NIST-MEP documents contractor compliance with the contract terms and conditions and applicable government regulations, including the FTR.

- Funds collected from the sales of sponsorships are not used to pay for alcohol and live entertainment but rather to reduce the costs of the conference to the government.

- NIST-MEP does not accept upgraded suites or any other valuable items related to government travel from government contractors.

Manufacturing Extension Partnership Program

NIST's MEP program is a network of technical experts and business advisers who work with small and midsized U.S. manufacturers, helping these businesses identify growth opportunities. NIST-MEP funds approximately 60 MEP Centers across the United States.

Since 2006, NIST MEP has hosted an annual conference in Orlando to help MEP Centers learn about the latest tools, services, best practices, and strategies to advance the innovation and competitiveness of their clients. In addition, the annual conference is intended to provide attendees the opportunity to connect directly with manufacturers.

We further recommended that the Director, NIST-MEP

- Make a determination on the recovery of $148,000 that IMC collected for sponsorship fees and $88,341 that the event planner retained for both registration fees and a concession refund.

- Evaluate and determine whether administrative disciplinary action is appropriate if NIST management made decisions to subsidize private attendee room rates by increasing government attendees' room rates in violation of the FTR maximum allowable rates.

- Evaluate and determine whether administrative disciplinary action is appropriate for attendees who claimed and reviewing officials who approved expenses that were not incurred for the 2011 or 2012 or who misused government travel card privileges. The bureau should pursue reimbursement of overpayments and correctly reimburse underpaid attendees, wherever possible.
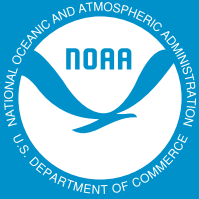
NATIONAL OCEANIC AND ATMOSPHERIC ADMINISTRATION

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.

AUDIT OF NOAA'S GEOSTATIONARY OPERATIONAL ENVIRONMENTAL SATELLITE-R SERIES CORE GROUND SYSTEM OBSERVATIONS (OIG-14-014-M)

In June 2013 OIG began conducting an audit of NOAA's Geostationary Operational Environmental Satellite-R (GOES-R) Series program. Our audit objective is to assess the adequacy of GOES-R development activities, as the program completes the ground system, the fabrication of flight instruments and the spacecraft, and transitions to system integration and test. We are also monitoring NOAA's progress in developing and vetting with stakeholders a comprehensive set of trade-off approaches to mitigate launch delays, as well as its oversight of GOES-R systems engineering.

In March 2014 we provided the then-Acting Under Secretary of Commerce for Oceans and Atmosphere with our initial observations concerning the core ground system that warranted immediate attention. These observations can be summarized as follows:

- The first re-plan did not give high priority to the development of functions essential for launch.

- The first re-plan was based on the contractor's over-optimistic assumptions.

- The GOES-R program office waited too long to intercede to correct schedule slips with the first re-plan.

- Technical problems, multiple development plans, and inadequate contingency funding caused schedule slips.

- The second re-plan focuses on essential functions, but time constraints could lead to delayed satellite operations.

OIG Estimate of the Core Ground System Completion Date, Based on Progress Made in Implementing Core Ground System Re-Plan
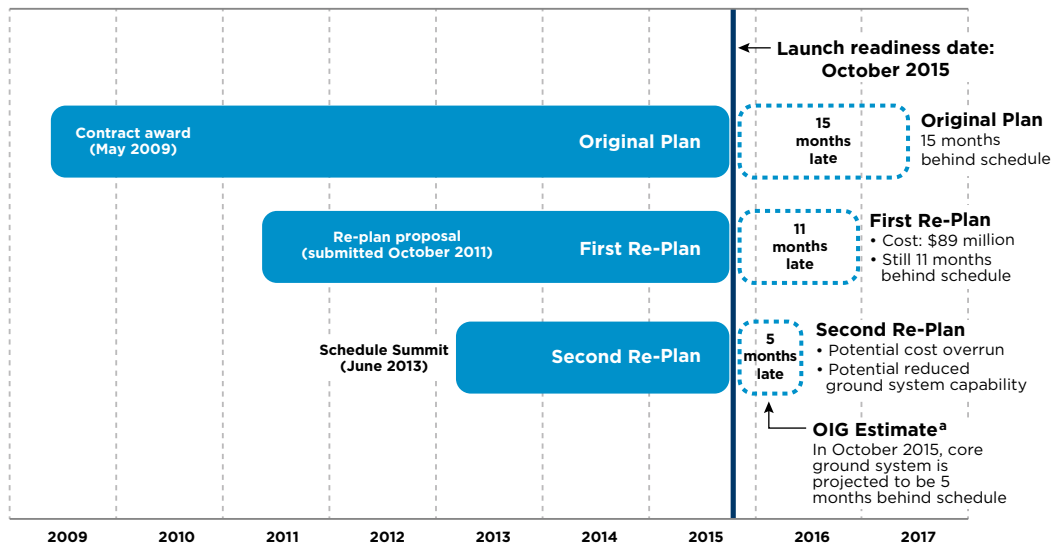
Source: OIG analysis of NOAA data

a OIG's estimate of months remaining to develop the core ground system on October 2015 assumes that (1) the contractor was able to start the second re-plan immediately when it was determined that development was 11 months behind schedule (i.e., at a June 2013 schedule summit meeting) and (2) development time can be regained at the same rate as was regained by the first re-plan (i.e., 4 months regained over 20 months duration).

Based on previous performance, we believe that, without leadership's attention, the core ground system may not meet minimum requirements for launch in October 2015. We estimated that the earliest the core ground system will be completed is March 2016, 5 months after the launch readiness date.

OIG recommended that the Under Secretary establish periodic discussions with both Departmental and contractor leadership to ensure the core ground system will meet the October 2015 launch readiness date.

GOES-R STAFF REIMBURSE NOAA FOR TIME SPENT WATCHING STAR TREK

In mid-2013, OIG received an anonymous whistleblower tip about a team-building exercise conducted by the GOES-R ground segment project staff that was improperly billed to the government. In our subsequent investigation, we found that 21 NOAA employees and consultants employed by private companies were invited to attend a group lunch at a local restaurant, followed by a daytime showing of *Star Trek: Into Darkness*. Twenty individuals working on the GOES-R ground project attended the lunch and 18 attended the movie; the vast majority of participants mischarged the government for participating in these activities. As a result of our investigation, those participants worked with NOAA to amend their time and attendance records to claim personal leave for time spent at the lunch and movie.

As a result of our investigative activities, approximately $3,500 that was mischarged to the government was returned. OIG suggested that clear written guidance on proper timekeeping be communicated to agency and contractor staff in advance of any similar work group outings. Commendably, one consultant made a self-disclosure that more time was spent at the offsite event than determined by the program office. We are currently looking into whether the amount returned is adequate.

FIVE INDICTED FOR CONSPIRACY AND FRAUD RELATED TO NOAA FISHERIES FUNDS

In November 2013, the U.S. Attorney's Office for the Southern District of Mississippi announced indictments from federal and state grand juries against five individuals for conspiracy, bribery, federal program fraud, mail fraud, and money laundering. Four of the individuals charged were employees of the State of Mississippi's Department of Marine Resources (MDMR), which received nearly $62 million in Emergency Disaster Relief Program (EDRP) grant funds through NOAA's National Marine Fisheries Service, from 2006 to 2013. MDMR received eight different awards in part for oyster reef restoration, oyster and shrimp ground restoration, research, testing, and assistance to businesses and fishers.

Our investigation, which was conducted in coordination with the Federal Bureau of Investigation and Mississippi's Office of the State Auditor, found MDMR's former executive director embezzled $210,000, most of which came from EDRP funds, to purchase land on behalf of a family member. The FBI's investigation involved a larger-scale public corruption scandal that encompassed elected officials and several people who held senior positions within MDMR. According to the indictment, these individuals set up a private not-for-profit entity named "Mississippi Marine Resources Foundation," where they proceeded to allegedly transfer funds intended for the State of Mississippi. In addition to the indictments, the State of Mississippi issued civil demands against 10 individuals totaling more than $1 million. A trial date has been set for June 2014. Despite the severity of the charges, subjects of criminal indictments are presumed innocent until proven otherwise.

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.

FY 2013 FINANCIAL STATEMENTS AUDIT (OIG-14-005-A, OIG-14-0008-A)

Independent auditor KPMG LLP performed the audit in accordance with U.S. generally accepted government auditing standards and OMB Bulletin 14-02, *Audit Requirements for Federal Financial Statements*. In its audit of USPTO, KPMG determined that the financial statements were fairly presented in all material respects and in conformity with U.S. generally accepted accounting principles.

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

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

KPMG also issued a report that summarized information technology deficiencies noted in access controls, configuration management and contingency planning, which collectively were not considered to be a material weakness or significant deficiency.

PATENT EXAMINER SUSPENDED FOR 45 DAYS FOR ETHICS ISSUES

In the September 2013 *Semiannual Report to Congress*, we noted that our investigation into ethics violations by a patent examiner found that the individual purchased stock from a public company for which he was simultaneously processing and examining patent applications. In October 2013, USPTO informed us that the examiner had been suspended for 45 days. As a result of our findings related to internal control weaknesses, USPTO previously agreed to implement annual ethics training for patent examiners at all grade levels.

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. Financial and activity reporting for the Recovery Act ended as of December 31, 2013. As of December 31, 2013, the Department had obligated and disbursed almost all of the approximately $6 billion remaining. (The disbursal amount includes funding for the now-completed NTIA Digital Television Converter Box Coupon Program.)

OIG RECOVERY ACT OVERSIGHT, FEBRUARY 2009–MARCH 2014

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	23
Other work products (correspondence to Congress and the Recovery Accountability and Transparency Board)	8
Audits/evaluations in progress	3
OIG recommendations for action, correction, or improvement	92
Recommendations implemented to take corrective action by making improvements, reducing risk, or preventing waste	78
Investigations completed	27
Investigations in progress	4
Whistleblower reprisal allegations received	16
Whistleblower reprisal allegations accepted	15[a]
Debarments and corporate compliance agreements implemented	1
Testimonies	6
Proactive training and outreach sessions held	129
Individuals trained	6,624
Hours of training provided	8,259

[a] Adjusted for previous reporting error.

CLOSEOUT PROCEDURES FOR THE BROADBAND TECHNOLOGY OPPORTUNITIES PROGRAM NEED STRENGTHENING (OIG-14-010-A)

As part of our continued oversight of NTIA's BTOP awards, we conducted an audit to evaluate (1) whether policies and procedures were adequate to effectively administer closeout activities and (2) whether closeout procedures were being followed. Closeout consists of the steps taken by the award recipient and the grants office to ensure that project activity is complete and the award recipient has met all the requirements under applicable laws, regulations, OMB circulars, and the award terms and conditions.

At the time of our fieldwork (March–May 2013), only 5 of the current 224 total grants (a small number were terminated) had been closed out under the program. NTIA, along with the grants offices at NIST and NOAA, developed closeout procedures to ensure that laws, regulations, and award conditions are met. Grant procedures were documented in various handbooks, checklists, fact sheets, and other publications; all three agencies held webinars to help recipients understand the grant closeout process.

We found that NTIA, along with the grants offices at NIST and NOAA, encountered challenges in effectively closing out the first awards. Delays have occurred due to computer system issues

Broadband Technology Opportunities Program

The Recovery Act of 2009 provided $4.7 billion for NTIA to establish BTOP. The agency awarded more than 230 BTOP grants totaling $3.9 billion to deploy broadband Comprehensive Community Infrastructure (CCI), create and expand Public Computer Centers (PCC), and promote the Sustainable Broadband Adoption (SBA) services.

NIST administers the PCC and SBA grants; NOAA administers the CCI grants. All BTOP grants were awarded before September 30, 2010, and each project was required to be completed within three years after the award date. In support of implementation of the awards, grant recipients have disbursed 78 percent of BTOP funds as of June 30, 2013.

that were not identified until those initial closeouts, time-consuming Uniform Commercial Code-1 filings (to secure federal interest in property), audits of for-profit companies that must be completed before closeout, and extension requests.

Although NTIA and the grants offices have established and continue to refine an initial closeout process, we identified specific weaknesses that should be addressed to ensure more effective closeout of BTOP awards:

- Standard Operating Procedures (SOPs) at NIST and closeout procedures at NOAA were incomplete.

- SOPs and closeout procedures were not always followed and grant files were incomplete.

- NTIA's federal program officers had an inconsistent approach to grant closeouts.

- A post-fieldwork issue was identified with a lack of a single audit for a BTOP recipient.

We recommended that the Assistant Secretary for Communications and Information of NTIA direct

- NIST and NOAA grants offices to update their closeout procedures to include all required documentation to be obtained and reviewed before closing the grant; require that all grant recipients who will not meet the 90-day reporting period request an extension before the award period ends; work with NTIA to develop procedures to address unused supplies with an aggregate value of greater than $5,000; and implement a procedure to ensure that adequate grants funds are available to cover the cost of required financial and compliance audit reports.

- The NIST grants office to update its SOPs to include a process for recovering unspent advances and a record-retention requirement in the body of the SOP.

- NOAA to update its closeout procedures to include the following requirements: Real Property Status Report (SF-429); Tangible Personal Property Report (SF-428); Financial Status Report (SF-269) and Outlay Report and Request for Reimbursement for Construction Programs (SF-271) for BTOP grants with a construction component; audit report requirements; Uniform Commercial Code-1 filing requirement, where applicable; and notification to recipients 30 days prior to award end.

- NTIA to remind all federal program officers to follow the predefined process for guiding grant recipients through closeout—which could be accomplished through staff training, webinars, or a memorandum to staff reminding them of their responsibility to follow procedures.

In responding to our September 23, 2013, draft memorandum, NTIA, NOAA, and NIST provided separate responses acknowledging our recommendations, and described the steps they have taken and are taking to address them.

LETTER TO REPRESENTATIVES WALDEN, GARDNER, AND TIPTON RE: REVIEW OF NTIA'S BROADBAND TECHNOLOGY OPPORTUNITIES PROGRAM GRANT TO EAGLE-NET ALLIANCE OF COLORADO (OIG-14-011-M)

In January 2014, the Inspector General responded to a May 2013 Congressional request to review NTIA's BTOP grant award to EAGLE-Net Alliance (ENA). The $100.6 million award was one of the Recovery Act's largest broadband grants and became a source of controversy that attracted national media coverage.

NTIA has had to provide substantial oversight to this award as ENA experienced challenges in such areas as meeting award match requirements, project management, and financial controls. Ultimately, the award was suspended in December 2012 due to the grantee's failure to comply with a special award condition related to environmental and historic compliance, an action that could have eventually resulted in termination of the award. NTIA subsequently lifted the suspension in April 2013 after the grantee had addressed this issue.

We established five objectives for our review. These objectives included determining: (1) whether ENA's network design changed after the transfer of the grant from Centennial Board of Cooperative Educational Services (CBOCES) or during the grants administration; (2) how much of the project had been completed and what was planned with the remaining grant funds; (3) whether ENA had laid fiber-optic cable next to existing fiber; (4) the amount of monthly expense and revenue recorded by ENA; and (5) whether grant terms and conditions of the grant were being met.

As part of our review, we found that

- ENA made unapproved changes to its network plan, moving from a primarily microwave network to a predominately fiber-optic network comprised of new and leased fiber and some components of microwave. ENA also reduced the number of community anchor institutions (CAIs), from 234 to 131, that it planned to reach with award funds.

- As of June 2013, ENA had drawn down approximately $90 million of the $100.6 million grant, yet significant work remains to be completed. As of that date, ENA had reached 102 CAIs, or 44 percent of the CAIs in the original plan. ENA plans to reach 131 of 223 CAIs with grant funds. The remaining 92 will only be connected if additional, non-grant funding is obtained.

ENA faces additional challenges, including the project's inability to fully achieve the award's intended results and continued internal control issues related to financial recordkeeping and monitoring of grant disbursements. Ensuring sustainability is also a concern.

BTOP INVESTIGATION CLOSED BASED ON WITHDRAWAL BY COMPLAINANT

ARRA Section 1553(3)(C) requires that inspectors general report a "list of those investigations the inspector general decided not to conduct or continue." In November 2013, OIG discontinued investigation into the circumstances involving the termination of an employee from a BTOP grantee, who reported that this was done as a result of an earlier refusal to circumvent rules to provide funds to pre-selected entities. During an interview with OIG investigators, the complainant requested to formally withdraw the complaint, which was followed up by a written request. Though the statute does not specify whether an inspector general should report the withdrawn complaint in this report, out of an abundance of caution, we have decided to include information on this case, which was closed during this reporting period.

WORK IN PROGRESS

WORK IN PROGRESS (BY OVERSIGHT AREA)

During this reporting period, 23 OIG audit and evaluation projects were initiated or underway.

Department-wide	NOAA	Recovery Act [a]	USPTO	BIS	ESA [b]	EDA	ITA	NIST
5	4	4	3	2	2	1	1	1
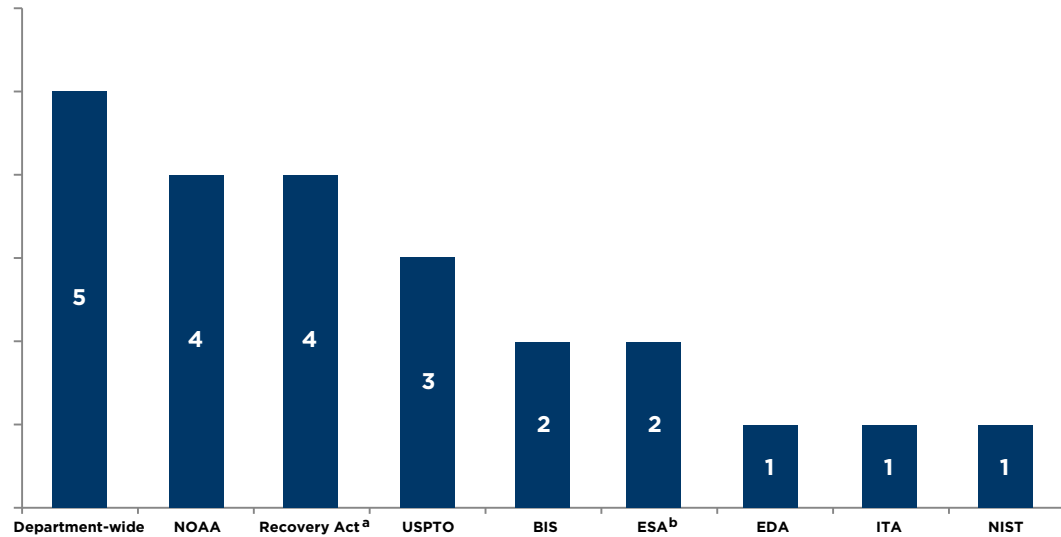
[a] All Recovery Act-related works in progress concern NTIA.

[b] Both ESA works in progress concern the Census Bureau.

DEPARTMENT-WIDE

Office of Secretary Working Capital Fund
Evaluate controls over the Department's Working Capital Fund, including a review of the Department's budget process and financial management of the fund.

FY 2014 Audit of the Department's Financial Statements
Determine whether the Department's financial statements are presented fairly, in all material respects, in accordance with generally accepted accounting principles. (The audit will also consider the Department's internal control over financial reporting and compliance with certain provisions of applicable laws, regulations, contracts, and grant agreements that could have a direct and material effect on the financial statements).

Audit of the Department's Incident Detection and Response Capabilities
Determine, as part of our FY 2013 FISMA audit, whether key security measures are in place to adequately monitor the Department's computer networks, detect malicious activities, and handle cyber incidents.

Review of the Department's FY 2013 Compliance with Improper Payments Requirements

Review the Department's compliance with the requirements of IPIA (i.e., the Improper Payments Information Act of 2002, as amended by the Improper Payments Elimination and Recovery Act of 2010 and the Improper Payments Elimination and Recovery Improvement Act of 2012) and OMB Circular A-123, Appendix C, which requires federal inspectors general to review improper payment reporting annually.

Audit of Commerce's Cloud-Computing Environments

Evaluate the Department's efforts to adopt cloud-computing technologies and review executed contracts between the Department's bureaus and cloud service providers for compliance with applicable standards.

BUREAU OF INDUSTRY AND SECURITY

BIS Export Control Reform Preparedness

Audit BIS' plans to implement changes to its licensing and enforcement operations resulting from the Export Control Reform Initiative, including (a) a review of the adequacy of BIS program plans and budget requests to address the increased workloads in FYs 2014–2016 and (b) an evaluation of existing BIS licensing, outreach, and enforcement activities to identify any areas for increased efficiencies.

Audit of BIS' IT Security

Assess, as part of our FY 2014 FISMA audit, whether BIS' continuous monitoring strategy and practices—including ongoing security control assessments of its critical information systems—provide adequate information for authorizing officials to make proper risk-based decisions.

ECONOMIC DEVELOPMENT ADMINISTRATION

Audit of Revolving Loan Fund (RLF) Program

Audit EDA's controls and processes associated with management of its RLF program to determine how EDA responds to performance problems, such as low utilization rates, high default rates, or noncompliance with reporting requirements. Also, determine how EDA responds to communities that may no longer be considered distressed or underserved.

ECONOMICS AND STATISTICS ADMINISTRATION

Census Budget Reduction Implementation

Review the Census Bureau's process for implementing budget reductions to the 2020 Census Research Program in FYs 2013 and 2014.

Audit of the Census Bureau's IT Security

Determine, as part of our FY 2014 FISMA audit, whether the Census Bureau's continuous monitoring strategy and practices—including ongoing security control assessments of its critical information systems—provide adequate information for authorizing officials to make proper risk-based decisions.

INTERNATIONAL TRADE ADMINISTRATION

Audit of ITA Consolidation

Evaluate and report on the progress, efficacy, and management of the October 2013 consolidation of ITA's four units into three, and specifically (1) assess the status of ITA consolidation, (2) evaluate whether resource changes as a result of the consolidation are aligned with ITA's strategic priorities and are sufficient for providing services to ITA's customers and stakeholders, and (3) identify management and leadership challenges that might hinder the consolidation effort.

NATIONAL INSTITUTE OF STANDARDS AND TECHNOLOGY

Audit of NIST's Oversight of Firm-Fixed-Price (FFP) Contracts

Determine whether (1) NIST has managed and administered FFP contracts in accordance with federal and Departmental guidelines, policies, and procedures, and (2) officials with performance monitoring responsibilities possess the requisite training, technical expertise, and certification.

NATIONAL OCEANIC AND ATMOSPHERIC ADMINISTRATION

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.

Review of NOAA's Catch Share Program

Review fisheries management at NOAA and eight regional fishery management councils 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.

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 Geostationary Operational Environmental Satellite-R Series (GOES-R) Program

Assess the adequacy of GOES-R development activities in accordance with NOAA and NASA standards. Monitor NOAA's progress in developing and vetting with stakeholders a comprehensive set of trade-off approaches to mitigate launch delays and its oversight of GOES-R systems engineering.

UNITED STATES PATENT AND TRADEMARK OFFICE

Audit of USPTO's Use of Time-Materials and Labor-Hour Contracts

Evaluate USPTO's awarding and administering of time-and-materials and labor-hour contracts, which constitute high risk to the government. This is part of a risk-based oversight strategy developed to help the Department address management challenges in its acquisition function and comply with OMB's directive that federal agencies reduce their use of high-risk contracting authorities.

Audit of USPTO IT Modernization Projects

Assess the impact of IT contract termination decisions made as a result of the $110 million reduction in USPTO's IT budget, review progress USPTO has made in implementing the recommendations from the FY 2011 Patent End-to-End audit, and assess the project management and technical progress USPTO has made in development and implementation of the Trademark Next Generation project.

Audit of USPTO's Delays in Processing Request for Continued Examination (RCE) Patent Applications

Assess why there has been an increase in average RCE pendency and the RCE backlog, and assess USPTO's efforts to monitor and address them. The audit will also review specific USPTO programs intended to resolve issues during the initial processing of patent applications.

AMERICAN RECOVERY AND REINVESTMENT ACT

Broadband Technology Opportunities Program 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.

Audit of Broadband Technology Opportunities Program Public Computer Centers (PCCs)

Review NTIA's procedures to ensure that (1) PCC recipients used appropriate procurement practices; (2) recipient equipment purchases are installed, functioning effectively, and utilized to achieve intended program outputs; (3) controls are in place to ensure effective accountability for the purchased equipment; and (4) claimed results are verifiable.

Audit of Broadband Technology Opportunities Program Inventory Excess

Review BTOP grantees' inventory of excess equipment to (1) determine whether grantees purchased equipment outside of the needs of the program, (2) assess procedures taken by NTIA to identify recipients maintaining excess inventory, and (3) evaluate NTIA's procedures for disposition of excess BTOP award inventory.

Audit of FirstNet Procurement Issues

Review certain ethics and procurement issues concerning the operations of FirstNet, assessing whether (a) contracts were appropriately awarded and administered in accordance with relevant acquisition regulations, (b) the acquired services were delivered to meet contract requirements, and (c) the processes undertaken by FirstNet pertaining to ethics-related matters of the board were adequate.

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.

Allegations Received	
Total hotline contacts	482
Of which, are complaints related to Commerce programs	257
Number of hotline referrals to Commerce management	142

Investigative Caseload	
Investigations opened this period	33
Investigations closed this period	28
Investigations in progress as of March 31, 2014	109

Prosecutive Actions and Monetary Results	
Indictments/Informations	3[a]
Arrests	0
Convictions	1
Fines and other financial recoveries	$384,429[b]

Administrative Actions	
Suspension/Debarment	1
Disciplinary action	1

[a] Two indictments are detailed in this report, and one remains under seal.

[b] This amount reflects a disbursement in a larger settlement that was claimed in a previous reporting period.

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, 2013) for which no management decision had been made by the end of the period (March 31, 2014). One audit report remains unresolved for this reporting period (see page 49).

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

Department Administrative Order 213-5, *Audit Resolution and Follow-up*, provides procedures for management to request a modification to an approved audit action plan or for a financial assistance recipient to appeal an audit resolution determination. The following table summarizes modification and appeal activity during the reporting period.

Report Category	Modifications	Appeals
Actions pending (October 1, 2013)	0	3
Submissions	0	5
Decisions	0	3
Actions pending (March 31, 2014)	0	5

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

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

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

Questioned costs[a]	$172,334,968
Value of audit recommendations that funds be put to better use[b]	$1,452,000
Value of audit recommendations agreed to by management[c]	$175,802,360

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]	9	$3,713,694	$2,813,299
B. Reports issued during the reporting period	11	172,334,968	574,760
Total reports (A+B) requiring a management decision during the period[b]	20	176,048,662	3,388,059
C. Reports for which a management decision was made during the reporting period[c]	11	173,338,354	2,762,594
i. Value of disallowed costs		172,815,671	2,762,594
ii. Value of costs not disallowed		522,683	0
D. Reports for which no management decision had been made by the end of the reporting period	9	2,710,308	625,465

[a] One audit report included in this table is also included among reports with recommendations that funds be put to better use (see table 5). However, the dollar amounts do not overlap.

[b] 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	1	$1,686,689
B.	Reports issued during the reporting period	2	1,452,000
	Total reports (A+B) requiring a management decision during the period[b]	3	3,138,689
C.	Reports for which a management decision was made during the reporting period[c]		
	i. Value of recommendations agreed to by management	2	2,986,689
	ii. Value of recommendations not agreed to by management	0	0
D.	Reports for which no management decision had been made by the end of the reporting period	1	152,000

[a] One audit report included in this table is also included among reports with questioned costs (see table 4). However, the dollar amounts do not overlap.

[b] 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	4	Table 6-a
Financial statement audits	5	Table 6-b
Evaluations and inspections	4	Table 6-c
Total	**13**	

TABLE 6-A. PERFORMANCE AUDITS

Report Title	Report Number	Date Issued	Funds to Be Put to Better Use	Amount Questioned	Amount Unsupported
Economics and Statistics Administration					
2020 Census Planning: Research Delays and Program Management Challenges Threaten Design Innovation	OIG-14-003-A	12.03.2013	0	0	0
National Institute of Standards and Technology					
Manufacturing Extension Partnership Incurred Avoidable Conference Costs	OIG-14-013-A	2.21.2014	0	236,341	0
National Telecommunications and Information Administration					
Closeout Procedures for the Broadband Technology Opportunities Program Need Strengthening	OIG-14-010-A	12.20.2013	0	0	0
Office of the Secretary					
The Department's Awarding and Administering of Time-and-Materials and Labor-Hours Contracts Needs Improvement	OIG-14-001-A	11.08.2013	1,300,000	169,500,000	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 2013 Financial Statements Audit: Assessment of Information Technology Controls Supporting Financial Management Systems	OIG-14-006-A	12.13.2013	0	0	0
FY 2013 Consolidated Financial Statements Audit	OIG-14-007-A	12.16.2013	0	0	0
FY 2013 Closing Package Financial Statements	OIG-14-009-A	12.17.2013	0	0	0
U.S. Patent and Trademark Office					
FY 2013 Financial Statements	OIG-14-005-A	12.16.2013	0	0	0
FY 2013 Financial Statements Audit: Assessment of Information Technology Controls Supporting Financial Management Systems	OIG-14-008-A	12.16.2013	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
Office of the Secretary					
Top Management Challenges Facing the Department of Commerce	OIG-14-002	11.25.2013	0	0	0
Letter to Bicameral Task Force on Climate Change re: Review of Commerce Department's Climate Change-Related Policies, Environmental Programs, and Activities	OIG-14-004-M	12.06.2013	0	0	0
National Telecommunications and Information Administration					
Letter to Representatives Walden, Gardner, and Tipton re: Review of NTIA's Broadband Technology Opportunities Program Grant to Eagle-Net Alliance of Colorado	OIG-14-011-M	01.23.2014	0	0	0
National Oceanic and Atmospheric Administration					
Interim Memorandum to Acting Secretary Sullivan re: Audit of NOAA's Geostationary Operational Environmental Satellite-R Series Core Ground System Observations	OIG-14-014-M	03.06.2014	0	0	0

TABLE 7. SINGLE AUDIT AND PROGRAM-SPECIFIC AUDITS

OIG reviewed and accepted 118 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	28
Minority Business Development Administration	1
National Institute of Standards and Technology[a]	21
National Oceanic and Atmospheric Administration	14
National Telecommunications and Information Administration[b]	38
Multibureau	12
No Departmental expenditures	4
Total	**118**

[a] Includes 9 program-specific audits.

[b] Includes 25 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					
East Alabama Regional Development Commission	ATL-09999-14-4868	11.14.2013	0	141,065	0
Scioto County	ATL-09999-14-4943	03.07.2014	152,000	6,337	0
South Jersey Economic Development District, Inc. (FY ending 03.31.12)	OIG-14-04730	03.28.2014	0	355,556	0
South Jersey Economic Development District, Inc. (FY ending 03.31.11)	OIG-14-04589	03.28.2014	0	0	0
National Institute of Standards and Technology					
L-3 Communications DBA Warrior System Division	OIG-14-04725	03.28.2014	0	21,285	0
Massachusetts MEP (FY ending 06.30.08)	OIG-14-03560	03.28.2014	0	0	0
Massachusetts MEP (FY ending 06.30.09)	OIG-14-03886	03.28.2014	0	0	0
Massachusetts MEP (FY ending 06.30.10)	OIG-14-04164	03.28.2014	0	0	0
Massachusetts MEP (FY ending 06.30.11)	OIG-14-04480	03.28.2014	0	0	0
Massachusetts MEP (FY ending 06.30.12)	OIG-14-04785	03.28.2014	0	35,143	0
Florida MEP (FY ending 04.30.08)	OIG-14-03735	03.31.2014	0	0	0
Florida MEP (FY ending 04.30.09)	OIG-14-03754	03.31.2014	0	0	0
Florida MEP (FY ending 04.30.10)	OIG-14-04033	03.31.2014	0	0	0
Florida MEP (FY ending 04.30.11)	OIG-14-04399	03.31.2014	0	0	0
Florida MEP (FY ending 04.30.12)	OIG-14-04872	03.31.2014	0	574,760	574,760
HyperTech Research, Inc.	OIG-14-04893	03.31.2014	0	224,931	0
National Oceanic and Atmospheric Administration					
Silver Star Telephone Company, Inc.	ATL-09999-14-4929	11.27.2013	0	34,300	0
Institute for Marine Mammal Studies	OIG-14-04932	03.28.2014	0	1,205,250	0

TABLE 8. AUDITS UNRESOLVED FOR MORE THAN 6 MONTHS

National Oceanic and Atmospheric Administration	**Republic of the Marshall Islands**
	OIG is waiting for a decision by the NOAA contracting officer.
Office of the Secretary	**Classified Information Policies and Practices at the Department of Commerce Need Improvement**
	OIG is waiting for the Department's action plan.

REPORTING REQUIREMENTS

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

Section	Topic	Page
4(a)(2)	Review of Legislation and Regulations	50
5(a)(1)	Significant Problems, Abuses, and Deficiencies	10-35
5(a)(2)	Significant Recommendations for Corrective Action	10-35
5(a)(3)	Prior Significant Recommendations Unimplemented	50
5(a)(4)	Matters Referred to Prosecutorial Authorities	33
5(a)(5) and 6(b)(2)	Information or Assistance Refused	51
5(a)(6)	Listing of Audit Reports	47-48
5(a)(7)	Summary of Significant Reports	10-35
5(a)(8)	Audit Reports—Questioned Costs	43
5(a)(9)	Audit Reports—Funds to Be Put to Better Use	44
5(a)(10)	Prior Audit Reports Unresolved	51
5(a)(11)	Significant Revised Management Decisions	51
5(a)(12)	Significant Management Decisions with Which OIG Disagreed	51
5(a)(14)	Results of Peer Review	51

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

This section requires the inspector general of each agency to review existing and proposed legislation and regulations relating to that agency's programs and operations. Based on this review, the inspector general is required to make recommendations in the semiannual report concerning the impact of such legislation or regulations on (1) the economy and efficiency of the management of programs and operations administered or financed by the agency or (2) the prevention and detection of fraud and abuse in those programs and operations. Comments concerning legislative and regulatory initiatives affecting 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. There were no reports to the Secretary during this semiannual period.

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

This section requires (1) a summary of each audit report issued before the beginning of the reporting period for which no management decision has been made by the end of the reporting period (including the date and title of each such report); (2) an explanation of why a decision has not been made; and (3) a statement concerning the desired timetable for delivering a decision on each such report. There is one NOAA report more than 6 months old for which no management decision has been made. There is one Office of the Secretary report more than 6 months old for which OIG is awaiting the action plan. (See table 8.)

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 generally must concur with any decision that would change the audit resolution proposal in response to an appeal by the recipient. There are three appeals pending at the end of this period.

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

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

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

The most recent peer review of the Office of Audit and Evaluation was conducted in 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

AIA	America Invents Act	**FY**	fiscal year
BIS	Bureau of Industry and Security	**GOES**	Geostationary Operational Environmental Satellite
BTOP	Broadband Technology Opportunities Program	**GOES-R**	Geostationary Operational Environmental Satellite-R Series
CBOCES	Centennial Board of Cooperative Educational Services	**HCHB**	Herbert C. Hoover Building
CCI	Comprehensive Community Infrastructure	**IPERA**	Improper Payments Elimination and Recovery Act of 2010
CIRT	Computer Incident Response Team	**IT**	information technology
CAM	Commerce Acquisition Manual	**ITA**	International Trade Administration
DOC CIRT	Department of Commerce Computer Incident Response Team	**JPSS**	Joint Polar Satellite System
		LH	labor hour
DOJ	Department of Justice	**MDMR**	State of Mississippi's Department of Marine Resources
EDA	Economic Development Administration		
EDRP	Emergency Disaster Relief Program	**MHz**	Megahertz
		MEP	Manufacturing Extension Partnership
ENA	EAGLE-Net Alliance		
ESA	Economics and Statistics Administration	**NPSBN**	Nationwide Public Safety Broadband Network
FAR	Federal Acquisition Regulation	**NEI**	National Export Initiative
FFP	firm fixed price	**NIST**	National Institute of Standards and Technology
FirstNet	First Responder Network Authority	**NOAA**	National Oceanic and Atmospheric Administration
FISMA	Federal Information Security Management Act of 2002	**NTIA**	National Telecommunications and Information Administration
FTR	Federal Travel Regulation	**NWS**	National Weather Service

OIG	Office of Inspector General	**RLF**	Revolving Loan Fund
OMB	Office of Management and Budget	**SBA**	Sustainable Broadband Adoption
OPM	Office of Personnel Management	**SCBA**	Second Change Body Armor, Inc.
OSC	Office of Special Counsel	**SOP**	standard operating procedure
OSEEP	Office of Sustainable Energy and Environmental Programs	**Suomi NPP**	Suomi National Polar-orbiting Partnership
PCC	Public Computer Centers	**T&M**	time-and-materials
RCE	request for continued examination	**TIC**	Trusted Internet Connections
R&T	research and testing	**USPTO**	U.S. Patent and Trademark Office

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