UNITED STATES DEPARTMENT OF COMMERCE OFFICE OF THE INSPECTOR GENERAL SEMI-ANNUAL REPORT OF THE INSPECTOR GENERAL TO THE CONGRESS SEPTEMBER 30, 1979 PURSUANT TO SECTION 5 OF PUBLIC LAW 95-452
November 30, 1979

Honorable Walter F. Mondale
President of the Senate
and
Honorable Thomas P. O'Neill, Jr.
Speaker of the House of Representatives

Dear Mr. President and Mr. Speaker:

This is the first Report of the Inspector General to Congress since my appointment on July 2, 1979.

The major steps which we have undertaken in the last several months have been those dictated by our new duties under the Inspector General Act of 1978.

The Assistant Inspector General for Auditing and the Assistant Inspector General for Investigations have been selected. A new policy and administration unit has been formed, which is in charge of developing and coordinating audits and investigations policies, developing our fraud awareness education program, and structuring communication links and our role within the Department. We have begun to review and comment on proposed laws and regulations which have an impact on the efficiency and effectiveness of Commerce programs and on our ability to investigate criminal activity. The audits and investigations staffs have begun to extend their capabilities.

In this initial period, we have begun to broaden the scope of audit and investigative activities so as to afford the Department the fullest benefit from them. I have directed that audit steps be extended so that we can determine whether questionable transactions were fraudulent. We now analyze employee wrongdoing to determine whether departmental procedures can be corrected to prevent recurrence and follow-through to monitor changes. Resolution of financial audit recommendations within six-months is now Department policy. This policy should prove instrumental in permitting the Department to promptly recoup monies identified in audit reports as questioned costs.

Sincerely,

Mary P. Bass
Inspector General of Commerce
DEPARTMENT OF COMMERCE
SEMIANNUAL REPORT
OF THE
INSPECTOR GENERAL
SEPTEMBER 30, 1979
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ABBREVIATIONS

CEN    Bureau of the Census
CPRC   Coastal Plains Regional Commission
DOC    Department of Commerce
EDA    Economic Development Administration
FCRC   Four Corners Regional Commission
ITA    Industry and Trade Administration
MARAD  Maritime Administration
MBDA   Minority Business Development Agency
NBS    National Bureau of Standards
NERCOM New England Regional Commission
NFPCA  National Fire Prevention and Control Administration
NOAA   National Oceanic and Atmospheric Administration
NTIA   National Telecommunications and Information Administration
NTIS   National Technical Information Service
OA     Office of Audits
OI     Office of Investigations
OIG    Office of Inspector General
OMBE   Office of Minority Business Enterprise (Now MBDA)
SEC    Office of the Secretary
PTO    Patent and Trademark Office
USTS   United States Travel Service
UGLRC  Upper Great Lakes Regional Commission
HIGHLIGHTS

The Office of Inspector General (OIG) directed its efforts during this six-month period to organizing and setting in motion the operations and programs necessary to provide for prompt and effective implementation of the IG Act, and performing substantive audits and investigations.

SUMMARY OF OIG INITIATIVES

During this period the IG:

- Established a fraud abatement program including the initiation or strengthening, as appropriate, of a fraud control unit, applicable management information systems, a hotline, an audit leads file and extended audit steps.

- Established a policy unit charged with developing and coordinating audits and investigations policy, and with developing new initiatives to combat fraud, waste and abuse in the Commerce Department.

- Established and implemented a program for review of legislation and regulations.

- Appointed a legal counsel to the IG, who provides criminal law and investigative procedure expertise within the Department.

- Initiated the development of a systematized and prioritized training effort for the audit, investigative and administrative staffs and the development of a fraud and standard of conduct awareness program for Commerce employees.

- Met with Commerce Assistant Secretaries and key Bureau officials to explain programs and impact of the IG's Office, to elicit their cooperation and support, to review open problems and to establish liaisons.

- Increased cooperation with Law Enforcement Organizations.

- Accepted increased responsibility for managing responses to GAO reports and initiated a reevaluation of existing procedures in order to improve the Department's responses.

- Initiated Joint Audit-Investigative Reviews.
SUMMARY OF AUDIT AND INVESTIGATIVE EFFORTS

During this six-month period, much of the Audit and Investigative staffs' efforts was spent in focusing on possible areas of fraud and abuse, and responding to indicators of serious problems. These efforts resulted in involving both the audit and investigative staffs in in-depth reviews of several contracts, grant and loan audits/investigations of possible fraud and abuse. These efforts, plus the significant increase in allegations and complaints generated by the hotline, accounted for a large portion of the staffs' workload. The audit staff, however, also carried out a number of planned economy, efficiency, and financial reviews and the investigative staff pursued other cases while continuing the monitoring-type audits and investigations of the $6 billion short term Local Public Works Program, the $1 billion 1980 Decennial Census and the sensitive $68 million 1980 Winter Olympic Games. Due to the size and sensitivity of these three projects and a need to provide timely information, we are continuing our policy of "front-end" reviews to assist management in preventing fraud, waste and abuse in these programs. Some of the reviews we are highlighting were completed during this six-month period and others are ongoing. The following provides an overview of our efforts in these areas.

Major Audits and Investigations Completed Or Continuing As Monitoring Actions

1980 Decennial Census

The 1980 Decennial Census will cost over $1 billion and presents a substantial administrative challenge. Accordingly, we have given special attention to the planning and preparatory work leading up to this undertaking. Audits of specific aspects of the 1980 census have been coordinated with the General Accounting Office.

Planning and Pretest Activities - Our original audits, detailed in our last report to the Congress, found that planning and control techniques needed to be strengthened in order to ensure efficient and economical conduct of the 1980 census. Bureau of Census officials generally agreed with our findings and recommendations and have taken steps to improve operations. For corrective actions taken by Census officials to address our concerns, see page 81.

Decennial Census Automated Payroll System - It is anticipated that during the Decennial Census about 1,700,000 payroll checks will be issued to approximately 300,000 temporary employees
located in 409 district offices throughout the country. The
total payroll for the temporary employees will exceed $300
million. With an anticipated turnover rate of somewhere between
50 and 100 percent, between 450,000 and 600,000 personnel will be
temporarily employed during a short period. Consequently,
potential for fraud and abuse within the payroll system will be
high.

Because of its unusually high exposure to risks, the financial
resources involved, and the impact it will have on the conduct of
the Decennial Census, we reviewed the payroll system during
development, thus allowing management the opportunity to correct
any identified weaknesses prior to the system's becoming
operational.

At Census Headquarters, we reviewed and evaluated the systems
design and development of the automated payroll system and the
internal controls, testing and output of the system. We
concluded that the system was not designed to handle the volume
of transactions projected in the Decennial Census payroll.

We also examined existing payroll processing procedures and found
internal controls were inadequate. We found, for example, that
controls were inadequate to prevent duplicate payments or to
identify fictitious employees if added to the payrolls and that
no procedures had been established for reporting known or
suspected fraudulent activities. During our review, auditors
were informed of a few cases of suspected fraud which were
promptly reported to our investigative staff. After appropriate
investigation, the cases were turned over to the U. S. Attorney.

Based on our recommendations and management's analysis, the
Census Bureau is currently revising the payroll system originally
planned and partly developed for the Decennial Census. At the
completion of this phase of our audit, the payroll system for the
1980 census was not ready for operation. The latest target date
for the completion of the payroll system is December 31, 1979.
Our findings and recommendations for improving the payroll system
are presented beginning on page 43.

Office Space Acquisition - The Bureau of the Census has been
delegated the authority to lease the office space required to
establish over 400 temporary district offices that will serve as
the operational bases for the temporary staff of 300,000
employees who will conduct the Decennial Census. Total costs for
leasing this space will be approximately $30 million.

The purpose of our audit is to ensure that the office space
acquisition program is managed in an efficient and effective
manner and that leasing practices and procedures are in com-
pliance with applicable rules and regulations. Our work is being
performed during the early stages of leasing activities so that
Census officials can correct any identified weaknesses before
conditions adversely affect the census.

We are now focusing our efforts on evaluating Census' overall
system for tracking leasing activities to ensure the system is
capable of promptly informing management of potential problems
that could delay acquisition of office space. We also plan to
assess the adequacy for legal reviews of lease agreements.

Census officials are being kept informed of our progress.
Detailed information on our findings and recommendations on the
office space acquisition program will be provided in our next
semiannual report to the Congress.

1980 Olympic Winter Games

The Federal Government, through the Economic Development
Administration (EDA), has provided $68 million to a nonprofit
corporation for the construction of Olympic facilities at Lake
Placid, New York. Because of this large investment of public
funds, the project's high level of visibility and the
international significance of the Olympic Games, OIG has provided
continual audit and investigative coverage throughout the entire
construction period.

Our initial work centered on an audit undertaken to determine
whether the corporation was using granted funds efficiently,
economically and in a manner consistent with appropriate
regulations and the terms contained in their agreement with EDA.
We found deficiencies in the corporation's methods of acquiring
insurance coverage and issuing change orders to construction
contracts. Also, we identified instances where excess costs had
been charged to the EDA grant.

As our review continued, we found it necessary to increase the
level and scope of work to address an ever growing number of
concerns and charges criticizing the actions of the project's
management and questioning the quality and structural integrity
of the facilities being built.

Of greatest concern to OIG were charges that use of certain
Olympic facilities presented a danger to public health and
safety. Investigators added to the review team were assigned to
interview complainants, project officials and construction
personnel, while the auditors analyzed data and reviewed project
records to obtain more detailed information about the
construction of specific buildings. Our report led to
a full scale engineering investigation of the building, performed
by an independent structural and civil engineering firm working
in consultation with experts from the National Bureau of
Standards. This study addressed many of our concerns and others
raised subsequent to our report. Grantee representatives have
initiated appropriate corrective actions.
More recently, other concerns have been voiced questioning the fire safety, air quality and structural integrity of other Olympic facilities. OIG is closely monitoring action taken to ensure that each issue is satisfactorily resolved. Further, we are reviewing the construction quality control measures to ensure that Olympic facilities have undergone adequate inspection and testing during each phase of construction.

As more of the public safety issues have been brought under control, the OIG review team has directed more audit and investigative attention to resolving numerous allegations of fraud, waste and mismanagement that surround the project. To ensure that the public's interest is protected, this general investigation will continue until each complaint has been evaluated and appropriate action taken.

Whistleblower at Lake Placid - The Olympic Winter Games project produced the Department's first employee "whistleblower" complaint as defined in Section 7a of the IG Act. Many of the matters we have concentrated on at Lake Placid were brought to our attention by the complainant. The responsible positions taken by the "whistleblower" and by the program agency have shown that this sensitive provision can work to the public benefit.

Local Public Works

The Public Works Employment Acts of 1976 and 1977 established the $6 billion antirecessionary Local Public Works (LPW) Program designed to increase employment opportunities through construction projects creating useful public facilities. Over 10,600 grants-in-aid were awarded by the Economic Development Administration (EDA) to stimulate the economies of financially depressed communities throughout the nation.

OIG has the overall responsibility for ensuring that grant projects are audited. Consistent with the program's major objective to stimulate local economies, most LPW grant audits are performed by State or local government audit organizations or, by certified public accountants. We developed a comprehensive LPW Audit Guide and participated with the American Institute of Certified Public Accountants in conducting training courses to ensure that effective and efficient LPW coverage is attained.

Under the general direction of a few key permanent personnel, a term staff of 75 auditors has been established to perform quality control reviews of the thousands of LPW audit reports that will be prepared by other audit organizations. In addition the staff selectively performs LPW audits to ensure that prescribed audit procedures are both effective and practical. Auditors are also available should other audit organizations need specific questions answered or if special audits are requested by EDA.
OIG and EDA have worked together to improve the close out procedures for LPW projects including the timely processing and resolution of audit recommendations and collection of any amounts to be refunded. These efforts have led to an increase of sustained questioned costs from the 15 percent rate reported to the House Committee on Government Operations in February 1979, to a current rate of 54 percent. More than $9.5 million of questioned costs have already been sustained. We anticipate that with more experience, our costs questioned sustained will rise to the 70-80 percent range. This should represent an estimated $175 million total recovery of costs from the entire LPW Program.

A shared concern of EDA and OIG is that many projects are well behind their original estimated completion schedules. As of the end of fiscal year 1979, final audits and close outs of projects representing $4.8 billion are incomplete. Several of the larger projects will not be finished until late FY 1980 or in FY 1981. This is troublesome because current funding levels have already caused reductions to EDA and OIG temporary staffs processing project close outs.

**OIG Legislative Concern for Future LPW Grant Programs**—The large number of projects experiencing completion delays has complicated LPW Program administration. A major factor contributing to the increased number of delays was a decision prohibiting EDA from withholding a percent of grant funds pending final close out of the project. This left EDA without the leverage to encourage grantees to promptly accomplish close out actions. We believe that future legislation authorizing an extension of the LPW Program or creation of similar types of programs should make provision for withholding a percentage of grant funds until the grantee completes the project and resolves all issues raised during final close out actions.

**Minority Business Enterprise (MBE) Requirement**—The Public Works Employment Act of 1977, which established Round II of LPW, contained an unprecedented requirement that at least 10 percent of the $4 billion authorized be spent with minority enterprises.

As of September 1979, MBE contract estimates totalled over $700 million, making the program one of the most successful government efforts to involve minority firms in major construction projects.

EDA has taken special measures to prevent "Front" organizations from participating in the MBE program. OIG is supporting these efforts by performing a review of the effectiveness of the implementation of EDA's procedures by the EDA regional offices. Also, audits of the individual LPW projects include steps to test the validity of data supporting minority participation. Any suspected case of misrepresentation or other wrongdoing is referred to our investigative staff for detailed review.
Fourteen cases of alleged irregularities in the MBE Program have been investigated, resulting in 3 cases referred to the Department of Justice for prosecution and 2 cases referred to EDA for administrative action, while investigations continue in the remaining 9 cases.

We have placed considerable emphasis on this review because we wish to minimize the potential that MBE programs' positive achievements will be unfairly overshadowed by adverse publicity concerning ineligible cases.

Airline Discount Coupons

Between May 28 and June 17, 1979, United and American Airlines gave their customers coupons which can be applied to obtain a 50 percent discount on air travel between July 1 and December 15, 1979. Aware of problems with other efforts by government agencies to use discount airfares, the Office of Inspector General recognized this unique opportunity for the Department of Commerce and other government agencies to take advantage of substantial airfare savings.

We performed a three phased audit which produced 12 flash audit reports and contributed substantially to the collection of 1,100 discount coupons with a potential savings of more than $290,000.

The first phase of our review was devoted to assisting Departmental management in establishing guidelines for control, collection and use of discount coupons, and notifying employees that coupons obtained on air travel paid for by the government rightfully belonged to the government and should be turned in promptly after the trip. We also advised many other agencies of this problem so that they could monitor their agencies' efforts.

Our second phase encompassed an audit of the adequacy with which Commerce operating units were adhering to control guidelines for collecting and safeguarding discount coupons. We made a cumulative total of 31 recommendations to improve controls.

In our third phase, we surveyed all of the Department's operating units to determine whether their use of discount coupons would result in the optimum economic benefit for the Department. We found that through August the utilization rate was rather low (9 percent of the 1,100 collected) and some coupons were used for short or mid-country trips which resulted in less savings. We recommended that the Controller take aggressive action to manage the use of discount coupons to obtain the optimal benefit for the Department.

The Controller implemented our recommendations by requiring each travel unit to submit detailed planning information on contemplated coupon use and to prepare bimonthly status reports on actual use. Latest statistics show that 600 coupons have now
been used. The planning information also demonstrated that the Department's projected travel requirements for the remainder of the discount period far exceed the number of airline coupons currently available. Accordingly, the Controller, working through the General Services Administration, is seeking to obtain on consignment an additional 200 coupons. This action should further reduce Departmental travel expenditures by an additional $50,000.

Our findings and recommendations are presented beginning on page 60.

Regional Fishery Management Councils

The Fishery Conservation and Management Act of 1976 provides for the establishment of an exclusive U.S. 200 mile fishery conservation zone and eight Regional Fishery Management Councils to serve as the instruments of Federal-State-private interaction in the conduct of fisheries management in the zone. The National Oceanic and Atmospheric Administration (NOAA) has been delegated oversight responsibility for Council operations.

Our audit of a grant awarded to one Council showed a need for improvement in accounting and management areas. Because each Council was generally operating independently and audits of the other Councils might disclose additional deficiencies, NOAA requested that we perform expedited audits at the other Councils. By virtue of the urgency expressed in the audit request, we audited grants awarded to the Councils totaling about $2 million. Also, we implemented the program manager audit concept, closing the loop between external (grant audits) and internal audits by performing an overall internal review to determine whether NOAA was administering the operations of the Councils in an economical and efficient manner.

Our individual reports on audits of the Councils showed that the accounting, procurement, personnel, financial reporting, and other administrative activities of the Councils were in need of improvement. In our overall report on audit of the administration of grants awarded to the Councils, dated June 1979, we reported that the Councils could be operated in a more economical and efficient manner by eliminating the duplicate administrative functions that existed among the Councils and NOAA and providing for a more coordinated support effort within NOAA.

We also found that the Councils should be given more guidance on business matters, and that the achievement of their objectives should be monitored.

NOAA officials generally agreed with our findings and recommendations except, NOAA did not concur with our recommendations regarding duplicative administrative functions and the need to comply with standard governmental travel regulations.
regulations. A detailed discussion of our findings and recommendations, and NOAA's reactions appears beginning on page 56.

**Investigative Highlights**

The Office of Investigations (OI) had 291 cases in process during the past six months, representing a fourfold increase in its prior workload. This statistic reflects the more active role OI has taken in OIG's efforts to combat fraud and abuse in Departmental programs and activities.

The OI's increased workload stems from the establishment of our "hotline" communications system. During the period, we have received 170 complaints through the hotline system.

Investigations within the past six months have led to 19 referrals to the Department of Justice for prosecution. In addition to the substantial investigative effort consumed by joint audit-investigative projects, OI also directed a large portion of its resources to the following reviews:

- Ten investigations in EDA's business loan program, of which one was closed without referral for prosecutive action and four were referred to the Department of Justice. No prosecutive decision is still pending in three cases; one was declined. Other loans are under continuing investigation by the FBI or our staff.

Investigation of alleged irregularities by fourteen contractors in the minority business enterprise requirement of grants awarded under EDA's Local Public Works program. Three cases have been referred to the Department of Justice for prosecution, two were referred to EDA for administrative action, while we continued work on the remaining cases.

Investigation of alleged irregularities in fourteen organizations funded by the Minority Business Development Agency's (MBDA) business assistance program. Four cases have been referred for prosecution.

Three investigations of high-level employees for conversion of government property to personal use, travel abuse or false claims. The two completed cases were referred to the Department of Justice, who declined prosecution in favor of administrative action.

Participation by staff members in a Department of Justice directed interagency task force investigation of a minority contractor awarded over $2 million in Federal contracts.
DI initiated investigations that produced referrals for prosecution and resulted in four convictions. Notably, one case of a fraud committed in an MBDA business assistance program resulted in a 2-5 year prison sentence being imposed on the defendant.

A July 1979 agreement, initiated by the Inspector General and EDA, provides that Department of Labor personnel will conduct field investigations of Davis-Bacon and related Acts complaints. This action permits our investigative staff more time to focus on cases of program fraud and abuse.

**Newly Initiated Significant Audit And Investigative Projects in Process**

**Business and Trade Adjustment Assistance Loans**

The Economic Development Administration (EDA) provides business development loans to commercial ventures willing to undertake job-creating projects in economically disadvantaged areas. In addition, EDA offers trade adjustment assistance loans as a means to maintain employment levels of firms adversely affected by foreign imports until these firms have an opportunity to modify operations to meet new market conditions.

Information obtained from both investigative and audit sources indicated that there are substantial operating weaknesses in these loan programs. Accordingly, we have undertaken a management audit of loan policies and procedures as practiced by a selected EDA Regional Office.

We are evaluating the adequacy of analysis of business plans and financial need statements filed in support of loan applications received to ensure that the information presented is reasonable and accurate. We will review Regional Office procedures for servicing outstanding loans and for taking appropriate action to ensure that borrowers submit quarterly and annual financial statements or progress reports required under the terms of the loan. Also, we will attempt to determine whether EDA has the information necessary to assess the effectiveness of the loan in terms of creating employment, and can promptly identify and provide assistance to those borrowers experiencing operating difficulties.

**Drought Relief Program**

The Community Emergency Drought Relief Act of 1977 authorized loans and grants to applicants in drought impacted areas for projects that implement short-term actions to augment community water supplies. The Economic Development Administration (EDA) funded a total of 268 projects with $109 million in loans and $65 million in grants.
We are conducting a review to evaluate the policies, procedures and practices used by EDA in administering the Drought Relief Program. Since EDA's Western Regional office administered almost two-thirds of the program's projects, we are concentrating our efforts in that area.

Our review of specific projects indicates the possibility of serious wrongdoings such as payment for goods not received, loans made in excess of project requirements, inadequate control of property, and grants to ineligible recipients.

Accordingly, we are examining the management system used to administer the Drought Relief Program to determine whether program funds were exposed to fraud, waste or abuse. Our review will determine whether adequate attention was given to evaluating the content of applications for aid, and whether EDA adequately monitored projects as they progressed. We also will seek to determine why several loan recipients have fallen behind in their payments and have sought restructuring loan payments or conversion of the loans to grants. Further, we will attempt to establish why completion of many work projects have fallen behind schedule.

Management of Cash Advances

The Office of Audits has initiated a series of reviews of selected major programs to ensure that cash advances to contractors, grantees and loan recipients are kept to amounts actually needed to meet immediate cash requirements. These reviews are in accord with OMB's expressed concerns regarding the need for using sound cash management practices in all Federally funded activities.

Preliminary results indicate that several aspects of cash advance issuance and monitoring procedures must be strengthened. For example, we have found that under the Economic Development Administration's (EDA) Business Loan Program, EDA often allocates loan funds to its Regional Offices on a quarterly basis. Nearly 40 percent of all loan funds are made available during the fourth quarter rather than relating the amount and timing of the release of funds to the immediate needs of the borrowing organizations.

Another review conducted within the Minority Business Development Agency (MBDA) identified over $13 million dollars in recorded advances that are two to five years old. Detailed examination of individual advances to ascertain the validity of these advances is currently underway by MBDA officials. Already, a two-year old $367,000 cash advance had been identified as not being needed by the grantee. Repayment of the total advance has been scheduled and the first installment received.

We found also that MBDA officials did not always take prompt action to deobligate program funds no longer considered necessary
for the accomplishment of specific contract or grant projects. While this practice does not actually tie up cash, it does reduce the level of program funding that is available for constructive purposes. MBDA officials have recently deobligated more than $2 million and are reviewing other projects to determine if more obligations should be eliminated.

Even grants funded under the more efficient letter of credit method of financing were found to have excessive flows of cash advances. We have informed EDA that auditors examining disbursements of funds via letters of credit issued under the Local Public Works Program have found that many grantees were maintaining excessive monthly cash balances. Because of EDA's and our own concerns, we are expanding our audit to study a larger number of grants to better determine the magnitude of the problem. Also, we have found indications that some financial institutions delay making funds available to grantees, thus benefitting the financial institution. We are performing more detailed work in this area to confirm our preliminary findings. Treasury officials have been informed of this matter and are interested in our results.

Minority Business Development Agency - Problem Contractors

Some contracts and grants issued by the Office of Minority Business Enterprise, the predecessor agency of the Minority Business Development Agency (MBDA) produced significant problems. Current work is accordingly focusing on an evaluation of procedures followed in awarding and monitoring contracts and grants in those cases. This process should lead to improved procedures for offering grants and contracts.

We plan also to evaluate MBDA's system for resolving open audit recommendations, especially in those instances involving substantial questioned costs. In each area under review, we will study existing controls to determine whether they offer adequate protection against fraud and abuse.

As reported in greater detail on page 11 of this report, our preliminary work has found that MBDA's cash management and financial control procedures need strengthening.

Procedures for Vessel Seizures

In late 1978, a foreign fishing vessel was seized for violating regulations issued pursuant to the Fishery Conservation and Management Act of 1976. The Act provides for an exclusive U.S. Fishery Conservation Zone that extends 200 nautical miles from the U.S. coasts.

The seizure was made on the basis of a National Marine Fisheries Service (NMFS) observer's report and other related information.
Subsequently, an Assistant U.S. Attorney concluded that the Government did not have a prosecutable case and the case was dropped. The Administrator, NMFS, then requested that an auditor-investigator team from the Office of Inspector General undertake an audit of the interrelationship of procedures for scientific observation and enforcement. This is in progress.
### Name and Date of Report

#### From this Reporting Period

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3. Report on Audit of Selected Aspects of Preparatory Work for the 1980 Decennial Census (2-24-78)  
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<tr>
<th>Referred by Department of Commerce</th>
<th>Number of Referrals</th>
<th>Indictments</th>
<th>Declined</th>
<th>Pending</th>
<th>Number of Convictions</th>
<th>Appendix III Table</th>
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<td>Cases pending as of April 1, 1979</td>
<td>24</td>
<td>0</td>
<td>13*</td>
<td>8</td>
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<td>April 1, 1979 to September 30, 1979</td>
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*Three cases were declined by Department of Justice, but civil recovery is pending.

**One case was declined by Department of Justice, but conviction was obtained in county court; therefore it is counted both as a declination and a conviction.
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<thead>
<tr>
<th>Type of Audit</th>
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OFFICE OF THE INSPECTOR GENERAL INITIATIVES

Fraud Abatement Program Efforts

The General Accounting Office's (GAO) Report "Federal Agencies Can and Should Do More To Combat Fraud In Government Programs," concluded that past efforts to reduce program fraud and abuse have been generally ineffective. The report criticizes Federal agencies for the passive nature of their fraud detection/prevention programs and offers a series of recommended actions for remedying the situation.

We believe GAO's recommendations provide criteria for developing the framework of an effective fraud control program. We also conducted a survey of six Federal organizations to learn what specific actions they had undertaken to meet the intent of the GAO recommendations. The following initiatives have been taken, are planned or are under active consideration for inclusion in our fraud control program:

Fraud Control Unit-- A separate unit has been established for the purpose of systematically detecting fraud, waste and abuse within Departmental programs and activities. This group will first seek to identify those activities most vulnerable to fraud by reviewing past audit and investigative reports; studying program structure and operating procedures; and evaluating the data gathered from our various management information systems.

Programs identified as most vulnerable to fraud will be targeted for operational surveys. Conducted by the fraud control unit, with assistance from legal and program technical personnel, operational surveys will be joint audit-investigative reviews undertaken for the express purpose of seeking out indicators of fraud and abuse as well as determining the need for full scale audits or investigations. Team members will perform various tests designed to detect such actions as fraud, bribery, kickbacks, favoritism or administrative irregularities. On the basis of the operational survey findings, further audit or investigative actions will be initiated, as appropriate.

Establishment of the Hotline - OIG, at the direction of Secretary Kreps, established a hotline communication system providing employees and the general public a means for reporting instances of fraud, waste or abuse taking place within the Department's programs or activities. In a memorandum dated March 23, 1979, the Secretary informed all Commerce employees of the establishment of the hotline and advised them of its purpose, general operating procedures and employees' responsibility to report improper activities.

The Inspector General has implemented the Secretary's message by providing hotline information to various official employee
publications. Also, a press release has been issued to the major wire services and other media groups to inform the general public of our hotline system.

The hotline communication system is comprised of a telephone hotline number and a post office box for written correspondence (P.O. Box 612, Washington, D.C. 20044). Callers may reach OIG via the Federal Telecommunications System, local commercial service (202 - 724-3519). Recently, the Inspector General added to the hotline system a toll free number that can be used from anywhere in the country (800 - 424-5197). The hotline telephone numbers are listed prominently in the Commerce telephone directory, and will be published in the next edition of the telephone directories of several major metropolitan areas.

The hotline is staffed by professional investigators 8:30 a.m. to 5:00 p.m. workdays. At all other times, an answering service records all incoming calls. Each call is given a preliminary evaluation then sent to the appropriate OIG unit or agency group for action. All complaints are kept confidential to the maximum practical extent. While anonymous calls are not encouraged, such complaints receive the same attention as other calls. These procedures are followed in processing calls received via our own hotline and those referred to us from the Government-wide hotline operated by the General Accounting Office.

The hotline system has already proven to be an effective investigative tool. We expect its usefulness to grow as more people become aware of and place greater reliance on the system. As shown in more detail in the "Hotline Activities" section beginning on page 38, we received 170 complaints during this six month reporting period. Several of these calls led to the initiation of some of our major investigative cases, presented on page 40.

OIG Efforts To Enlist Departmental Participation In Combatting Fraud, Waste And Abuse-- The OIG recognizes that the promotion of economy, efficiency, and effectiveness, and the prevention of fraud, waste and abuse in Commerce programs and operations is a departmental task in which the OIG acts as facilitator. Involving the Department in addressing these concerns in a systematic manner is a major task of our office which lies ahead.

OIG has established liaison with the Assistant Secretaries and their Program Officers. This represents part of a continuing effort to obtain cooperation for the work of the IG.

A substantial employee awareness education program for Commerce employees, tailored to the Departments' needs is essential. The objectives of education programs now under development are; (1) to advise employees of the Department's standards of employee conduct and explore related problem areas; (2) make employees aware of the signs of fraud and other wrongdoing and explore the
seriousness and dangers of these problems; (3) educate managers on the importance and techniques of internal control and (4) make employees aware of the hotline, "whistleblower" protection, and the activities of the IG. These programs will be developed by the IG, but the Secretary will be requested to present the program through the operating agencies.

Extended Audit Steps - Crimes of fraud and abuse are covert acts that can escape detection when standard audit techniques are used. We are exploring methods and techniques for extending audit procedures to improve our ability to detect the existence of fraud.

Our Policy unit which reviews audit plans and audit programs will ensure that auditors will identify those program activities that appear to be most vulnerable to fraud. Using standard audit techniques, these areas will be tested. If the results are inconclusive, the auditor will determine if the audit procedures can be extended in a way that will produce more positive results. An extended audit step is for example, a computer match technique or an expanded procedure that goes beyond usual voucher verification procedures. The auditor will also have to develop new approaches.

Devising extended audits steps offers a great challenge to the auditor's creative ability and professional skills. As individual auditors develop successful techniques they will be compiled by the Policy staff and shared with other staff members and OIGs.

Increased Cooperation With Law Enforcement Organizations - OIG recognizes the importance of maintaining a high degree of coordination and cooperation with other Federal and State governmental organizations committed to combat fraud, waste and abuse within Federally sponsored programs. Through the open exchange of information and mutual support of each others' efforts, we can make more efficient use of our resources while also improving the effectiveness of operations. We have established liaison with the Public Integrity and Fraud sections of the Justice Department.

Over the past few months, several OIG representatives have attended Department of Justice conferences held to discuss implementation of the Attorney General's economic crime enforcement program. Also, our regional and district office staffs have met with local U.S. Attorneys to open up continuing lines of communication, to learn the U.S. Attorney's procedures and methods of operation and to gain their support of our program. Where State economic crime or fraud control units exist, we have met with their officials in certain areas to discuss ways to approach matters of mutual interest.
OIG staff members also participate in interagency conferences arranged to discuss coordination of efforts and cases of mutual interest. For example, representatives of several OIGs and the Federal Bureau of Investigation recently met to discuss how best to conduct reviews of a group of grantees that were causing difficulties for several Federal agencies. Underlying problems were discussed and possible solutions considered. The conference attendees prepared an action plan calling for the exchange of information between all agencies funding each individual grantee, then appointing a lead agency to conduct a full scale review of all Federally funded activities of the individual grantees. This form of cooperation will conserve resources and will produce more timely and productive results.

Review of Legislation and Regulations

Section 4(a)(2) of the Inspector General Act of 1978 requires the Inspector General to review existing and proposed legislation and regulations relating to programs and operations of the Department and to make recommendations in the semiannual reports concerning the impact of such legislation and regulations on the economy and efficiency in the administration of programs and operations or the prevention and detection of fraud and abuse in such programs and operations. A member of our Policy Staff works with the Department's General Counsel to obtain copies of all proposed legislation and with the Department's Office of Regulatory Economics and Policy to obtain data relative to new and existing rules and regulations. The OIG staff is establishing a systematic means for selecting only the pertinent legislation and rules and regulations for review and comment.

During the period October 1, 1978, through September 30, 1979, the OIG reviewed a selected number of new and existing rules and regulations in conjunction with management audits. During the period June 1, 1979, through September 30, 1979, the OIG received 238 requests for comments on proposed legislation. Based on review of the proposed legislation, the following comments and recommendations are offered to Congress for consideration.

Recodification of Federal Criminal Laws - We have reviewed the working draft of a bill to recodify Federal criminal laws now under consideration by the Criminal Justice Subcommittee of the House Judiciary Committee. Certain provisions of that proposal, if enacted into law, would adversely affect the government's ability to combat fraud and other white collar crimes in government programs and operations. The draft proposal also fails to include several substantive provisions which would facilitate control of program fraud and abuse.

The provisions to which we refer would: reduce the statute of limitations from 5 years to 2 years for misdeamors; eliminate a provision to penalize conspiracies to defraud the United States; fail to provide adequate fine levels; retain inadequate fine
levels for offenses outside Title 18; downgrade the false statement offense to a misdemeanor; merge many current felony false statement offenses into a single misdemeanor offense; add a new "recklessness as to materiality" element for conviction of perjury; eliminate the "irreconcilably inconsistent statement" method of proving perjury; and eliminate consensual monitoring. These provisions, if adopted, would seriously undercut our efforts to investigate, punish and deter the perpetrators of fraud and other white collar crimes. S. 1722 under consideration by the Senate Judiciary Committee avoids many of these problems.

The proposal before the House Subcommittee also omits these important provisions: a jurisdictional base for prosecuting theft and fraud in Federally-supported programs; a jurisdictional base for prosecuting bribery where a Federally-supported program is involved but no Federal employee is the recipient of a bribe; restitution to victims of fraud; notice to victims of fraud; injunctive relief against fraudulent practices; a reckless endangerment offense and an offense of reckless failure to supervise the conduct of an organization; a general attempt and solicitation offense; and government appeal of sentences. These provisions, if adopted, would facilitate our efforts to pursue white collar criminals. S. 1722 provides for a number of these measures.

Legislation Restricting Government Access to Records Relating to Individuals Held by Institutions—We are concerned that the recent enactment of the Right to Financial Privacy Act of 1979, which restricts government access to the financial records of individuals, may have an adverse effect on our ability to combat fraud and other white collar crimes in Commerce programs and operations.

We ask Congress to allow sufficient time to assess the impact of the Act on effective law enforcement before extending its potentially deleterious effects to new areas.

Given our additional caseload we foresee a substantial increase in the number of investigations requiring prompt access to the variety of records relating to individuals that institutions hold. The procedures established by the Right to Financial Privacy Act for obtaining financial records are cumbersome and time-consuming. It is reasonable to anticipate that the procedures will adversely affect the timeliness and quality of investigations.

Some law enforcement agencies have already experienced substantial problems as a result of the Act. Under the circumstances, we have serious doubts about the wisdom of expanding its concepts and procedures to additional areas at this time.
Federal Computer Systems Protection Act of 1979 - The OIG has reviewed S. 240, the proposed Federal Computer Systems Protection Act of 1979, currently pending in the Criminal Justice Subcommittee of the Senate Judiciary Committee. The proposed act would make using or destroying a computer owned or operated by the United States a crime, in the absence of proper authorization. The OIG fully supports enactment of this proposal.

Computer related crime is a growing problem in the Federal government. None of the statutes which appear in Title 18 of the United States Code specifically address computer crime. This proposal, if adopted, would facilitate prosecution of computer abuse by providing Federal prosecutors with a jurisdictional base directed to the technical aspects of computer crime.

The proposal would also help curb abuse of computer time by Federal employees, who would be on notice that unauthorized computer access constitutes a crime even where the intended purpose appears innocuous.

Enactment of this bill will assist the OIG in coping with computer fraud and abuse in the programs and operations of Commerce. The OIG therefore urges its passage.

Legal Services

The OIG requires extensive legal services. The position of Counsel to the Inspector General has been created to provide legal services, principally in the criminal law and investigative procedure area, and to provide the legal input into our review of legislation and regulations for their impact on efficiency and economy, fraud, waste and abuse.

The Department's Office of General Counsel, through the Assistant General Counsel for Administration, has provided significant services to the OIG in the program and administrative areas.

Initiatives Taken To Ensure That Appropriate Administrative And Civil Action Is Pursued By Program Officials

At the conclusion of an investigation it is often apparent that remedial action of administrative or civil nature is warranted. Such action may be necessary even where criminal sanctions are contemplated.

OIG has taken action to ensure that appropriate administrative and civil redress is pursued by program officials whenever an investigation has uncovered significant evidence of mismanagement or wrongdoing. OIG supervisory staff analyze the results of each completed investigation and, where necessary, recommend remedial measures predicated upon the findings. These recommendations are
sent with a report on the investigation to responsible program officials.

OIG follows up on these recommendations. Program officials are asked to initiate action or otherwise satisfactorily resolve the matter within a specified time frame. If this is not accomplished, the matter is referred by OIG to top DOC management personnel for disposition. These actions ensure that OIG investigation disclosures receive proper attention and action.

Staff Development

A Training Officer position has been established and filled within the Office of Policy and Administration, OIG. The incumbent supervises the development, coordination and scheduling of all OIG educational and training activities. The Training Officer is in the process of developing comprehensive training plans designed to enhance the professional skills of all OIG staff members.

In addition to our ongoing staff development programs, we currently are familiarizing our lawyers, auditors and investigators with each others professional operating techniques and methodologies. This practice expands the general working effectiveness of the individual and should facilitate closer cooperation and coordination between members of multidiscipline teams examining complex cases requiring all three professions' expertise.

Initiation of Joint Audit/Investigative Reviews

In the past, it was common for auditors and investigators to work independently on one or more aspects of the same case. This led to coordination and communication difficulties, duplication of effort, greater inconvenience to the organization under examination and may have sometimes produced less than optimum results.

The establishment of the OIG unified the audit and investigative organizations. While each group has its own distinct operating responsibilities, joint audit/investigative reviews are undertaken when the nature of the assignment can best be addressed by using the technical knowledge and skills of both groups. The joint review teams also have access to legal expertise provided by the Inspector General's Counsel.

Combined skills of lawyers, investigators and auditors have enabled us to more effectively handle difficult cases, especially those involving suspected fraud or abuse. Our team approach has already produced excellent results; this is demonstrated in the following case examples.
Misuse of Government Funds-- An audit conducted by OIG auditors found evidence that a nonprofit firm established in connection with a Departmental grant to foster certain categories of business acquisitions was simultaneously conducting a commercial business acquisition brokerage out of the same office. There are indications that grant funds have been used improperly in support of the commercial venture. Investigators interviewing grantee employees gained more information supporting the auditors' conclusions. The matter was discussed with officials of the Justice Department who questioned the propriety of the use of grant funds but found the case to have no prosecutorial merit because the agency awarding the grant knew of the grantee's coexisting commercial actions. Upon the advice of the OIG and the Office of the General Counsel, the agency has terminated the grant. We are working with the agency to determine what steps can be taken to preclude further occurrences.

Loan Guarantee-- A joint audit-investigative review was undertaken at the request of Economic Development Administration officials who suspected that a private entity awarded an EDA guaranteed loan had misused loan funds and that the project for which funds had been made available was on the brink of bankruptcy.

The review team found that the grantee had made expenditures for equipment purchases not authorized in the loan agreement. Further, we found that items the loan agreement required the grantee to own were actually obtained on a leased basis. We also confirmed that the project was experiencing financial difficulties.

We concluded that the original loan agreement did not adequately protect the government's interest and that the grantee technically violated the terms of the existing loan agreement. We do not believe, however, the case warranted prosecution. Instead, the project's financial activities have been restructured to improve its chance of operational success and we have started a management audit of the EDA loan program to determine what policies and procedures need to be strengthened to reduce the chances for future losses of Government funds.

Computer Abuse--Following up on a complaint to the OIG, investigators confirmed that a senior level employee was using a Government computer facility to develop statistical data that could be used for personal gain. The work undertaken was irrelevant to the employee's officially assigned project. Further, we found that the employee had used the computer facility without the knowledge of agency officials and had charged the computer costs of his unauthorized work to a project funded by another Federal agency. The results of our investigation were presented to the U.S. Attorney who declined
prosecution in favor of administrative action. Action is now pending.

Concerned that computer abuse may become a widespread problem, OIG assigned our office's senior computer specialist to evaluate the management procedures and controls established to preclude unauthorized use of the unit's computer facilities. Several weaknesses were identified. We are presently working with program officials to develop procedures to improve control over computer access. Results from this effort will be studied to determine its applicability to computer facilities throughout the Department.

This case is an example of coordination between audits and investigations, not available in the past, which will permit the translation of single case findings into procedural reviews and improvements entailing substantial fiscal saving.

Management Information Systems

Management Information Systems (MIS) can serve as major analytical tools to combat fraud. These systems are also needed to provide a flow of timely and accurate information for the efficient and effective management of resources. To meet these objectives, we have undertaken the development and implementation of several MISs, each designed to supply information vital to the successful performance of the Office's mission.

IRIS--The Inventory Report Information System (IRIS) is an automated system currently in the final stages of development. Next will come a period of extensive testing. IRIS, when fully operational, will track the status of all audit reports from date of issuance through final resolution of all recommended actions contained in the individual report. IRIS also will retain a historical record of all reports issued, including information regarding key findings and recommendations. With this data base, we will be able to perform trend analyses for purposes of identifying major recurring weaknesses, both of a programmatic or a functional nature.

Until the automated system is fully operational, we have implemented a limited manual information and trend analysis system. This system attempts to identify patterns of program weaknesses through studying the findings and recommendations presented in a series of contract, grant and loan (C/G/L) audit reports.

Our initial use of the manual system examined the findings contained in audit reports received under 10 Departmental programs. We analyzed over 200 reports received during the period March through August 1979. Our review of audit reports of the 10 programs identified a total of 380 cited deficiencies, as shown in the following Summary of Significant C/G/L report
findings. The MBDA programs had 219 deficiencies. We currently have an audit team reviewing the management aspects of MBDA's contract and grant activities.

The remaining findings also are indicators of possible program weaknesses, but the limited number of reports received prohibits us from drawing any firm conclusions. In coming months we will receive many more reports in these areas, allowing us to determine the validity of indicated trends. The collected data will also benefit the audit teams currently starting reviews of EDA's Drought Relief and Business Loan Programs.

Now that we have seen positive results from our manual analysis program, we plan to expand its use to cover all C/G/L reports received.
### Summary of Significant C/G/L Report Findings by Organization and Program

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<th>AGENCY PROGRAM</th>
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<th>MDD</th>
<th>OP</th>
<th>NOAA</th>
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#### Type of Findings

- Inadequate Accounting System: 2 3 2 10 13 1 4 1 36
- Poor Internal Controls: 2 3 10 1 20
- Records in Unauditable Condition: 4
- Failure to Comply with C/G/L Terms: 6 2 2 10 20 40
- Failure to Comply with Administrative Requirements: 1 1 2 4 1 2 11
- Failure to Comply with Federal Cost Principles: 4 1 4 1 2 1 13
- Failure to Comply with Legislative or Program Intent: 1
- Poor Service: 1 2 3
- Poor Program Performance: 2 2
- Inadequate Policies and Procedures: 1 11 12
- Lack of Proper Reporting: 1 4 34 39
- Cost Incurred for Items Not Provided for in CGL Award: 1 1 2 2 3 3 13
- Insufficient Documentation: 26 3 3 4 2
- Cost Not Applicable to Agreement Period: 4 1 2 3 3 4 13
- Unallowable Cost: 2 1 4 6 4 23
- Excess of Approved Federal Share: 4
- Duplicate Charges: 1 1 4 6
- Unnecessary or Unreasonable Costs: 1 1 1 3
- Otherwise Allowable Costs in Excess of Contract Amount: 1 1 1 3
- Cost for Items Not Received or Incurred: 1 6 7
- Improper In-kind Contributions: 4 4
- Cost in Excess of Line Item Amounts: 1 1 1 19 23
- Cost in Excess of Standard Travel Regulations: 2 2 1 2 6 6
- Poor Cash Management: 3
- Improper Overhead Charges/Rates: 1 4 1 6
- Income Not Credited to Costs: 1 1 1
- Numerous Mathematical Errors: 2
- Cost Requiring, but Not Approved by C/G Admin.: 6 2 1 17 1 27
- Cost Disapproved by Contract/Grant Administrator: 3

**Total Findings by Program**

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<th>MDD</th>
<th>OP</th>
<th>NOAA</th>
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(1) Minority Business Development Agency - Contracts and Grants.
(2) Office of Procurement and ADP Management - Central Procurement Contracts.
(3) Office of Coastal Zone Management - Grants.
Implementation of Investigations Tracking System—OIG has developed and is implementing a comprehensive investigations tracking system to improve effective management of an increasing caseload. Designed for use with automated data processing equipment, the system will monitor the progress of every case from receipt of a complaint to final disposition and will provide management with ongoing, up-to-date case status reports as needed. In those instances where an allegation is particularly sensitive, where unusual delays have been experienced, or where some other difficulty is impeding a satisfactory disposition, the system will also highlight the case for special attention by management.

In addition to tracking individual case histories, the system will provide comprehensive statistical data on the overall caseload. The system will furnish a profile on the scope of initial allegations, their source, their accuracy, the actual or potential losses to the government, the background of those involved in mismanagement or wrongdoing, and the nature of the dispositions which result. OIG will then analyze this information for emerging patterns of program vulnerability and will allocate investigative resources to those areas of greatest need.

Problem Contractor Reporting System—Each month, all Regional and District Offices file with our headquarters policy staff reports on every contractor, grantee, or loan recipient known to be under investigation or thought to be experiencing serious financial or management difficulties. Report data encompasses: the type of recipient; the program under which the award was made; a statement of the problem; how the problem was discovered; and when possible, suggestions on how the weakness could have been prevented.

Report data keeps key management staff members aware of emerging problems and provides case study material for planned brainstorming sessions to be conducted to develop new techniques to prevent or detect fraud, waste and abuse. The data is also subjected to trend analysis to identify those programs or activities consistently experiencing difficulty.

Since the system has been in operation only a few months, we have yet to develop the base data necessary to detect major problem areas, although we have already noted that some programs appear to be more susceptible to weaknesses. As relevant statistics are compiled, we plan to have our fraud control unit perform operational surveys in those programs identified as problem areas.

Audits Leads System—During the conduct of audit assignments, investigations, meetings with Departmental or other governmental officials, and contacts with the general public, auditors and
investigators become aware of specific areas which should be considered for potential audit.

The audit leads system is a centralized MIS that captures and compiles all recommendations for audits received or developed by OIG staff members or requested from Departmental operating officials. By controlling and coordinating leads data, there is greater assurance that the information will be forwarded to the responsible OIG unit for evaluation and scheduling of appropriate action. The system is for special information and does not encompass audit cycle data, routine requests for C/G/L audits, or modifications to ongoing or currently planned audits.

Each lead is formally reported to our policy staff who has responsibility for controlling all leads. The policy staff also is required to discuss the lead with the Assistant Inspector General for Audits (AIGA) or the Assistant Inspector General for Investigations (AIGI) and all staff members involved. If necessary, additional information will be obtained from the submitting unit. Based upon these discussions, appropriate action will be initiated or in the cases of less pressing matters, the item will be held in a suspense file for consideration during the next annual planning conference.

In its first few months of operation, the audit leads system has demonstrated its effectiveness. In fact, five of the ongoing audits discussed in this report were started as the result of an audit lead.
OIG WORKLOAD

The current staffing leaves the OIG short of the resources required to perform the needed management and contract, grant and loan audits, investigations and the added functions necessitated by the enactment of the Inspector General Act of 1978. A summary of the OIG's workload and resources follows:

Management Audits

On a number of occasions the General Accounting Office (GAO) has understandably criticized the Office of Audits (O/A) for failing to perform management audits in a timely manner. Based, on fiscal year 1979 data, the audit cycle is estimated to be 13 years. GAO concluded that the audit cycle was unduly long and O/A falls short of achieving the Department's objective of auditing all programs and activities every five years. Further, a recent analysis to determine those Commerce programs highly susceptible to inefficiencies, ineffective management practices, fraud, abuse and waste indicates an immediate need to perform about 94 management type audits, whereas the O/A has available a little more than one-third of the auditors needed to carry out such audits.

Contract, Grant and Loan Audits

Some contract, grant and loan (C/G/L) audits are performed with inhouse staff, but to the maximum extent possible, the services of other Federal, State and local government audit organizations and independent public accountants (IPAs) are used. For all audits performed by other than Federal organizations, it is the OIG's responsibility to assure that the findings meet Departmental management needs and that each audit meets certain professional standards and is conducted within the established level of competence. GAO recently reported a need to improve procedures used by Federal agencies to test the quality of IPAs' work. GAO stated that a shortage of Federal staff contributes significantly to the problems in the testing procedures. GAO has also stated that reliance on non-Federal auditors to detect fraud is not well placed. There are about 30 different Departmental programs to be covered by C/G/L audit services, with some programs receiving a limited number of cost audits due to lack of resources.

Expansion of EDA Program

A major expansion in EDA programs from $630 million in fiscal year 1979 to more than $3.1 billion in fiscal years 1980 and 1981 is anticipated. Audit and investigative resources are needed to assure the financial and administrative integrity of these expanded and new programs.
EDA's Local Public Works Program

We need the capability to complete the audit activities required and to effectively close out EDA's $6 billion LPW Program by the end of fiscal year 1983. The bulk of the audit reports for the larger and more difficult LPW projects will be received during fiscal years 1980 and 1981. Without prompt follow-up action on these audit reports, reported instances of waste and abuse, and cases of fraud could go undetected and uninvestigated.

Follow-up on Audit Recommendations

A significant increase in the audit staff is needed to carry out the revised procedures for follow-up on outstanding recommendations and costs questioned, as required by GAO, OMB and the Congress. The outstanding costs questioned currently total about $40 million.

Investigations

During the reporting period, we did not have the investigative capability to address many cases that came to our attention. The successful efforts of the Inspector General to transfer the investigation of most Davis-Bacon complaints to the Department of Labor did release vital investigative resources. Still, we completed the period with a backlog of 176 cases. In summary, additional investigative capabilities are needed to (1) regionalize investigative capability; (2) follow-up on hotline cases generated by Commerce and GAO, and other investigative cases which increased by 350% and are going up; (3) assume much of the investigative work previously done by the FBI; and (4) assist in reviewing and processing proposed legislation and regulations. Until more resources become available, we will continue to investigate cases on a priority basis, giving prime attention to issues that represent crimes against the Government or that damage the integrity of the Department.

Policy Staff

The passage of the Inspector General Act has greatly increased the duties of the present policy staff. In addition to past duties, the policy staff will be required to coordinate the policies and practices of both audits and investigations and to carry out (1) the review of hundreds of pieces of legislation and regulations for the Department and the review and preparation of consolidated replies on legislative matters of common interest to all IGs; (2) the preparation of extensive reports to the Secretary and the Congress; (3) the analysis of data to ascertain program weaknesses and to coordinate with staff performing vulnerability assessments to detect fraud and program abuse; (4) the coordination, monitoring and preparation of training for the OIG and Departmental personnel; and (5) plans for devising new audit techniques for detecting fraud and abuse.
AUDIT ACTIVITIES

MANAGEMENT IMPROVEMENTS

Status of Improved Audit Report Follow-up Procedures

An automated management information system, under development by OIG, will provide an automated audit finding and recommendations follow-up capability, thus enabling staff members to more closely monitor the implementation of recommended corrective actions as recommended recently by both the General Accounting Office and the Office of Management and Budget. Other procedures developed by OIG, the Controller, the General Counsel's Office and Procurement personnel to strengthen our follow-up of audit recommendations will provide for: (1) questioned costs to be recorded and controlled in memorandum accounts receivable; (2) decisions to be made within six months on the collection of the questioned costs; (3) designation of officials at the bureau level, and the Controller at the Department level, as parties independent of the program administrator and contracting officer, with responsibility for deciding whether to make recoveries of questioned costs not resolved within six months; and (4) legal review of program officials' decisions to waive questioned costs.

In addition to the development of procedures to strengthen our follow-up on audit recommendations, task forces have been established to expedite the resolution of outstanding audit recommendations.

Audit Planning

We developed an annual audit plan as required by the Office of Management and Budget OMB Circular No. A-73 (Revised), and to assure the most effective use of our limited resources. Based on the programs and activities as shown in the Department's budget, an inventory (workload) of all auditable areas in the Department was developed. Using the experience and knowledge of staff, each auditable area in the inventory was identified as to the type of audit to be performed - program evaluation, economy and efficiency or financial and compliance.

Utilizing the Kepner-Tregoe Decision Analysis Methodology, we have developed a priority system for rating the audit inventory and selecting the audits to be performed. Evaluation factors and numerical ratings are used in evaluating and ranking each auditable area in the audit inventory. Since the passage of the IG Act, we have included additional rating factors to consider fraud and abuse.

The following ranking factors used in the audit planning process are: Congressional, Presidential or Secretarial Interest and Sensitivity to Department Image; Sensitivity to Fraud and Abuse; Dollar Magnitude; New or Changed Conditions; Department vs.
Bureau Impact; Audit Requests by Assistant Secretary or Bureau Officials; Known Problem-Significant Impact; Last Audited; Contract, Grants, Loans, Subsidies and Guarantees; and Other Conditions Affecting Decision to Perform Audits.

In order to develop an accurate inventory (workload) of auditable contracts, grants and loans (C/G/L), a detailed analysis was conducted for each of the auditable programs. The analyses provided data as to the number of C/G/Ls in each program which warranted audit, the period in which the audits were to be performed, and the amount of professional effort required to perform the audit work. Our time requirements took into consideration the time incurred by O/A in obtaining the audit services and testing the quality of work performed by independent public accountants (IPAs), state or local government audit organizations and other Federal audit organizations.

Coordination of Responses to the General Accounting Office

During the six month reporting period, the Department of Commerce received 65 GAO draft and final reports, 30 of which required coordination and processing of responses by OIG. An additional 14 responses to GAO reports received in the prior period also were in process. Responses to 38 GAO reports were completed during the six month reporting period, and as of September 30, 1979, the responses to the six GAO reports remaining were in various stages of completion.

Since the designation of the Inspector General in Commerce, the procedures for handling responses to GAO reports have been strengthened in order to ensure more meaningful and timely responses. The Department's Executive Secretariat, in cooperation with the IG, recently informed all Secretarial Offices and heads of operating units that more stringent due dates will be assigned.

Further changes in the procedures are being considered to consolidate in the OIG the responsibility for transmitting responses to final GAO reports. This responsibility is currently divided among three different offices.

Computer Applications Inventory System (CAIS)

The Office of Inspector General and the Office of Procurement and ADP Management (OP&ADPM) are developing CAIS as a means to collect information on each planned and existing application of ADP resources within the Department. The objectives of the system are to provide OP&ADPM with vital information needed to effectively manage the Department's vast amount of ADP resources and to provide OIG with the data base necessary to perform meaningful evaluations of the efficiency and economy of ADP applications.
Data collected includes a statement of the application's purpose, its basic costs, development or modification resource requirements, assessment of the sensitivity of information processed and the application's vulnerability to fraud, waste and abuse. This information will permit OIG to evaluate each application in terms of resource requirements, schedule constraints and value to the Department.

**Computer Security Program**

Computer systems play an essential role in performance of operational, administrative and managerial tasks so vital to successful accomplishment of the Department's varied missions. Some systems contain sensitive information entrusted to the Department, while others are the means of controlling and disbursing our financial resources. In Fiscal Year 1979 alone, the Department will have disbursed an estimated $4.3 billion, most through its ADP system. Consequently, computer equipment, the facilities housing or supporting automatic data processing (ADP) related activities, and the data processed by DOC computer systems represent important organizational assets which must receive protection commensurate with their importance and value.

The Office of Inspector General is assisting the Office of Procurement and ADP Management in developing a comprehensive security program to protect and control the Department's ADP resources. The Department is committed to increasing the protection of data processed and the outputs produced by our ADP systems, as well as providing assurance that our ADP security program complies fully with requirements set forth in OMB Circular A-71, Transmittal Memorandum #1, dated July 1978.

In addition to our audits of operational and developmental ADP systems, that always include appropriate reviews of security practices and internal controls, OIG personnel have also assisted Departmental personnel in the development of a Security Manual, now drafted and under operating units' review. Implementation of the guidelines contained in this manual will establish a cost effective security program to safeguard ADP hardware, software, data, personnel and facility resources, making the Department less vulnerable to potential computer related fraud and abuse.

**Dollar Savings Resulting from OIG Activities**

Office of Audits—During Fiscal Year 1979, our audit efforts resulted in $99.1 million of estimated savings and $24.2 million in cost avoidance or deferrals. In addition, we also made recommendations for improvements for which savings are not readily determinable. Following is a short description of the types of audits resulting in savings and cost avoidance. Costs questioned and sustained in our contract, grant and loan (C/G/L) audit reports amounted to approximately $88.8 million. This is composed of $7.1 million from the Local Public Works (LPW) Program and
$1.7 million from all other programs in the Department. Due to the record keeping method, however, the LPW figure contained costs questioned on project cost overruns which would not be recoverable from the grantee. Therefore, we have claimed only 75 percent of the costs questioned and sustained for the LPW Program. In addition, C/G/L audit reports identified $40,129 of costs that can be avoided as a result of our recommendations.

Our review of the management and utilization of airline discount coupons revealed that if the Department uses all of its coupons it will realize significant savings of up to $290,000.

Our review of foreign patent activities at the Patent and Trademark Office (PTO) revealed that up to $19.5 million of cost could be avoided if recommendations in our audit report are implemented. PTO officials have advised that undertaking these foreign patent activities will be carefully evaluated before funding is requested to carry them out.

Our review of the Regional Office Automated Payroll System for the 1980 Decennial Census revealed that approximately $4.7 million of costs could be avoided if recommendations in our audit report are implemented. Census officials generally agreed with our recommendations and have begun taking action to implement their intent.

Office of Investigations--Investigation into the facts surrounding two potential loan actions disclosed that, in both cases, the loan applications contained false statements. OI provided this information to program officials who promptly halted processing of the two loans, thus avoiding nearly $4 million in questionable loans and loan guarantees.

Freedom of Information and Privacy Act Requests

The authority for releasing OIG-maintained information to the public, including issued audit reports, rests with the Inspector General.

During FY 1979, the OIG processed 9 requests for information under the provisions of the Freedom of Information Act and 1 request under the provisions of the Privacy Act. All requests for information were processed within 10 days of receipt. It is anticipated that requests for reports and information will increase in the future based on the requirements of Section 5 of the Inspector General Act of 1978. The Act requires Offices of Inspector General to submit semiannual reports of their activities to the Congress, and to include in these reports, among other matters, a listing of each audit report completed during the reporting period. The Act requires that the semiannual reports be made available to the public. Requests for individual audit reports will likely increase once this listing is made available to the public.
NON-FEDERAL AUDITOR ACTIVITIES

Maximum Use of Non-Federal Auditors

To make the most efficient use of audit resources, the OIG relies on non-Federal auditors to perform most of the audits required by the Department on its various contracts, grants and loans. In line with this policy, independent public accountants (IPAs) and State and local government audit organizations performed approximately 2,640 audits or 97% of the audits required for the Local Public Works Grant program during Fiscal Year 1979. During the same period, 683 audits were completed by IPAs for the Department's other contracts, grants and loans.

The Public Telecommunications Financing Act of 1978 requires recipients of funds from the Corporation for Public Broadcasting (CPB) to undergo an annual audit by an IPA. Many of these entities also receive grant funds from the Department of Commerce. The OIG staff recognized the opportunity to reduce the grantees' administrative burden and to increase efficiency in the use of audit resources by making arrangements with CPB to have the same IPAs perform audits of the Department's grant funds as part of the grantees' annual audits. The OIG staff is working closely with the CPB to assure that the Department's required audits will be completed and will be sufficiently broad in scope to meet the Department's high quality audit standards. With the cooperation of CPB, the OIG expects that nearly all the audits of Department funds will be accomplished by IPAs.

Quality Testing of Non-Federal Auditors' Work

To assure that the high quality audit work expected and required by the IG is maintained by IPAs, the OIG continually acts to improve its program for quality testing of IPA reports. Recently, the Office completed the development of new "Policies, Procedures and Programs for the Quality Control Review of Audits Performed by IPAs and Government Agencies." This document will provide a base from which the Office can better measure and control the quality of audits performed by both private and public audit organizations. In cooperation with the American Institute of Certified Public Accountants (AICPA) and as part of the OIG audit quality control program, reports of member CPAs are submitted to the Institute for its review when the OIG auditors believe the Member CPAs performed audit work which may not meet the established professional standards. Representatives of the AICPA recently advised the OIG that the Department of Commerce has submitted one-third of all the CPA audits submitted by Federal agencies to the Institute for review of possible substandard audit work. A recent GAO report, however, shows that even more must be done in this respect. Our Office agrees with GAO and had begun additional efforts in this regard prior to the issuance of the GAO report. The Office is now studying means of
performing quality testing on a sample basis, as recommended by GAO, in order to provide more time for in-depth reviews.

Training for Non-Federal Auditors

The audit staff has participated with several other Federal agencies in three presentations of the AICPA one-day seminar on "The CPA's Role in Federally Assisted Programs" conducted nationwide during August and September, 1979. These seminars, by helping the IPA to identify and distinguish the special requirements of audits of Federally assisted programs, have helped to improve the quality of audits performed by non-Federal auditors of the Department's programs. Eight presentations of a one-day seminar on "Audit of Local Public Works (LPW) Grants" have been conducted nationwide since April, 1979 under the joint sponsorship of the AICPA and participating State CPA societies. These seminars also have helped to improve the quality of audits of LPW grants by providing a forum for discussing the LPW audit requirements with IPAs and State and local government auditors. Seminars such as these have proven to be a vital ingredient of our comprehensive audit quality control program for non-Federal audits.
INVESTIGATIVE ACTIVITIES

The Office of Investigations (O1) had 291 cases for processing during the period April 1, 1979 to September 30, 1979. Matters under investigation included program fraud and abuse cases, generally concerning false statements, false claims or kickbacks, and employee misconduct cases involving conversion of government property to personal use, conflict of interest, acceptance of gratuities or travel abuse.

One hundred and forty-five of the cases were reported through our hotline and 25 cases were received on the GAO hotline. Additionally, the Office of Special Counsel, Merit Systems Protection Board, referred to us four cases of alleged waste and mismanagement. Of the 291 cases, 115 cases were closed during the period (see Appendix III, Table 1 on page 87).

Major Investigations

In addition to many significant joint audit-investigative reviews undertaken during the period, O1 conducted and completed several significant investigations on its own. One significant example is a complaint made by an anonymous informant who alleged that an applicant for a $2 million Trade Adjustment Assistance Loan had provided false information to the Department in support of the loan request. Our investigation confirmed that the loan applicant had signed false statements inflating the net worth of the firm and overstating the value of its inventory. As a result of the investigation, the loan that had been approved was cancelled. The case has been referred to the U.S. Attorney's Office for prosecutorial review.

Hotline Activities

O1 has prime responsibility for managing the hotline. We believe a significant number of the 145 hotline calls can be attributed to efforts of the Secretary and the Inspector General to make employees aware of our hotline operation. To date, almost 100 percent of calls have been made by Commerce employees. As the existence of our new toll free hotline telephone number becomes more widely known, we expect to receive a larger number of calls from outside the Department.

Most of our investigative efforts have been concentrated on the ten hotline complaints alleging cases of program fraud or abuse and review of the over 100 calls reporting instances of mismanagement or employee misconduct. We also received numerous complaints regarding the administrative and personnel practices of individual Commerce units.
NOAA, our largest agency in terms of personnel, was the subject of 32 percent of the complaints, followed by the Bureau of the Census with 16 percent, while EDA and the Office of the Secretary activities each had 12 percent shares of all calls.

On the basis of hotline calls, several joint audit/investigative reviews were initiated. Most reviews are still in process. As noted in other sections of the report, many of our completed reviews have confirmed the validity of the original hotline allegations. The hotline has been instrumental in our efforts to fight fraud, waste, and abuse.

Hotline complaints for the period April 1, 1979 to September 30, 1979, classified by general type of complaint and by Commerce Unit have been summarized in the following table.
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<th>Mismanagement</th>
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*Includes 25 referrals from GAO Hotline.

Explanation of Abbreviations may be found on page v.
Statistical Summary Of OI Activities

Case Load

OI during the report period processed a total of 291 cases including 92 cases of program fraud and abuse, 76 cases of employee misconduct 59 of reported mismanagement, and 64 cases of administrative violations. More detailed information on the OI caseload is presented in Appendix III Table 1, on page 87.

Organizational Location of Cases Under Investigation

EDA Projects accounted for 30 percent of the cases in process for the Office of Investigations. NOAA accounted for 22 percent of the investigations while Census accounted for 11 percent. The majority of EDA investigations concerned the Local Public Works and Business Loan programs. Investigations in NOAA and Census primarily concerned employee misconduct and mismanagement and are not attributable to specific programs. MBDA accounted for a significant portion of the program fraud and abuse cases in their business assistance programs. Appendix III, Table 2 on page 88, presents the complete organization distribution of OI's caseload.

Referrals to the Department of Justice

The Office completed 52 investigations in the employee misconduct and fraud and abuse areas of which 19 were referred to the Department of Justice for prosecutive review. To date, 5 cases have been declined in favor of administrative action, while 7 others were declined. Of the remaining 7 cases pending prosecutive review, two concern instances where the Commerce operating unit terminated the loans attendant to the investigations resulting in a considerable potential savings to the government. Appendix III, Table 3 beginning on page 89 provides a brief description of each referral.

Cases Referred to Other Law Enforcement Agencies

An OI case involving theft of government travel requests was referred to the United States Secret Service for completion. Another case involving the sale of narcotics in a Commerce building has been referred to a local police department for coordination and completion of the investigation.

Results of Prior Period Prosecutions

Convictions were obtained in 4 of 24 cases pending final disposition as of April 1, 1979. Two convictions resulted from program fraud and abuse in the MBDA business assistance program of which one conviction resulted in a 2 to 5 year sentence in State court. Another conviction involved an employee guilty of altering government forms. The final conviction involved theft of government property in the Regional Planning Commission's excess property program. A brief description of each prior
period case is presented in Appendix III Table 4 beginning on page 91.
SIGNIFICANT PROBLEMS, ABUSES, DEFICIENCIES
AND RELATED RECOMMENDATIONS

REPORT ON AUDIT OF THE DESIGN AND DEVELOPMENT OF THE REGIONAL OFFICE AUTOMATED PAYROLL SYSTEM, BUREAU OF THE CENSUS (9-28-79)

CONTROLS OVER THE HIRING PROCESS

Our review disclosed that the personnel and payroll controls and procedures did not provide for separation of duties and independent verification of the authenticity of payroll and personnel documents. Therefore, unqualified or fictitious employees could be put on the payroll without detection during the 1980 Decennial Census. We found that:

o Crew leaders, who will be temporary employees, generally will have complete control over the hiring, and submission of payroll documents for enumerators. There is no independent verification to ensure that the employee hired is qualified and does in fact exist.

o The District Office does not receive a copy of the initial Employee Master File listing and subsequent Employee Master File Change listings. Consequently, there is no method for the District Office to determine if fictitious employees were added to the payroll at the Regional Census Center (RCC).

o The Administrative Office Supervisor (AOS) has sole responsibility at the District Office for processing all hiring and payrolling documents. Therefore, both personnel and payroll functions are under the control of the AOS.

We believe the hiring practices and procedures need strengthening at the District Office level. In this regard we recommended that:

o The Field Operations Assistant (FOA) for Recruiting be required to match the personnel appointment forms to the list of individuals who passed the employment test prior to adding an individual to the payroll.

o The initial copy of the Employee Master File listing and all subsequent Employee Master File Change listings be sent to the District Office so that additions to the payroll can be matched against the personnel appointment forms.
The District Office (DO) Managers be made aware of the potential for payroll abuse because of the lack of separation of duties between the FOA and the Administrative Office Supervisor. As a minimum requirement, the DO Manager should provide close supervision over the Administrative Office Supervisor function and verify the validity of hiring and payment to the DO staff on a "spot-check" basis.

ENUMERATORS TRAINED BUT PERFORM NO WORK

Our review of payroll records disclosed that some enumerators were paid for training and never performed work. There is no requirement that an enumerator must successfully complete training or produce any work before he or she is paid for training received. When enumerators are hired, they receive and are paid for up to 2-1/2 days of training ($32 for a full day and $16 for a half day). Training requirements are 5 days for crew leaders and 2-1/2 days for enumerators.

We reviewed the records of 383 enumerators who had been trained for the Lower Manhattan Dress Rehearsal by the New York District Office. We found 36 enumerators who received training and were paid $1,920 even though they never produced any work. The 36 employees represented about 9.4% of the total enumerators trained. Their average salary was approximately $53 each.

The 1980 Decennial Census will require the hiring and training of approximately 198,000 enumerators. Bureau of Census estimates that the turnover rate of enumerators will be approximately 50%, resulting in the hiring and training of 297,000 enumerators. If 9% of these employees are trained and perform no work, it will cost the Census Bureau about $1.4 million for nonproductive workers.

We initially recommended that the employee be required to successfully complete training and produce a minimum level of work before being paid for time spent in training and that this should be made a part of the employment agreement. The General Counsel's Office researched the applicable statutes and conferred with the Department of Labor and the Office of Personnel Management regarding this recommendation. The General Counsel concluded that our initial recommendation could not be implemented because personnel must be paid for time spent in training. We then recommended that special emphasis should be made in the initial interviews of job candidates to explain all aspects
of an enumerator's job and obtain a strong commitment from the candidate to stay on the job after training.

**CONTROLS OVER TERMINATION OF AN ENUMERATOR**

Our review disclosed that there was no requirement for an official termination form to document the reason for termination or to officially notify the District Office personnel-payroll clerk of the termination. This situation may provide a "kick-back" environment because the crew leader has all authority to hire enumerators and then terminate them without documentation to support the reason for termination. Such a weakness in controls could also make it easy to maintain employees on the payrolls after termination and continue to pay them or others in their name through submission of bogus pay vouchers.

We recommended that an official termination form be utilized and routed through the FOA to the personnel-payroll clerk showing the date, time, and reason for termination. This form should be retained as part of the official payroll records.

Although Census officials did not agree to the preparation and submission of a separate termination form, they did agree to strengthen their present system for notification of separations.

In this regard, Census officials proposed to revise the pay voucher to provide a separate termination check box on the pay voucher form. They also will require a separate written report from the crew leader for terminations or separations of an unusual nature such as low production, fraudulent actions, immorality, etc. We consider the revised procedure to provide adequate notification to payroll personnel of separations or terminations and to prevent unauthorized payment after termination.

**PAYROLL PROCESSING FOR ENUMERATOR PIECEWORK**

We reviewed the procedures and systems flow of all the payroll related documents to test the control procedures. We noted weaknesses in the internal controls that permitted payments for the same piecework more than once. We also found instances in the Lower Manhattan Dress Rehearsal where it appeared that enumerators were paid for more questionnaires than they completed.

A random test of the pay records of 16 enumerators disclosed that the 16 enumerators were paid $483 out of a
total of $8,046 (5% of total amount paid) for 184 more questionnaires than were shown as transmitted by them.

We realize that our random sample is too small to make valid statistical projections over the entire proposed universe of 297,000 enumerators; however, we believe the weaknesses in the system controls could potentially cost the Census Bureau significant unnecessary funds. For example, if each enumerator gets paid more than once for only one short form, it will cost about $861,000. If a large percentage of enumerators is overpaid by as much as six percent as determined in our sample, it could cost the Census Bureau several million dollars.

We recommended that:

- Payroll procedures and controls be improved to ensure that an enumerator only gets paid for good quality work, and there is adequate documentation to support the employee pay voucher. One copy of the Form D-175, "Enumerator Work Transmittal," should be submitted with the pay voucher for piecework to support the number of pieces (questionnaires) for which an enumerator is being paid.

- A tracking system be developed to trace the flow of questionnaires rejected by the Assignment Control Group after the piecework pay vouchers have been forwarded for payment. This system is needed to prevent duplicate payments when the same questionnaire is corrected and returned by the same enumerator.

Census officials agreed to submit a copy of the D-175 with the pay vouchers to support the piecework claimed. After discussions and correspondence between our office and Census personnel, Census officials developed an alternative procedure which we believe provides the necessary tracking system to prevent duplicate payments for rejected questionnaires.

PAYMENTS FOR DUPLICATE QUESTIONNAIRES

We found that 388 questionnaires in the Lower Manhattan Dress Rehearsal were unnecessarily duplicated. They were duplicated because the original questionnaires had already been submitted by the respondent or by another enumerator, but a notation to this effect had not been made in the Master Address Register. These duplications resulted in $1,196 being paid to enumerators for unnecessary work. If all Districts in 1980 experience the same ratio of
duplicated questionnaires as Lower Manhattan, it could cost an additional $1.5 million.

We recommended that:

1. The Master Address Register (MAR) to be used during the 1980 Decennial Census be modified to contain a column for the crew leader's notation of a late mail return or acceptable questionnaire.

2. The crew leaders make a notation in the MAR for each accepted questionnaire indicating acceptance of the questionnaire.

3. Procedures be developed requiring the crew leaders, after they have notified an enumerator of a late mail return, to check the MAR to ensure that the enumerator has made the proper notation in a timely manner.

SECURITY CONTROL PROCEDURES

Based on our review of the current security procedures and our observations at the New York District Office, we believe the procedures relating to the physical security of the completed questionnaires need strengthening.

The security over the completed questionnaires is a highly vulnerable area because:

1. All completed questionnaires will be retained at the District Office until the entire District is enumerated with no back-up copies. No record of the completed questionnaires is made until after the District Offices are closed and the questionnaires are shipped to processing centers for microfilming.

2. Some of the temporary building space may be located in high security risk locations.

3. Questionnaires will be stored in cardboard boxes and, therefore, will be vulnerable to loss by fire.

4. There may be a higher than normal rate of disgruntled employees due to terminations for unsatisfactory performance.

The loss of questionnaires would require retaking the Census at the District Office, which would result in considerable waste of money and labor resources. Also, the confidentiality of the Census data could be compromised.
We recommended that:

- The current procedures to be used as a guide to acquire space and establish the 409 District Offices need to stress more of the security aspects regarding the facility selected. Special attention needs to be given to security of the storage area where completed questionnaires will be retained. Also, provisions should be made to store the questionnaires in fireproof containers if the facility is considered a high security risk location.

- Bureau of the Census coordinate with the General Services Administration and the Defense Department to obtain fireproof storage cabinets or containers during the Decennial Census to better protect the completed questionnaires.

FRAUD AND ABUSE PROCEDURES

During our field examination of the payroll operations, we became aware of four cases of alleged fraud and abuse. These cases resulted from enumerators allegedly fabricating information on certain Census questionnaires for which they had been paid on a piece-rate basis to record information correctly as received from the household member. No action was taken by the New York Office to report these cases for investigation. We reported the four cases to the Justice Department for further action.

The District Office Administrative Manual does not contain any instructions to District Managers as to appropriate actions to be taken when they receive reports of suspected employee fraud. Further, the manual does not contain adequate instructions for actions to be taken by District Office personnel to document cases where fraud is suspected as a result of fabricated questionnaires.

Specifically, we recommended that:

- A separate section be developed in the District office Administrative Manual to stress fraud and abuse problems, the seriousness of these problems, examples of violations and penalties under the law and procedures to show that these violations will be sent to the appropriate authorities for possible prosecution.

- Violation of the rules and regulations be given special emphasis during training sessions. Employees should be made keenly aware that the supervisors will be checking
for fabricated questionnaires and inflated reimbursable expenses.

- Procedures be included in the District Office Administrative Manual providing guidance to District Office personnel on the development and retention of the documentation necessary to support a subsequent investigation, if this becomes necessary.

**PRIVILEGED MODE**

Our review disclosed that at the Charlotte Regional Office/Census Center the data entry supervisor had been furnished a privileged mode through use of a subroutine of the Computer Operating System. It is our understanding that data entry supervisors will also be furnished a privileged mode for the 1980 Census. With this subroutine, they can gain access to payroll software programs and any data files, including the payroll master file.

Once access to the computer files is gained, the privileged mode can be used to alter any record, including the master files, and can override any edit check in the automated payroll system. Consequently, sensitive payroll data is not secure and is not fully protected from unwarranted manipulation.

We recommended that the privileged mode be curtailed for use by the Regional Census Centers (RCCs) and strictly controlled at the Census Bureau level. These procedures are necessary to provide assurance that payroll files and records cannot be manipulated without any noticeable or visible evidence that such action has taken place.

**RECORD COUNTS**

When personnel, payroll, or other related records are sent to a RCC from a District Office, an Administrative Work Transmittal form is prepared by a payroll-personnel clerk in the District Office to show the batch total of the number of records transmitted.

We observed that clerks at the Charlotte RCC changed the total on the transmittal form to agree with the actual number of vouchers received. This action destroys the purpose of this control feature which is to account for all documents transmitted and identify any that may be lost in transmission.
We recommended that the importance of a record count control procedure be stressed to District Office payroll-personnel clerks. District Office supervisory personnel should place emphasis on checking the accuracy of the record counts for all documents transmitted to RCCs to assure that an accurate record count is obtained. The errors in record counts found at the RCCs should be noted and sent back to the District Office supervisor to assist in determining reasons for errors.

CONTROL TOTALS

There were no manually computed control totals established by the District Office over hours, pieces or travel costs contained in the pay vouchers.

We recommended that control totals be computed manually in the District Offices on each pay voucher for hours, pieces and reimbursable expenses. The manually computed totals should be compared with the terminal computed totals at the RCC to assure that payroll data inputed to the computer has been accurately keyed at the terminal.

KEY VERIFICATION PROCEDURES

The procedures for key verification at the RCC need to be strengthened to prevent possible collusion between keyers and verifiers.

By permitting a verifier to select a batch to be verified, control is weakened because a verifier working in collusion with a keyer could select a particular batch keyed by a specific keyer. The keyer and verifier working together could falsify pay vouchers.

We recommended that batches to be verified should be assigned to the verifier by the data entry supervisor. This would prevent a verifier from selecting a batch keyed by someone who could possibly be working in collusion with the verifier.

FUNCTIONAL REQUIREMENTS DOCUMENT

Our review disclosed that a Functional Requirements Document was not developed. With the lack of formal procedures for obtaining functional requirements, we were told that information was usually obtained verbally by the Payroll Conversion Staff. The verbal data was obtained from discussions with individuals or at group meetings. There was little or no documentation of the decisions reached in
these meetings. In many instances, no input was obtained from the users. Consequently, the Payroll Conversion Staff made their own decisions as to the best course of action to take.

This practice is not the best design approach because there is no firm understanding with the user as to the functional requirements, validation checks and controls. Also, there is no documented assurance that the user is in agreement with and aware of the decisions made.

We recommended that the systems software development be sufficiently documented to meet the requirements of Federal Information Processing Standards (FIPS) Publication 38.

SYSTEM/SUBSYSTEM SPECIFICATIONS - PROGRAM SPECIFICATIONS

A Project Proposal and Design Disclosure containing system specifications was developed and published in November 1976. This publication contained the system specifications for Block 2 (intermittent) payroll personnel and was used as a basis for developing the Block 3 (temporary) payroll software. However, system specifications were not developed for the Block 3 automated payroll system for the Decennial Census employees. As a result, it is almost impossible to clearly determine the specifications of the total system.

We recommended that the Census Bureau prepare system/subsystem and program specifications in accordance with FIPS Publication 38. The specifications should be sufficiently complete to meet the standards established therein.

DEVELOPMENT OF VARIOUS MANUALS

During the programming stage the users, operations and program maintenance manuals should have been prepared. We could not find evidence that any of these items were completed.

We recommended that the Census Bureau prepare a users manual, operations manual and program maintenance manual.

TEST PROGRAM

Program testing and debugging is one of the most critical aspects of implementing a computer system because without programs that work, the system will never produce the output for which it was designed.
Our review disclosed that no formal test program existed and no Test Analysis Report was issued although the software program was used on live payrolls during the Lower Manhattan Dress Rehearsal. Some testing of the software program was performed after the system became operational for the Dress Rehearsal. However, these tests did not adequately test the communication lines or the volume of pay transactions expected for the 1980 Decennial payroll.

We worked with Bureau of the Census officials and told them of our concerns about the lack of volume testing. The Census officials were also concerned about the volume testing and had considered running a more comprehensive test. We recommended that:

- They establish test plans, test the system and prepare test analysis reports. Use these reports as a basis for preparing a statement of software readiness prior to implementation on live payrolls.

- The test planned should be performed based on conditions similar to those that will be encountered in 1980. The volume of payroll transactions tested should be approximately the same as anticipated during the heaviest weeks of the 1980 Census. Further, the test should be designed to test the communication lines as well as the processing functions.

- If test results prove that the current payroll system cannot process the payroll in the available turnaround time, then a determination must be made as to whether it would be more feasible to modify the current software program, utilize the backup system being developed, or contract out to a payroll service organization or another Federal agency to process the payrolls.

On March 25, 1979, officials at the Bureau of Census suspended all automated payroll activity for the Regional Office's Block 1 (permanent) and Block 2 (intermittent) employees and concentrated all effort on developing an automated system to pay Block 3 (temporary) 1980 Decennial Census employees.

Because of the redesign effort, we asked responsible officials of the Census Bureau whether they had considered purchasing available commercial payroll packages or having a contractor perform the payroll process. We were advised by the officials that these alternatives were considered before the initial design of the system in November 1977. They
decided not to pursue these alternatives for several reasons.

The Field Operations Division personnel did not consider these alternatives in the redesign phase. It was their opinion that the revised payroll system for Block 3 would be operational by mid-April 1979. Consequently, it would not be cost effective to pursue commercial alternatives at this time. (As of August 22, 1979, the Block 3 payroll system was still not operational. They now plan to have it operational by December 31, 1979.)

PAYROLL MASTER FILE ORGANIZATION

Some design problems were noted in the manner in which the Master Files were organized at the time the test was performed to simulate the addition of 25,000 employees to the master file.

We recommended that Census Bureau personnel:

- Redesign the computer master file structure from the Indexed Sequential Access Method (ISAM) to a Sequential Processing (Father/Son) Concept for the processing of new employees and changes to the existing employee records. The Son (new output) Employee Master File could be designated as ISAM, and this would then write the Index (directory) along with the new Employee Master File. The benefits of the Sequential Processing Mode would greatly reduce the Input/Output Access Time (wall clock hours) and improve recovery procedures, should a problem occur during updating the Employee Master File.

- Redesign the three Employee Master Records as one record per employee. This would reduce the Input/Output Access Time and the execution of programming instructions to process an employee's record.

- Redesign the printout of Employee Master Changes to print only the data element before and after changes rather than the total master data. This will reduce printer time and save paper.

COST INFORMATION

During payroll processing, the resource code is matched against the operation codes to identify the cost of specific operations and the cost by type of personnel performing them. This information will be used to identify the costs of major categories of census field employees. Inaccurate
data will affect the accuracy of cost analyses and planning factors for future operations. Our review disclosed that cost information developed from the cost tapes and the cost report routine is not accurate.

We recommended that a software routine be incorporated in the payroll system to verify that operation codes are compatible with the employee's resource codes.

Officials of the Census Bureau generally agreed with all of our recommendations relating to system design and development.

The Census Bureau has decided to assure the availability of an operational automated payroll system by having a "minimum requirements" backup system developed by the Organization and Management Systems Division. Concurrent with this effort, a detailed evaluation of the current payroll system is being made to ascertain the practicality of modifying this system for decennial use.

By starting now to develop the limited features backup system, it is felt that the Bureau will be in a position to have the payrolling capability in time for the Decennial. We received this comment on May 2, 1979. As of August 22, 1979, the new target date for completion of both the Block 3 payroll system and the "minimum requirements" backup system was December 31, 1979.

As a contingency plan, we recommended the Bureau of the Census perform an updated analysis of the cost to complete the system in-house and other cost/benefit alternatives including purchasing a commercial payroll package, contracting out the payroll processing or developing a manual system.

**AUTOMATED INTERNAL CONTROLS**

We designed various transactions to test the software controls and edits. Although most of the erroneous transactions were detected by the software program edits, there were some that went undetected and allowed erroneous data to be established in the master payroll files, or allowed payments to be made with erroneous data.

We recommended that the payroll software program be analyzed, retested and necessary modifications made after it has been determined why:
The "Edit Employee" routine permitted the master file to be updated with the City, State and ZIP Code of another employee when we entered both employees' records under the same Social Security Number (SSN).

The "EDITHOURS" routine in the same printout rejected and then accepted pay data for employees we had entered on the master file with certain information missing.

We also recommended that:

The software program for the UNIVAC be programmed to count each pay voucher as a record so that a record count comparison can be made between the pay vouchers processed by the UNIVAC and the batch total record count as keyed at the ENTREX terminal. Further, audit procedures should be developed to review all transactions involving more than one pay voucher in a pay period.

The practice of keying in the "Not-To-Exceed" (NTE) date should be eliminated. This will permit the ENTREX terminal to automatically compute the date, thus save time and improve data accuracy.

The HASH totals for both the ENTREX and the UNIVAC be computed on the same digits of the SSN to assure that these totals are computed from the same basic data and are therefore compatible.

PRINTOUTS AND REPORTS

We evaluated the payroll reports and printouts being produced by the automated system and determined that much of the data contained in many of the reports were not needed, some data served no useful purpose to payroll personnel, and some of the reports could be entirely eliminated.

We recommended that the printouts and reports now identified for the Block 3 payroll system should be evaluated by the Finance Division and Field Payroll personnel to determine the most suitable report format and useful data. All unnecessary reports and data should be eliminated. We specifically recommended the elimination of certain groups of data elements and reports.

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Census Bureau officials essentially are in agreement with the findings in our audit report and have advised us that appropriate corrective actions are being undertaken on the recommendations.
REPORT ON AUDIT OF ADMINISTRATION OF GRANTS AWARDED TO
REGIONAL FISHERY MANAGEMENT COUNCILS, NATIONAL OCEANIC
AND ATMOSPHERIC ADMINISTRATION (NOAA) (6-11-79)

FUNDING

Separate administrative staffs, systems, and related policies and
procedures were unnecessarily created for the eight Councils.
Further, we found that many Council administrative practices were
deficient. These conditions existed because NOAA funded the
Councils with grants rather than managing the Councils within the
NOAA system. Moreover, the Councils did not have adequate
expertise to carry out the needed administrative activities.
Consequently, NOAA created the need for duplicate systems and
additional staff which did not provide for the most economical
and efficient administration of the Councils.

We recommended that the Administrator, NOAA, not fund the
Councils with grants and take appropriate action to (1) staff the
Councils with Federal employees; (2) pay directly the
compensation and actual expense claims, as appropriate, of the
voting and non-voting Council members, scientific and statistical
committee members, and advisory panel members; and (3) provide
administrative services, including procurement, accounting, and
personnel, directly to the Councils.

In a progress report dated September 13, 1979, the Associate
Administrator, NOAA, rejected our recommendations. He advised
that at the recent oversight hearings held by the House of
Representatives to review the progress since enactment of the
Fishery Conservation and Management Act (FCMA), it was clearly
stated by one of the authors of the Act that the Council staffs
were not intended to be Federal employees. We plan to pursue
this matter further, in accordance with established procedures
for adequately resolving actions taken on our recommendations.

MONITORING

Our audit of the Fishery Management Councils showed that NOAA did
not (1) compare Council progress with planned goals and time
frames, (2) control overfunding of Councils, and (3) take
appropriate action to alleviate deficient contracting practices
at the Councils. These conditions existed because NOAA did not
(1) require the Councils to report on their progress relating to
planned goals and time frames, (2) adequately review financial
reports, and (3) adequately review contracting practices and
other activities of the Councils. Consequently, NOAA was not
assured that the Councils' program and administrative activities were carried out in an economical and efficient manner.

We recommended that the Administrator, NOAA, provide for more stringent monitoring of Fishery Management Council activities. Such monitoring activities should include:

(1) Submission to NOAA of Council goals, objectives, planned accomplishments, established time frames, and periodic progress reports which disclose (a) whether the goals and objectives are being accomplished within the established time periods, (b) reasons why goals and objectives are not being met, and (c) reasons for changes to plans and resulting redirection of resources and activities.

(2) Tighter restriction on transfers of funds between budget line items and analysis of all financial reports by NOAA to determine whether adjustments in funds are warranted.

(3) Visits to the Councils to review contracting practices and other activities.

NOAA officials concurred with our findings and recommendations concerning monitoring Council activities. Accordingly, the Associate Administrator, NOAA, advised that they had (1) included requirements in the fiscal year 1979 cooperative agreements for the Councils to submit goals, objectives, planned accomplishments, established time frames and semiannual progress reports; (2) tightened the fund transfer restrictions between budget line items from 20 to 10 percent in the fiscal year 1979 cooperative agreements; and (3) visited all Councils to audit their administrative operations and would continue to do so in future years.

GUIDANCE TO COUNCILS

The Councils did not have appropriate policies, standards, and procedures for (1) establishing pension plans, (2) obtaining exemptions from state sales and unemployment taxes, (3) determining the work that should be considered official duties for payment of salaries to Council members, (4) accounting for purchases acquired from the General Services Administration, and (5) accruing annual leave. We believe these conditions existed because NOAA did not provide adequate guidance to the Councils. Consequently, the Councils have not administered the above areas in an efficient and economical manner.
We recommended that the Administrator, NOAA, take appropriate action to provide adequate guidance to ensure efficient and economical administration of the grants. Such guidance should cover, but not be limited to, (1) standards for pension plans, (2) obtaining exemption from state taxes, (3) standards for official duties of Council members and a method for documenting time, (4) accounting for purchases of goods and services from Federal Agencies, and (5) accruing annual leave.

NOAA officials accepted the audit conclusion that improved guidance to the Councils in administration areas such as pensions and compensation would make the Councils' administration of these areas more efficient and economical.

The Associate Administrator, NOAA, advised that guidance for establishing pension plans was being developed and would be included in the revised and updated Council Operations Manual. Also, a policy has been issued which stipulates that each Council should establish standards to indicate the kind of work which would be considered as compensable, and an appropriate method of documenting compensable time should be established.

CODIFICATION AND COORDINATION OF INSTRUCTIONS

Our review showed that pertinent instructions and related interpretations were not (1) processed through appropriate NOAA personnel, and (2) issued to each Council. This situation existed because NOAA had not developed adequate procedures to ensure that all instructions, developed and issued by the various units within NOAA, were coordinated and codified. As a result, the Councils may overlook guidance issued by NOAA, the guidance may not conform to interpretations or regulations regarding Council operations, and the Councils may not be aware of interpretations which have impact on the Councils when developing internal policies and procedures.

We recommended that the Administrator, NOAA, take appropriate action to (1) codify all instructions to the Councils, (2) assure that all appropriate NOAA personnel provide their input to the instructions, and (3) assure that pertinent interpretations or decisions are disseminated to the Councils.

NOAA officials concurred with our findings and recommendations on codification and coordination of instructions. The Associate Administrator, NOAA, advised that (1) the Operations Manual, which is expected to be in final form by December 1979, will codify all instructions to the Councils; (2) appropriate NOAA staff will be asked to review and input to the manual prior to
publication; (3) previous interpretations of decisions will be disseminated to the Councils; and (4) future communication will be included or referenced in the manual.

**CLARIFICATION AND CONFORMANCE OF REGULATIONS**

Some of the various instructions and regulations issued to the Councils were ambiguous and inconsistent. This situation existed because NOAA did not establish an appropriate control mechanism to ensure that the regulations were clear and uniform. Consequently, there were misunderstandings concerning the intent of the regulations and inconsistent applications of the various provisions.

We recommended that the Administrator, NOAA, take appropriate action to establish a central control point to ensure that instructions and regulations applicable to the Councils are clear and consistent.

In addition, we recommended that, with regard to the following specific areas, appropriate action be taken to:

(1) Conform Council travel regulations to the NOAA Travel Handbook.

(2) Clarify the Final Regulations and the Council Operations Manual as to the maximum number of authorized employees each Council can employ.

(3) Codify in the Final Regulations the requirement that the minutes of Council meetings be certified by the Council Chairmen.

(4) Conform the delegations of authority and annual leave provisions delineated in the Final Regulations with the Statement of Organization, Practices, and Procedures established for each Council.

(5) Clarify the Final Regulations to prohibit lump-sum payment for sick leave.

NOAA officials agreed that some of the instructions and regulations were misleading and ambiguous.

The Associate Administrator, NOAA, stated they had established the Executive Director of the National Marine Fisheries Service as the central control point to insure all instructions and regulations were clear and consistent, and that instructions were
now clear that minutes of all Council meetings must be certified by the Council Chairmen.

With regard to the maximum number of authorized employees each Council may employ, the Associate Administrator, NOAA, stated they had determined that because of the variations in workload and methods of plan development, Councils may vary in numbers of authorized employees. Each year the approved operating budget will contain the approval of full-time permanent and other than full-time permanent staff years. Any additions during the year, prior to the next approved budget, will have to be approved by NOAA. He further advised that the procedure would be clearly documented in the Council Operations Manual.

The Associate Administrator, NOAA, also stated that the Council Statements of Organization, Practices and Procedures had been, and in some cases would be, rewritten to conform to current delegations of authority and annual leave regulations and guidelines. He further stated that the Council Operations Manual would prohibit the payment of lump sum sick leave.

The Association Administrator, NOAA, rejected our recommendation concerning travel regulations, stating that the NOAA Travel Handbook, especially the portion relating to per diem, does not apply. He advised, however, that specific uniform guidance, consistent with NOAA legal determinations with respect to relevant provisions of the FCMA, will be promulgated in connection with rewriting the Council Operations Manual. We plan to pursue this further, in accordance with established procedures for adequately resolving action taken on our recommendations.

REPORT ON SURVEY OF THE MANAGEMENT AND UTILIZATION OF AIRLINE DISCOUNT COUPONS (FROM 6/20/79 TO 9/24/79)

United and American Airlines issued discount coupons to travelers using their airlines between May 28 and June 17, 1979. These coupons can be used to obtain a 50 percent discount on the purchase of airline tickets between July 1 and December 15, 1979. These coupons provide a unique opportunity for the Department of Commerce and other government agencies to take advantage of major travel savings.

The Office of Inspector General immediately recognized both the potential savings and possibility of abuse by employees personally gaining from the use of coupons obtained from government paid travel. We devised a multiple phased audit plan which included strategies of (1) notifying employees of the necessity to return coupons to their operating units and consulting on the development of guidelines for controlling the receipt of coupons; (2) auditing operating units' compliance with
the control guidelines during the coupon collection process; and
(3) reviewing the application of coupons to realize savings.

Timeliness was essential in notifying employees and developing
guidelines since the coupon promotion was sprung on air travelers
with almost no advance notice.

In an effort to get action started, we (1) recommended use of and
assisted in the preparation of a memorandum to all operating
units that described the airline discount coupon program and the
need for quickly notifying employees to turn in coupons received
on government travel, (2) telephoned Department of Commerce
offices and other Departments in the Washington area to notify
them of the discount coupon program, (3) advised Office of the
Controller officials in the development of control mechanisms and
reports needed to control the collection and use of coupons, and
(4) advised the Controller and the Director, Office of
Procurement and ADP Management to instruct grantees and cost-
reimbursable contractors who received discount airline coupons on
Commerce related travel to either turn the coupons in to the
Department or use them on future Commerce related travel.

As a result of our proactive efforts, notifications were issued
and guidelines were established to control the collection of
coupons.

We believe that our early involvement in the airline discount
coupon program contributed substantially towards the Department's
collection of 1,100 coupons with a potential savings of more than
$269,000.

After the coupon program had been in operation for a few weeks,
we began the second phase of our review. We examined the extent
of control maintained over coupons collected from employees by
nine operating units and a field unit of one of them.

We found that nine of the ten organizations audited had not
provided for adequate accountability, eight were not safeguarding
the coupons to the extent necessary, eight were not performing
adequate follow-up, and four were not requiring statements from
employees who could not account for their coupons. We made
recommendations to improve control and received responses from
all operating units advising us that they had begun to implement
or had completed implementing our recommendations.

The third phase of our review focused on whether the Department's
operating units would achieve maximum utilization and savings
from the discount coupons. We surveyed 14 operating units and
found, as of the end of August 1979, about 9 percent of the 1,100
coupons had been used to obtain an estimated $19,000 savings.
The remaining 1,000 coupons had a potential to save up to $250,000.

We noted several conditions that demonstrated the need for improved management of airline discount coupons at the Department level. The coupons can only be used for trips that are completed by December 15, 1979. Therefore, at the end of August 1979, about one-third of the coupon period had expired while only 9 percent of the coupons had been applied towards discount airfares.

Secondly, we noted that some coupons were used for mid-country or short trips. In order to achieve maximum savings for the Department, it was necessary to determine which operating units planned to take more long distance trips and shift the coupons to those operating units.

We also noted that operating units may not have been taking enough aggressive action in following up on employees who had not turned in coupons. For example, at one operating unit we noted that very little follow-up had been performed on 96 outstanding coupons with a potential value of up to $23,000.

We recommended that the Acting Controller establish a Departmental focal point for the use of coupons and require sufficiently detailed planning information so that management could determine the optimal use of coupons. We further recommended that bimonthly status reports be submitted by the operating units on the actual use of coupons and the status of follow-up with employees who had not returned coupons. The Acting Controller generally agreed with our recommendations and immediately took steps to begin implementing them.

In response to a separate report issued to the operating unit with the 96 outstanding coupons, we were advised that they would take prompt follow-up action.

In total, we have issued 12 audit reports on this subject. We plan to further monitor, as appropriate, airline discount coupon activities through December 15, 1979.
APPENDIX II

PRIOR PERIOD SIGNIFICANT RECOMMENDATIONS
ON WHICH CORRECTIVE ACTION HAS NOT BEEN COMPLETED

REPORT ON AUDIT OF SELECTED ACTIVITIES APPLICABLE TO THE
REGIONAL ACTION PLANNING COMMISSIONS (2-28-79)

DEPARTMENTAL ROLE IN COMMISSION OPERATIONS

Departmental coordination, guidance and direction of Commission
operations have not been effective. Rather than adopting an
active approach in overseeing Commission operations, the
Department has chosen to let the Commissions operate "on their
own" to a major extent. In this regard, the Department has (1)
conveyed little information to the Commissions explaining what
standards they are expected to comply with, (2) requested
relatively little information about the various programs being
undertaken by the Commissions, and (3) opted, in general, not to
closely monitor the Commissions' policies and management
practices.

This approach has evolved, in part, because the Department has
not fully exercised the control and oversight authorities set
forth in the Public Works and Economic Development Act of 1965
(hereafter referred to as the Act). Also, concerning the
operational framework established by the Act, there has not been
a clear meeting of the minds among Departmental and Commission
officials regarding the relationship between the Department and
the Commissions.

We recommended that the Special Assistant to the Secretary for
Regional Development (Special Assistant) provide for improved
coordination and guidance of the Commissions' operations by
undertaking the following actions:

1. Propose revised legislation to provide for greater clarity
regarding the relationship between the Department and the
Commissions. Such legislation should be structured to
provide for a well-defined operational framework applicable
to the parties involved in coordinating and managing
Commission activities.

2. Provide for the development of written policies and
procedures to guide the Commissions in carrying out their
programmatic and administrative activities.
3. Provide for sufficient monitoring and oversight of Commission operations to remain abreast of ongoing operations and to determine whether established policies and procedures are being adhered to.

Regarding recommendation number 1, revised legislation to provide for greater clarity in the relationship between the Department and the Commissions has been submitted to Congress (S. 914).

Regarding recommendation number 2, the Special Assistant advised that written policies and procedures to guide the Commissions in carrying out their programmatic and administrative activities were included in regulations published in the Federal Register for comment on June 7, 1979. These regulations have now been finalized and submitted to the Secretary of Commerce for approval and issuance. We were further informed that any or all of the Federal Regulations can be waived by the Secretary, pending the receipt of a Uniform Code of policies and procedures formulated by the Regional Commissions.

Regarding recommendation 3, S. 914 provides for monitoring and oversight of Commission operations; however, the Special Assistant advised that it would require additional staff to accomplish.

COORDINATION WITH GOVERNMENT AGENCIES

The Act and the related Executive Order (1) recognize the importance of coordinating the Commissions' activities with various levels of Federal and State Government and (2) assign certain responsibilities to the Secretary of Commerce bearing on such coordination. Although various coordinating efforts are undertaken by the Commissions, we believe there is a clear need for an overall strengthening of this process. Specifically, this refers to the need for the Commissions to improve the flow of information and to better coordinate their actions with other Government agencies concerning projects proposed, plans developed, and problems encountered. To the extent that such coordination is not achieved, there are reduced assurances that the activities involving mutuality of interests between the Commissions and Government agencies are being performed in the most effective manner.

We recommended that the Special Assistant consult with the Secretary regarding actions to strengthen coordination between the Commissions and certain Federal, State and sub-State agencies carrying out related planning and project activities. Such coordination should be structured to promote (1) effective communication, (2) exchanges of information, and (3) concerted
actions in areas of common interest. As part of this overall process, particular emphasis should be placed on creating formal coordination links, when appropriate, and ensuring that the Commissions:

a. Inform the appropriate Federal agencies of programs and projects being seriously considered for funding by the Commissions. For example, within the Department of Commerce, this information would be particularly important to the Economic Development Administration (EDA). This process should include inviting comments and suggestions about the proposed projects from the applicable Federal agencies.

b. Establish an effective chain of communication with Federal agencies which partially fund the same projects as funded by the Commissions. Also, make greater use of formal Memorandums of Understanding with individual Federal agencies to cover appropriate areas of mutual efforts, such as the Commissions' supplemental grants.

c. Obtain and review, on a regular basis, the latest State and sub-State economic development planning documents for consideration in the Commissions' planning processes. This action should be designed to assist in coordinating planning strategies to the maximum extent possible.

We also recommended that the Special Assistant to the Secretary stress, in writing, the need for the Federal Cochairmen to promptly inform cognizant Department of Commerce officials about any significant coordination problems which arise between their Commissions and Federal agencies.

Action to implement these recommendations has been incorporated in the regulations submitted to the Secretary of Commerce for approval and issuance.

MANAGEMENT INFORMATION SYSTEM

At the time of our audit, the Department did not have sufficient information about the Commissions' projects to effectively carry out Title V responsibilities for coordination, liaison, and general oversight of the Commissions. Office of Regional Development (ORD), recognizing the need to systematically obtain certain information from the Commissions, implemented a Program Information Reporting System (PIRS) during 1978. While this System represents a good beginning, we believe that plans should now be developed for strengthening the PIRS in certain respects.
This includes moving toward an automated System as soon as practical and strengthening certain administrative factors pertaining to the System's operation. In addition, although many Commission projects result in reports and studies, there presently is no consolidated reference list identifying all of these available documents. We believe the PIRS could assist in providing the mechanism for such an information clearinghouse.

We recommended that the Special Assistant provide for the following actions to strengthen the Program Information Reporting System applicable to Commission operations:

1. Automate the System as soon as practical. In this regard, ORD officials should coordinate with the Department's Office of Procurement and Automatic Data Processing Management to work out the specific details of such an automation process.

2. Eliminate the project numbering inconsistencies between the two basic forms used to provide input to the System. Also, ensure that there is a clear understanding about the basis for recording various project dates to be entered in the System.

3. Expand the System to provide for a centralized listing of all studies and reports resulting from projects funded by the individual commissions. As part of this process, coordinate with the Department's Office of Organization and Management Systems to explore the best means of incorporating these centralized report listings in the Department's comprehensive Study Inventory System.

In response to recommendation 1, the Special Assistant advised that ORD foresees the need for eventual automation of the system, but believes this automation process should not take place until a complete system of Commissions is installed and functioning nationwide. Essentially, the rationale for this viewpoint is:

"With many varying Commission and Cochairmen record-keeping systems, with frequent staff changes, and with evolving goals and objectives, it was deemed advisable to develop the system in manual mode to the point where system stability and reliability prevailed in reporting, recording, forms usage, report formations, and coding. An automated system could not economically respond to the nature and frequency of changes already experienced in installing this information system. In addition, full scale automation of the information system will require additional personnel; under current personnel limitations and hiring practices, attempts to automate now would have to be supported by personnel"
resources presently needed for more important duties elsewhere."

Recommendation number 2 was not addressed in the Special Assistant's status report. We will request specific comments to be submitted for our next quarterly report.

In regard to recommendation 3, the Special Assistant stated that organization of the master report listing should be done in conjunction with automation of the PIRS.

**COMPREHENSIVE LONG-RANGE ECONOMIC PLANS**

The Act requires that each Commission develop a comprehensive long-range economic plan. However, some Commissions have taken inordinate amounts of time to prepare these plans and, in effect, have operated for extended periods of time without the benefit of approved goals, objectives and strategies. In addition, certain Commissions have not formally updated their long-range plans to reflect significant changes of direction in Commission emphasis.

We recommended that the Special Assistant establish policies and regulations to ensure that:

1. Each Commission submits a comprehensive long-range economic plan to the Secretary of Commerce within a specified period of time after the establishment of the Commission.

2. Each Commission updates or otherwise revises its comprehensive long-range economic plan, whenever warranted by significant changed conditions, and submits this updated plan to the Secretary for review and approval.

3. The Department establishes an individual processing schedule for each of the incoming long-range plans and subsequent updates. The schedule should provide for appropriate target dates for each of the Departmental units involved in the processing flow as well as for the other Federal agencies involved in the review process.

Action to implement these recommendations has been incorporated in the regulations submitted to the Secretary of Commerce for approval and issuance.
SELECTION OF PROJECTS

Although the Act envisioned that the Commissions would focus on matters of regional significance, controls have not been established at most Commissions to ensure that the project selection process results in the funding of truly regional projects. Nor has there been general adherence to the Act's emphasis on establishing priority rankings, based on certain criteria, for use in recommending specific programs and projects.

We recommended that the Special Assistant, acting jointly with the Commissions, take action to strengthen the overall project selection process used by the Commissions. This would include the following actions:

1. Define the term "regional" project and ensure that there is a clear understanding by all the Commissions of the criteria to be applied in determining whether a specific project is truly regional in scope.

2. Ensure that in screening the various possible choices of projects to be funded, the Commissions establish a priority ranking of the projects, based on written criteria adopted by each Commission. The criteria established by each Commission should be defined in sufficient detail to include the elements set forth in Section 504 of the Act, as well as any other criteria deemed appropriate by the individual Commissions.

3. Reassess the Department's approach in fulfilling the Act's requirement for the Secretary of Commerce to approve the various projects being undertaken by the Commissions. This should include considering the most practical means of obtaining specific information about individual projects proposed for funding and developing an appropriate review and approval process for these projects.

Action to implement this recommendation has been incorporated in the regulations submitted to the Secretary of Commerce for approval and issuance.

STATE ADMINISTRATIVE GRANTS

Several Commissions annually awarded a combined total of millions of dollars in State Administrative Grants (SAGs) to their respective member States, without clearly defining the scopes of work to be undertaken or requiring grantees to submit proposals detailing how grant monies would be spent. Moreover, after awarding the SAGs, certain Commissions have not monitored these grants in a manner to remain abreast of current developments or
to fully protect the Commissions' financial interests in these projects. As a result, grantees have expended SAG monies for several activities which we consider to be questionable uses of the Commissions' funds.

We recommended that the Special Assistant, acting jointly with the Commissions, develop and implement uniform written procedures regarding the award and monitoring of SAGs. This guidance should:

1. Establish criteria regarding the types of activities which can and cannot be funded with SAG monies.

2. Require the prospective grantees to submit detailed proposals, prior to grant award, disclosing how the grant funds will be used.

3. Ensure that the grant agreements clearly define the scope of work to be performed and the basic objectives of the grants.

4. Provide for appropriate monitoring of the grants to determine the extent of compliance with the agreed-upon scope of work and the established terms and conditions.

Action to implement this recommendation has been incorporated in the regulations submitted to the Secretary of Commerce for approval and issuance.

PROJECT AND PROGRAM EVALUATION

The Commissions have not consistently evaluated the results of their individual projects. Nor has each Commission developed an effective system to evaluate its projects collectively in terms of measuring overall program accomplishments. In the absence of such evaluations, neither the Commissions nor the Department are in a position to determine what has been accomplished in relation to established goals or to keep others aware of program efforts and accomplishments.

We recommended that the Special Assistant, acting jointly with the Commissions, adopt and implement uniform written procedures designed to:

1. Assess the results of each completed project in relation to its established objectives.
2. Measure the overall results of program accomplishments in terms of contributing to each Commission's basic goals and objectives.

3. Assure that the evaluation activities are fully documented in the project files.

Action to implement this recommendation has been incorporated in the regulations submitted to the Secretary of Commerce for approval and issuance.

PREADWARD REVIEWS OF PROJECTS

The project files for many of the grants/contracts awarded by the Commissions during the period covered by our audit did not contain any documentation to show whether technical evaluations and cost/price analyses had been performed prior to awards. In some cases, there was not enough project information available prior to grant awards for the Commissions to make meaningful evaluative reviews of proposed projects. Also, our review of certain project files for contracts awarded by some Commissions to various private contractors indicated that the Commissions needed to strengthen their competitive procurement practices, particularly with reference to sole source, noncompetitive awards.

We recommended that the Special Assistant, acting jointly with the Commissions, establish uniform written policies and procedures designed to strengthen the preaward review of proposed projects. These operating guides should focus on the following actions:

1. Ensure that the project files contain evidence of the performance of technical evaluations and cost/price analyses prior to awards. Also, provide that sufficiently detailed proposals are obtained from prospective grantees to afford a basis for the performance of meaningful preaward evaluations.

2. Award contracts by competitive procurement to the maximum extent possible. The project files should be documented to show the (1) extent and results of negotiations with prospective contractors, (2) basis for negotiated contract prices, and (3) justifications for sole source, non-competitive awards.
Action to implement the recommendations has been incorporated in the regulations submitted to the Secretary of Commerce for approval and issuance.

**TERMS AND CONDITIONS OF PROJECT AWARDS**

Terms and conditions of many Commission project agreements were not sufficiently defined to provide a clear understanding between the parties respecting such key factors as scope of work to be performed, criteria for determining allowable costs, title to property, patent rights, and various other matters. Some award agreements included terms and conditions which were contradictory. Also, the type agreements used by the Commissions sometimes were not compatible with the type of work performed.

We recommended that the Special Assistant, acting jointly with the Commissions, take action to:

1. Strengthen procedures applicable to the establishment of terms and conditions to be incorporated in individual project agreements. Such procedures should be designed to ensure that, prior to the award of each project, all proposed terms and conditions are thoroughly reviewed by a legal representative or other qualified professional staff member. The reviews should be structured to ensure that the Commissions' interests are fully protected and that there is a clear understanding regarding such matters as:

   a. Scope of work to be performed.
   b. Type of agreement, e.g., fixed price or cost reimbursable.
   c. Allowability and allocability of project costs.
   d. Nonallowability of costs incurred prior to the agreement's effective date.
   e. Limitation of liability in the event of cost overruns on cost reimbursable agreements.
   f. Recovery of unused project funds.
   g. Range of allowable cost deviations from the approved project budgets.
   h. Accountability, ownership and disposition of any property acquired or patent rights developed with project funds.
Prior Commission approval, when appropriate, of such matters as appointment of key project personnel and award of subcontracts.

Provision for audit by the Secretary of Commerce.

Implement the following cost principles relating to project cost determinations, as set forth in Title 41, Code of Federal Procurement Regulations, commonly referred to as the Federal Procurement Regulations (FPRs):

- **Profit Making Organizations** - FPR 1-15.2, "Contracts with Commercial Organizations."

- **Educational Institutions and other Nonprofit Organizations** - FPR 1-15.3 as implemented by Federal Management Circular (FMC) 73-8, "Costs applicable to grants, contracts and other agreements with educational institutions;" OMB Circular A-110, "Grants and agreements with institutions of higher education, hospitals and other nonprofit organizations," and the Department of Commerce's "Cost Principles for Nonprofit Organizations."

- **State and Local Governments** - FPR 1-15.7 as implemented by FMC 74-4, "Cost principles applicable to grants and contracts with state and local governments." Additionally, the Commissions should implement OMB Circular A-102, "Uniform administrative requirements for grants-in-aid to State and local governments" (formerly FMC 74-7).

Adopt criteria to be used in guiding the Commission staffs in selecting the type of agreement, (fixed price or cost reimbursable) to be used under varying circumstances. The objective of such criteria should be to assist in ensuring that the type of agreement selected properly matches the type of work being performed.

Action to implement these recommendations has been incorporated in the regulations submitted to the Secretary of Commerce for approval and issuance.

**PROJECT ADMINISTRATION AND MONITORING**

Many of the Commissions' projects have not been administered and monitored after award in a manner to provide adequate information and control over the projects' financial and technical status.
We recommended that the Special Assistant, acting jointly with the Commissions, develop and implement uniform written procedures designed to strengthen postaward administration and monitoring of projects. This process should focus on the following matters:

1. Provide specific guidance regarding the methods to be used in remaining abreast of the status of each project. This would include matters such as technical reviews of project progress reports, analyses of project financial reports, and periodic monitoring visits to the project sites. As part of these actions, Commission personnel should (a) review the status and timeliness of performance in relation to grant/contract terms and conditions, and (b) identify and endeavor to resolve conditions that might adversely affect the Commissions' interests.

2. Ensure that formal contract modifications are made to authorize substantial changes to the agreements. Also, provide that no increases in contract funding will be allowed unless commensurate consideration is specifically provided for in the formal contract modifications.

3. Facilitate a consistency of approach in reviewing and approving advance and interim payments to grantees/contractors. This will require guidance for Commission personnel regarding the timing and amounts of such payments, with the objective of ensuring that payment authorizations do not exceed identified project requirements. As part of this overall process, provide for an improved understanding of the circumstances when it is appropriate to sign project certifications attesting to satisfactory technical performance and compliance with agreement terms and conditions.

4. Place adequate documentation in the project files to evidence the administrative and monitoring actions taken.

Action to implement these recommendations has been incorporated in the regulations submitted to the Secretary of Commerce for approval and issuance.

PROJECT CLOSE OUT PROCEDURES

The practices used by most Commissions for closing out completed projects did not ensure that the Commissions' interests were adequately protected.
We recommended that the Special Assistant, acting jointly with the Commissions, develop and implement uniform written procedures designed to strengthen controls over the project close out process. This should provide for the following:

1. Review the status of each open project on a periodic basis, and formally close out the completed projects as soon as warranted.

2. Require that appropriate project completion documents be submitted by the contractors/grantees.

3. Ensure that, prior to making final project payments, all final project reports or other end products are received. Ensure that, prior to formal close out of completed projects, final audits are completed, where appropriate, by either Government audit organizations or independent public accountants. As part of this process, provide for appropriate actions on the recommendations contained in the audit reports, including the obtaining of refunds of project monies due from the contractors/grantees.

4. Deobligate all unneeded project funds as soon as warranted.

Action to implement recommendation number 2 has been incorporated in the regulations submitted to the Secretary of Commerce for approval and issuance. Although the Special Assistant agreed with recommendations 1, 3 and 4, the status report did not identify what action was being taken to implement these recommendations. We will request specific comments to be submitted for our next quarterly report.

ADMINISTRATIVE AND PROGRAM EXPENSES

Major inconsistencies existed in the approaches used by the Commissions in determining whether certain expenses were to be paid from program funds or administrative funds. This distinction is important since the Federal Government generally pays all the Commissions' program costs but, after the second year of operation, the Commissions' administrative expenses are shared equally by the Federal Government and the applicable State Governments.

We recommended that the Special Assistant coordinate with the Commissions and the Department Controller to develop criteria to be used by all the Commissions in distinguishing between administrative expenses and program expenses and to provide for a consistent application of this criteria in the future.
Action to implement this recommendation has been incorporated in the regulations submitted to the Secretary of Commerce.

FINANCIAL ACCOUNTING REPORTS

Departmental accounting services provided to the Commissions have not fully met user needs.

We recommended that the Special Assistant coordinate with the Department's Controller in revising accounting reports to respond to the identified needs of the Commissions. As part of this process, appropriate input should be obtained from the Commissions and the Office of Regional Development. Also, appropriate action should be taken to ensure that identified errors are promptly corrected and that all of the Commissions' accounting reports are prepared in a timely manner. We also recommended further that the Special Assistant encourage the Commissions to eliminate, as soon as possible, the maintenance of accounting records which duplicate the Departmental accounting services being provided to the Commissions.

The Special Assistant indicated general agreement with the basic intent of our recommendations. He advised that the Departmental Controller has begun to take steps to improve the financial reports provided to the Commissions.

CONTROL OVER PROPERTY

Financial records showed that the Commissions had acquired about $300,000 worth of property at the time of our audit. However, due to a lack of established procedures, certain Commissions had not controlled this property in a manner to provide for accurate property accountability. Also, as an additional matter, we noted that property acquired for the Federal Cochairmen and ORD had not been adequately controlled.

We recommended that the Special Assistant, acting jointly with the Commissions, develop and implement uniform written policies and procedures designed to strengthen control over property. This process should focus on the following matters:

1. Provide a clear understanding of the property capitalization criteria.

2. Require that, on a periodic basis, complete physical inventories of capitalizable property be conducted. Consideration should be given by the Commissions to coordi-
nating with the Department's Office of Administrative Services (OAS) to obtain advice on the proper techniques for conducting and documenting the physical inventories.

3. Establish accountability records for the capitalizable property identified by the physical inventories.

4. Require that the Department's Finance Operations Division (FOD) be notified of property dispositions and inventory adjustments, so that applicable financial records may be maintained on a current basis.

Also, we recommended that the Special Assistant provide for appropriate coordination within the Department to ensure that property acquired for the Federal Cochairmen and ORD is controlled in accordance with the same standards applicable to all units in the Office of the Secretary.

Action to implement the first recommendation has been incorporated in the regulations submitted to the Secretary of Commerce. However, these regulations do not provide for appropriate coordination within the Department, to ensure that property acquired for the Federal Cochairmen and ORD is controlled. We plan to pursue this matter further, in accordance with established procedures for adequately resolving actions taken on our recommendations.


PERSONNEL INTERNAL CONTROLS

A major objective of the modification was to permit automatic transfer of updated pay entitlement data from the personnel system to the payroll system. To ensure the accuracy of transferred data, the personnel system was to incorporate extensive edits of transactions at the point of data entry. However, our review disclosed that implemented edits were minimal and mainly test for valid codes, field lengths, and alpha/numeric data. Also, the Office of Personnel was not utilizing basic input/output controls.

We recommended that the Director, Office of Personnel, take the following actions to strengthen the internal controls over the processing of personnel action data.

1. Establish sufficient controls to ensure that record counts are used as a control procedure.
APPENDIX II

- Establish procedures to provide for the reconciliation of input data to output listings and data during the weekly update. Record counts will be necessary for the performance of this process.

- Strengthen edit controls to provide for the testing of the accuracy of personnel action transactions processed.

Based on our follow-up visit to the Processing and Services Branch of the Office of Personnel, we determined that record counts are not being utilized as a control procedure. Furthermore, reconciliations of input data to output listings for the weekly update was not being performed.

We were informed by the Director, Office of Personnel, that the new Employee Information System (EIS) is expected to provide appropriate controls and extensive edits to meet the intent of the above recommendations.

The Office of the Secretary is scheduled to begin parallel operations in November 1979. When the Office of the Secretary becomes operational on EIS, the Office of Audits will review the controls and edits.

RECONCILIATION OF PAYROLL AND PERSONNEL FILES

Discrepancies in common data elements exist between the personnel and payroll master files. Annual leave codes, base rates of pay, health plans, cost center codes, and retirement codes are among the data elements in the two files that did not agree. Although some of the discrepancies were due to the time lag of entering data into the payroll system, other discrepancies can be attributed to erroneous data contained in either the personnel or payroll files.

We recommended that the Controller and the Director, Office of Personnel, define, by Memorandum of Understanding or some other device, the responsibilities for accuracy of the data elements common to personnel and payroll files and ensure that, prior to implementation of the payroll modification, a procedure is established to provide for the performance of periodic reconciliations.

The Acting Controller informed us that the Office of Personnel has developed a Personnel Data Element Directory which assigns responsibilities for accuracy and entry of data elements among functional areas of personnel offices. Efforts are in process to assign responsibility between personnel and payroll offices for accuracy of common data elements in the personnel and payroll system.
Pertaining to the second part of our recommendation, the Director, Finance Operations Division, Office of the Controller, informed us that a procedure has been established to provide for the performance of periodic reconciliations. Although the procedure has been prepared for the Industry and Trade Administration, it has not become fully operational. The Office of the Secretary files will be used to reconcile discrepancies in common data elements prior to parallel payroll operations. When parallel operations commence, the Office of Audits will review the reconciliation procedure.

CONTROL AND PROCESSING OF BIWEEKLY PAYROLL DATA

The current computerized payroll system was programmed to calculate and process only the standard data needed to prepare the payroll. Certain transactions, such as special pay entitlements or unusual salary deductions, had to be manually prepared and then entered into the computerized system as adjustments to the computer generated standard payroll data. This procedure increases the amount of time and effort required to produce the payroll information. Also, the Finance Operations Division's (FOD) control procedures were inadequate to ensure that the manually prepared information was accurate and complete. As a result, there was an increased possibility for producing inaccurate payroll records and erroneous payments.

We recommended that the Controller require FOD to immediately adopt and implement interim manual control procedures designed to help ensure the accuracy and completeness of all biweekly payroll information.

We also recommended that the Controller, and the Director, Office of ADP Management (OADPM), arrange for the expeditious development and implementation of system changes designed to computerize the processing of all biweekly payroll transactions.

The Acting Controller informed us that adoption of manual controls was not originally possible because of the lack of available staff and because of the difficulty associated with obtaining comparable data from the payroll master file and the personnel master file. Personnel records are based on date of processing and payroll records are based on effective date of actions. Also, the Acting Controller advised us that an automated reconciliation process is near implementation so he does not want his limited staff performing manual reconciliations.

A Data Processing Request, dated May 3, 1979, provided for the automation of the processing of all biweekly payroll transactions and the reconciliation process. A substantial portion of the
necessary programming has now been accomplished and is presently being tested. Testing commenced for the pay period ended August 4, 1979 and the automated reconciliation is expected to be in place by the end of October, 1979. The Office of Audits will then review the controls to determine the adequacy and accuracy of the automated reconciliation process.

PAYROLL SYSTEM AUTHORIZATION CODES

Current controls do not adequately restrict an unauthorized individual from accessing information from payroll programs and master files. Because a system of terminal authorization codes, which restricts system access to a limited number of terminals, had not been implemented, it was possible to access payroll system programs and files from any computer terminal linked to the Time Sharing Option (TSO) service provided by ADP Analysis and Programming Division. Further, a system of operator authorization codes has not been established to restrict the number of persons having access to payroll programs and files. Under present conditions, if unauthorized persons obtain the correct password to the payroll file, there were no further safeguards to prevent them from obtaining payroll data which includes sensitive employee information such as financial and personal data.

We recommended that the Controller, and the Director, OAUPM, develop and implement additional safeguards to ensure that only authorized employees have access to computer payroll programs and files. In this regard, consideration should be given to implementing the following controls:

- A two-level password code.
- Terminal authorization codes.
- Authorized operator codes.

On October 2, 1979, the Office of Audits conferred with representatives from the Controller's Office and the Office of Procurement and ADP Management and reached agreement as to the level of passwords, codes and authorized operator codes necessary to ensure that only authorized employees have access to computer payroll programs and files. Implementation of the additional safeguards is scheduled to be completed by November 2, 1979. Pertaining to the second part of our recommendation, the Finance Operations Division, Office of the Controller, has requested the Office of Procurement and ADP Management to restrict the use of the payroll system to only those data entry terminals which are assigned to the Finance Operations Division. This action is expected to be implemented before October 31, 1979.
PAYROLL AND PERSONNEL BACK-UP CAPABILITIES

Current back-up and disaster recovery procedures for the payroll and personnel systems were inadequate to reasonably ensure that processing operations could continue under adverse conditions. Back-up magnetic tapes and programs for the payroll and personnel systems were not stored at off-site locations; these tapes were not tested to ensure that the quality was retained throughout the storage period; nor were retention timetables established.

Also, we noted that arrangements for emergency computer processing capabilities had not been made.

We recommended that the Controller, the Director, Office of Personnel, and Director, OADPM, take immediate action to strengthen the payroll and personnel systems' back-up and recovery procedure and capabilities by:

- Establishing a secure off-site storage area where back-up computer programs and systems files can be retained.
- Establishing tape retention timetable schedules.
- Arranging with an off-site data processing organization to provide back-up computer processing capabilities for emergency use.
- Conducting periodic tests to ensure the reliability of back-up magnetic tapes and processing support facilities.

The Office of Procurement and ADP Management has reached an informal agreement with the Department of Labor for contingency back-up operations. When the agreement has been formally finalized, a test will be conducted to ensure compatibility. Also, an informal agreement has been reached with the Patent and Trademark Office for off-site storage of critical files and programs. The above agreements should be formally finalized, actions implemented, and testing completed during November 1979.

The DOC Records Management Center will transmit master payroll and personnel file to the Federal Records Center in Suitland, Maryland for the required five year retention period. This action will also be completed during November 1979.
REPORT ON AUDIT OF SELECTED ASPECTS OF PREPARATORY WORK FOR THE 1980 DECENNIAL CENSUS (2-24-78)

ACQUISITION OF TEMPORARY SPACE

To carry out the 1980 Decennial Census, temporary space will be needed to house 409 district offices, 25 prelist offices, 12 regional centers and 4 processing centers. Census estimated that about $50 million would be required to obtain the necessary temporary space. While some preliminary actions were initiated by Census to obtain the required space, there remained a multitude of interrelated actions to be accomplished as part of the overall space acquisition process. Acquisition of such a large amount of space scattered throughout the United States requires substantial lead time and close coordination between the General Services Administration (GSA), the Department, and several major organizational units within Census.

We recommended that the Director, Bureau of the Census, take the actions necessary to:

0 Establish a formal time-phased action plan for finalizing requirements and acquiring temporary space needed to carry out the 1980 Decennial Census. Such a plan should:

   -- Set forth the principal actions that must be taken and provide a time schedule for accomplishment.

   -- Clearly identify who is responsible for taking the principal actions.

   -- Provide for periodic reporting of progress in relation to that planned for follow-up action when indicated.

   -- Be approved by appropriate levels of management.

0 Establish operating procedures for implementing the space acquisition plan. Since many Census organizational units at headquarters and in the field will be actively involved, it is important that operating procedures be established to guide these units in carrying out the plan in the most efficient and effective manner.

In the most recent status report, Census indicated that:

0 A formal time-phased action plan has been established.

0 Operating procedures have been finalized.

We are presently conducting an audit of space management for the 1980 Decennial Census. Preliminary work indicates that there are still some weaknesses in the areas covered by the above recommendations. We will therefore keep these recommendations open until our final audit report is issued.
APPENDIX II

REPORT ON AUDIT OF CONTROLS OVER COMPUTERIZED PAYROLL PROCESSING OPERATIONS
NATIONAL OCEANIC AND ATMOSPHERIC ADMINISTRATION (NOAA) (1-9-78)

OVERTIME

From a review of a sample of overtime authorization forms, the Office of Audits found that Departmental regulations requiring overtime to be properly authorized were not being followed. Under NOAA's system, the authorization forms were retained in the field by the Financial Management Centers until the end of the year. At that time, these forms were forwarded to the Personal Services Accounting Branch, where they were kept on hand for possible audit. We were told that the Finance Division neither reviewed these forms nor monitored the procedure to determine whether it was being followed.

The auditors found from a sample of time and attendance reports that NOAA had not recorded the actual time the employee started and finished work, which would have provided a built-in check in support of the number of overtime hours paid.

We recommended that the Chief, Finance Division, take appropriate action to enforce the present overtime authorization procedures.

Overtime authorization procedures required that overtime authorizations be sent to the centralized payroll unit, located in Rockville, Maryland, where they were to be verified prior to payment. NOAA officials believed that because its 14,000 employees are stationed throughout the United States the time required to have these authorizations transmitted and reviewed would have an adverse effect on meeting stringent payroll deadlines. Therefore, NOAA proposed alternative authorization procedures whereby overtime authorizations are maintained at one of NOAA's 53 Financial Management Centers and verified against overtime payments as shown on a biweekly printout.

These procedures were approved by the Accounting Standards Division, Office of the Controller. We were advised that draft procedures are presently in effect. These procedures will be formally put into effect through a NOAA Circular which is expected to be completed by January 1980.

SECURITY OF COMPUTER PROGRAMS

We were advised that access to the payroll computer programs and the mass storage data files was not restricted by the use of appropriate security measures. Therefore, there was increased
risk that the programs could be tampered with or that privacy data could be obtained by unauthorized individuals.

We recommended that the Assistant Administrator for Administration, NOAA, take appropriate action to ensure that access to payroll computer files be restricted through the use of read/write appropriate security measures.

We were advised that the payroll source programs are protected through the use of passwords. The executable programs and mass storage data files are not fully protected. Further protection processes are planned upon installation of a new computer. The estimated completion date for implementation of this recommendation is March 31, 1980.

REPORT ON AUDIT OF CONTRACT ADMINISTRATION AT SELECTED OFFICE OF MINORITY BUSINESS ENTERPRISE REGIONAL OFFICES (6-24-76)

COSTS AND OTHER ITEMS QUESTIONED BY THE OFFICE OF AUDITS

The lack of timely action to resolve questioned costs, and to either approve or reject other matters requiring advance approval by the Office of Administrative Services and Procurement (OAS&P) or Office of Minority Business Enterprise (OMBE), has contributed significantly to the magnitude of unresolved costs and other matters raised in audit reports. There was no effective plan for resolving this large backlog.

In our audit report, we recommended that the Director, OAS&P, devote additional attention and effort in the next few months to substantially reduce the large amount of the costs questioned and system deficiencies noted in the contract audit reports that remain unresolved by the administrative contracting officer (ACO). Primary emphasis should be placed on resolving audit issues relating to contracts that probably will be renewed. Secondary emphasis should be placed on unresolved issues in audit reports of 1972 and 1973 contract awards. Follow-up should be made to assure that the Contracting Officers Technical Representative regularly provides the ACO with the assistance requested and needed to close these items. Consideration should be given to creating a temporary task force to reduce the backlog of unresolved audit issues.

Since the issuance of our audit report, unresolved questioned costs in audit reports relating to OMBE have decreased from $9.3 million to $5.6 million. Of the $5.6 million, $1.3 million are unresolved costs questioned related to reports that are in excess of six months old.; $.8 million over one year old, and $2.2
million over two years old. While this indicates considerable progress in resolving questioned costs, there is a need for additional actions to reduce the time these costs remain outstanding. The Department, however, is in the process of implementing new procedures for the resolution of both financial and nonfinancial audit recommendations. These procedures are expected to minimize the number of untimely actions and sufficiently reduce the unresolved questioned costs. These new procedures are being coordinated with the Office of the Controller, Bureau Accounting Offices, the Office of Procurement and Automatic Data Processing Management, and the legal offices which have important responsibilities in the new procedures. In addition, the Office of Audits is coordinating directly with officials of the Office of Minority Business Enterprise and the Office of Procurement and Automatic Data Processing Management in an effort to further reduce unresolved questioned costs.

REPORT ON AUDIT OF SELECTED ASPECTS OF THE CUSTOMER SERVICES DIVISION, "PATENT OFFICE" (4-29-74)

SYSTEMS REVIEWS AND PRODUCTION STANDARDS

Our analysis of the production records of three Customer Services Division (CSD) operating sections indicated that an inordinate amount of unproductive and idle time exists. Elimination of idle time and an increase in productivity in these three sections, which represent 12 percent of the CSD staff, could result in savings of about $100,000 annually. If the idle time for the sections reviewed is representative of the Division, a considerable amount of additional savings could be realized throughout the Division.

We recommended that the Commissioner of Patents take action to:

1. Promptly develop production standards for the various tasks in CSD.

2. Implement an appropriate reporting and evaluation system which will utilize such production standards to aid management in determining unit staffing levels, measuring the effectiveness of operating units, and provide a basis for rewarding efficient employees.

A Program Measurement System was implemented in the Customer Services Division to provide an accurate and methodical means to forecast budget and staffing requirements; to reflect current and cumulative costs in terms of hours and dollars; and to monitor the effectiveness of tasks and operations for which production targets have been developed. This new system represented the
necessary initial steps to the development of production standards for CSD tasks.

The first work measurement study conducted within CSD was completed in the microfilming section in August 1977. The production standards developed as a result of the study have not been implemented. The Patent and Trademark Office (PTO) and the Patent Office Employees Union are still renegotiating the section of the union contract pertaining to production standards. Consequently, the development and implementation of production standards in the PTO is being further delayed pending outcome of the negotiation.

We will pursue this with the Assistant Secretary for Science and Technology, in order to obtain a more definitive date for resolution of the matter.
# APPENDIX III - CONTENTS

DESCRIPTION OF CASES PROCESSED
BY THE OFFICE OF INVESTIGATIONS

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<td>Current Period Cases Processed and Disposition</td>
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<td>Cases by Operating Unit</td>
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<td>3</td>
<td>Cases Referred to Justice and U.S. Attorneys</td>
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<td>4</td>
<td>Results of Cases Referred to Justice In Prior Periods</td>
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### TABLE 1
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APRIL 1, 1979 - SEPTEMBER 30, 1979

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APRIL 1, 1979 - SEPTEMBER 30, 1979

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**TABLE 4**

OFFICE OF INVESTIGATIONS

RESULTS OF CASES REFERRED TO DEPARTMENT OF JUSTICE BEFORE APRIL 1, 1979

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# LISTING OF MANAGEMENT AUDIT REPORTS

**ISSUED FROM APRIL 1, 1979, TO SEPTEMBER 30, 1979**

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<td>5AD10701050079016</td>
<td>06/25/79</td>
<td>Report on Review of Compliance with Guidelines for Control of Discount Airline Coupons</td>
</tr>
</tbody>
</table>
# Listing of Management Audit Reports

**Issued from April 1, 1979, to September 30, 1979**

<table>
<thead>
<tr>
<th>AGENCY</th>
<th>DOC NUMBER</th>
<th>DATE ISSUED</th>
<th>TITLE</th>
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<tr>
<td>Office of Administrative Services</td>
<td>5AD10701050079020</td>
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<tr>
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<td>4AD10601400079001</td>
<td>08/03/79</td>
<td>Interim Report on Survey of OMBE Activities Related to Selected OMBE Contracts and Grants - Unliquidated Obligations</td>
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<td>Office of the Secretary</td>
<td>5AD10805050079019</td>
<td>09/10/79</td>
<td>Review of the Automated Interface between the Employee Information System and the Office of Secretary Payroll System</td>
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<tr>
<td>Patent and Trademark Office</td>
<td>5AD1070510079010</td>
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<td>Report on Review of Compliance with Guidelines for Control of Discount Airline Coupons</td>
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<td>Regional Action Planning Commissions</td>
<td>6AD10701151079006</td>
<td>04/03/79</td>
<td>Report on Audit of Selected Activities Applicable to the Coastal Plains Regional Commission</td>
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<td>Regional Action Planning Commissions</td>
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<td>04/27/79</td>
<td>Report on Audit of Selected Activities Applicable to the Pacific Northwest Regional Commission</td>
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*Now known as Minority Business Development Agency.*
SUMMARY OF CONTRACT, GRANT AND LOAN
AUDIT ACTIVITY-APRIL 1, 1979 TO SEPTEMBER 30, 1979

For the six month period ending September 30, 1979, the Office of Inspector General (OIG) prepared and issued 175 contract, grant, and loan (CGL) audit reports, and reviewed and accepted 2,255 CGL audit reports prepared by independent public accountants (IPAs), State, local, and other Federal auditors.

Following is a summary, by Department of Commerce program, which shows the number of reports prepared by IPAs, State, local, and other Federal auditors.

<table>
<thead>
<tr>
<th>Program</th>
<th>Number of Reports</th>
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<tbody>
<tr>
<td>Office of Procurement and ADP Management of the Secretary of Commerce</td>
<td>23</td>
</tr>
<tr>
<td>Office of Minority Business Enterprise - Contracts</td>
<td>62</td>
</tr>
<tr>
<td>Economic Development Administration (EDA)</td>
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<tr>
<td>EDA - Title I Public Works</td>
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<tr>
<td>EDA - Title IX Economic Adjustment Assistance</td>
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<tr>
<td>EDA - Title X Job Opportunities Program</td>
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<td>EDA - Drought Relief</td>
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<td>EDA - Local Public Works</td>
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<td>EDA - Development Process Grants 302(a)</td>
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<tr>
<td>EDA - Planning Grants 302(b)/301(b)</td>
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<tr>
<td>EDA - Office of Economic Research</td>
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<td>EDA - Office of Technical Assistance</td>
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<tr>
<td>Coastal Plains Regional Commission</td>
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<tr>
<td>Office of Minority Business Enterprise</td>
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<tr>
<td>National Oceanic and Atmospheric Administration (NOAA)</td>
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<td>NOAA - Office of Coastal Zone Management</td>
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NOAA - Office of Coastal Zone Management - Basic  
3

NOAA - Office of Coastal Zone Management -  
Coastal Energy Impact Program  
19

NOAA - Sea Grants  
4

NOAA - National Marine Fishery Service -  
Grant In Aid  
Total  
2  
2,255

Following is a listing of CGL audit reports prepared and issued during this period by the OIG.
### Listing of Contract, Grant and Loan Audit Reports Issued from April 1, 1979 to September 30, 1979

<table>
<thead>
<tr>
<th>Audit Number</th>
<th>Date</th>
<th>Title</th>
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</thead>
<tbody>
<tr>
<td>ATL 362 04 05A0 79 040 07/13/79</td>
<td>Eval. of Prop. for Contr., InterAmerica Research Associates, Inc. (revised)</td>
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The following contracts relate to the Minority Business Development Agency:

<table>
<thead>
<tr>
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<th>Date</th>
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<td>ATL</td>
<td>186 03 05A5 79 022 04/10/79</td>
<td>Rose, Tatum &amp; Tate, CPAs, Atlanta, GA, Final Audit, 6-36554</td>
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<tr>
<td>ATL</td>
<td>360 06 05A5 79 026 05/21/79</td>
<td>Minority Contractors Assistance Project, Inc., Washington, DC, FY78 Ind Cost Rate</td>
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<tr>
<td>NYC</td>
<td>496 04 05A5 79 035 05/22/79</td>
<td>Arawak Consulting Corp. Pre-Award, 78-5117</td>
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<tr>
<td>NYC</td>
<td>502 04 05A5 79 036 05/25/79</td>
<td>Arawak Consulting Corp. Pre-Award #2, 78-5117</td>
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<tr>
<td>NYC</td>
<td>500 06 05A5 79 054 08/16/79</td>
<td>Arawak Consulting Corporation, 7-36491</td>
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<td>ATL</td>
<td>363 03 05A5 79 048 08/28/79</td>
<td>Final Audit of Contract #5-36766 with Onyx Corp., Atlanta, GA</td>
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<tr>
<td>DAL</td>
<td>437 03 05A5 79 069 09/20/79</td>
<td>John W. Dodd, CPA, Dallas, TX, 6-35551</td>
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Bureau of the Census:

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<tbody>
<tr>
<td>NYC</td>
<td>490 04 0700 79 034 05/09/79</td>
<td>Advertising Council, Inc. 79-61588</td>
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Economic Development Administration (EDA):

<table>
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<tbody>
<tr>
<td>NYC</td>
<td>486 03 1000 79 030 04/06/79</td>
<td>Overall Economic Development Committee of Cape Ann, Inc.</td>
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<tr>
<td>DEN</td>
<td>109 06 1000 79 007 08/13/79</td>
<td>Negotiating Fringe Benefits &amp; Indirect Cost Rates, No grant #</td>
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LISTING OF CONTRACT, GRANT AND LOAN AUDIT REPORTS ISSUED
FROM APRIL 1, 1979 TO SEPTEMBER 30, 1979

<table>
<thead>
<tr>
<th>Audit Number</th>
<th>Date</th>
<th>Title</th>
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<tbody>
<tr>
<td>EDA Title I Public Works Program</td>
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<tr>
<td>3AD 113 03 1011 79 005 04/13/79 Eastern Distribution Center, Inc., Avoca, PA 01-01-01179</td>
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<tr>
<td>CHI 574 03 1011 79 033 05/25/79 Lac du Flambeau Band of Lake Superior Indians, Lac du Flambeau, WI 06-01-01344.01(I)</td>
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<tr>
<td>DEN 106 03 1011 79 006 08/02/79 Delta-Montrose Board of Cooperative Services, Delta, CO 05-01-01466</td>
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<tr>
<td>EDA Title IX Economic Adjustment Assistance</td>
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<tr>
<td>DEN 105 03 1012 79 005 08/02/79 Valley County Board of Commissioners, Glasgow, MT 05-19-01715</td>
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<tr>
<td>EDA Title X Job Opportunities Program</td>
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<tr>
<td>CHI 544 03 1013 79 022 04/24/79 City of Chicago, Chicago, IL 06-31-02011</td>
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<tr>
<td>EDA Drought Relief</td>
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<tr>
<td>SFC 525 03 1014 79 063 04/30/79 City of Scottsdale FA 07-81-00198</td>
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<tr>
<td>DEN 102 03 1014 79 004 05/15/79 City of Montrose, CO 05-81-00057</td>
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<tr>
<td>SFC 547 03 1014 79 078 07/12/79 East Bay MUD, Oakland, CA FA 07-81-00130</td>
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</tbody>
</table>
APPENDIX V

LISTING OF CONTRACT, GRANT AND LOAN AUDIT REPORTS ISSUED
FROM APRIL 1, 1979 TO SEPTEMBER 30, 1979

<table>
<thead>
<tr>
<th>Audit Number</th>
<th>Date</th>
<th>Title</th>
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<tbody>
<tr>
<td>3AD 103 00 1015 79 002</td>
<td>01/12/79</td>
<td>LPOG Commitments</td>
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<tr>
<td>3AD 103 00 1015 79 003</td>
<td>01/19/79</td>
<td>LPOG Cost Estimates</td>
</tr>
<tr>
<td>3AD 116 00 1015 79 007</td>
<td>04/26/79</td>
<td>Eval.of Admin.Proc.for Neg.Award of Const.Change Orders and Resultant Costs 04-01514</td>
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<tr>
<td>3AD 121 03 1015 79 011</td>
<td>08/21/79</td>
<td>LPOG (Form ED-113)</td>
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</table>

EDA Local Public Works

| SFC 544 03 1016 79 068 | 04/04/79 | Mitchell Schl Dist #55 FA 07-51-03711 |
| SFC 503 03 1016 79 055 | 04/04/79 | City of San Pablo, CA IA 07-51-00752 |
| DEN 101 03 1016 79 001 | 04/09/79 | Crow Creek Sioux Tribe, Fort Thompson, SD 05-51-00952 |
| SFC 512 03 1016 79 057 | 04/13/79 | Alvord Unified School District IA 07 51-00806 |
| SFC 521 03 1016 79 058 | 04/19/79 | City of Culver, OR FA 07-51-03579 |
| DEN 103 03 1016 79 002 | 04/26/79 | Adams Co. Bd of Commissioners, Thornton, CO 05-51-00047 |
| SFC 517 03 1016 79 060 | 04/27/79 | City of Baldwin Park, CA IA 07-51-01711 |
| SFC 518 03 1016 79 061 | 04/27/79 | Pima County Tucson, AZ IA 07-51-20167 |
| SFC 519 03 1016 79 064 | 05/02/79 | Pima County, Tucson, AZ FA 07-51-2015 & 20165 |
| DAL 440 03 1016 79 037 | 05/04/79 | Kinney Co., Brackenview, TX 08-51-21264 |
| DEN 104 03 1016 79 003 | 05/07/79 | City of Delta, CO 05-51-20119 |
| CHI 566 03 1016 79 027 | 05/17/79 | Center Township of Marion County, Indianapolis, IN 06-51-01274(I) |
| ATL 303 03 1016 79 027 | 05/21/79 | Alabama Public Library Service, Montgomery, AL, 04-51-00051 |
| ATL 306 03 1016 79 028 | 05/23/79 | Escambia County, Pensacola, FL, 04-51-0087 |
| ATL 307 03 1016 79 031 | 05/25/79 | Palm Beach County, West Palm Beach, FL, 04-51-00969 |
| ATL 308 03 1016 79 032 | 05/25/79 | Palm Beach County, West Palm Beach, FL, 04-51-00970 |
| CHI 573 03 1016 79 034 | 05/25/79 | Lac du Flambeau Band of Lake Superior Indians, Lac du Flambeau, WI 06-51-04132(I) |
### APPENDIX V

**LISTING OF CONTRACT, GRANT AND LOAN AUDIT REPORTS ISSUED FROM APRIL 1, 1979 TO SEPTEMBER 30, 1979**

<table>
<thead>
<tr>
<th>Audit Number</th>
<th>Date</th>
<th>Title</th>
</tr>
</thead>
<tbody>
<tr>
<td>DAL</td>
<td>447 03 1016 79 040</td>
<td>05/30/79 Pulaski Co. Juvenile Service Center, Little Rock, AR 08-51-26744</td>
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<tr>
<td>DAL</td>
<td>448 03 1016 79 041</td>
<td>05/31/79 Belen Consolidated Schools, NM 08-72-26250</td>
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<tr>
<td>SFC</td>
<td>545 07 1016 79 066</td>
<td>06/01/79 Glendale School District #77, Portland, OR -7-51-03825</td>
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<tr>
<td>SFC</td>
<td>546 03 1016 79 067</td>
<td>06/01/79 Crook County Prineville, OR 07-51-03359</td>
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<tr>
<td>CHI</td>
<td>570 03 1016 79 028</td>
<td>06/04/79 City of Portage, MI 06-51-01-748</td>
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<td>ATL</td>
<td>314 03 1016 79 033</td>
<td>06/06/79 Town of Ashland, MS, 04-51-01993</td>
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<tr>
<td>SFC</td>
<td>511 03 1016 79 069</td>
<td>06/07/79 Yuma County, AZ, FA 07-51-20172, 26500, 26502, &amp; 26519 (4)</td>
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<td>313 03 1016 79 034</td>
<td>06/08/79 City of Wilton Manors, FL, 04-51-02986</td>
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<td>NYC</td>
<td>436 03 1016 79 037</td>
<td>06/13/79 Monmouth Junction, NJ LPW 01-51-02065</td>
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<td>472 03 1016 79 038</td>
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<tr>
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<tr>
<td>Audit Number</td>
<td>Date</td>
<td>Title</td>
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<tr>
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<td>ATL 304 03 1016 79 045</td>
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<td>Interim Audit of LPW Grant Project #04-51-00464, Hillsborough County, Tampa, FL</td>
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<td>SFC 536 03 1016 79 085</td>
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<td>City of Wellston, MO 05-51-00557</td>
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<td>08/14/79</td>
<td>Jersey City, NJ LPW 01-51-03168</td>
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<td>Farmingdale, NY LPW 01-51-03446</td>
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<td>SFC 558 07 1016 79 092</td>
<td>08/24/79</td>
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<td>SFC 551 03 1016 79 094</td>
<td>08/28/79</td>
<td>City of Chandler, Chandler, AZ FA 8 LPW Grants</td>
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<td>08/31/79</td>
<td>Cochise County Bisbee, AZ FA 07-51-26574, 26575 &amp; 26576</td>
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<td>City of Cleveland, OH 06-51-23618</td>
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<td>City of Chicago, IL 06-51-20162</td>
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<td>SFC 561 03 1016 79 099</td>
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<td>City of Baldwin Park FA 07-51-01711</td>
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<td>SFC 567 03 1016 79 100</td>
<td>09/28/79</td>
<td>City of Gilroy, CA 07-51-(10 projects)</td>
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<tr>
<td>3AD 105 99 1016 79 001</td>
<td>12/26/78</td>
<td>Review &amp; Evaluation of LPW Audit Operations at the Chicago Reg. Office</td>
</tr>
<tr>
<td>Audit Number</td>
<td>Date</td>
<td>Title</td>
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<td>EDA Office of Business Development</td>
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<td>NYC 507 06 1030 79 051 07/24/79</td>
<td>New Jersey Economic Development Authority Indirect Cost Rate</td>
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<td>EDA Business Loan Program</td>
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<td>NYC 488 03 1031 79 033 05/09/79</td>
<td>Yonker's Plate Glass, Inc. 01-31-01697/01-13-01699</td>
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<td>ATL 330 06 1050 79 038 06/20/79</td>
<td>Northeast GA APDC, Final Ind Cost Rate FY 77</td>
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<td>ATL 355 06 1050 79 021 04/03/79</td>
<td>Southwest Tennessee Dev. Dist., Jackson, TN, FY79 Prov Ind Cost Rate</td>
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<td>ATL 359 04 1050 79 018 04/10/79</td>
<td>Northwest Michigan Regional Plan &amp; Dev Comm, Traverse City, MI FYE 9/30/79</td>
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<tr>
<td>ATL 360 04 1050 79 024 04/26/79</td>
<td>Central Upper Peninsula Plan and Dev Reg Comm, Escanaba, MI FYE 9/30/79</td>
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<td>ATL 326 06 1050 79 023 05/02/79</td>
<td>Upper Savannah Council of Govts., Greenwood, SC, FY79 Prov Ind Cost Rate</td>
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<td>ATL 325 06 1050 79 024 05/02/79</td>
<td>Upper Savannah Council of Govts., Greenwood, SC, FY77 Final Ind Cost Rate</td>
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<tr>
<td>ATL 324 06 1050 79 025 05/02/79</td>
<td>Upper Savannah Council of Govts., Greenwood, SC, FY76 Final Ind Cost Rate</td>
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<td>ATL 579 06 1050 79 031 05/15/79</td>
<td>East Central Michigan Planning and Development Region, Saginaw, MI FYE 063079(FB&amp;IC)</td>
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<td>ATL 349 06 1050 79 029 05/22/79</td>
<td>Coastal Area PDC, Brunswick, GA, FY76 Final Ind Cost Rate</td>
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<td>ATL 350 06 1050 79 030 05/22/79</td>
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<td>ATL 292 06 1050 79 035 06/08/79</td>
<td>Catawba Reg. Planning Council, FY 79 Prov. Ind Cost Rate</td>
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<td>ATL 356 06 1050 79 036 06/19/79</td>
<td>Southeast GA APDC, FY 79 Prov Ind Cost Rate</td>
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<td>ATL 332 06 1050 79 037 06/20/79</td>
<td>Northeast GA APDC, FY 79 Prov Ind Cost Rate</td>
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<td>ATL 331 06 1050 79 039 06/20/79</td>
<td>Northeast GA APDC, FY 78 Final Ind Cost Rate</td>
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## APPENDIX V

**LISTING OF CONTRACT, GRANT AND LOAN AUDIT REPORTS ISSUED FROM APRIL 1, 1979 TO SEPTEMBER 30, 1979**

<table>
<thead>
<tr>
<th>Audit Number</th>
<th>Date</th>
<th>Title</th>
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<tbody>
<tr>
<td>CHI 581 06 1050 79 035</td>
<td>06/28/79</td>
<td>West Central Wisconsin Regional Planning Commission, Eau Claire, WI FYE 12/31/79</td>
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<tr>
<td>ATL 327 06 1050 79 041</td>
<td>07/17/79</td>
<td>Review of Cost Alloc. Plan &amp; Final ICR, FY77, Pee Dee RPDC, Florence, SC</td>
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<tr>
<td>ATL 328 06 1050 79 042</td>
<td>07/17/79</td>
<td>Review of Cost Alloc. Plan &amp; Final ICR, FY78, Pee Dee RCOG, Florence, SC</td>
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<td>Review of Cost Alloc. Plan &amp; Prov ICR, FY80, Pee Dee RCOG, Florence, SC</td>
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<tr>
<td>ATL 341 06 1050 79 044</td>
<td>07/26/79</td>
<td>Review of Prov. ICR, FY79, Waccamaw RPDC, Georgetown, SC</td>
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<tr>
<td>ATL 347 06 1050 79 047</td>
<td>08/20/79</td>
<td>Review of CAP &amp; Prov. ICR Prop., FYE 6-30-79, Mid East Commission, Washington, NC</td>
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<tr>
<td>CHI 596 06 1050 79 039</td>
<td>09/06/79</td>
<td>Region 5 Regional Development Commission, Staples, MN FYE 6/30/80</td>
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<tr>
<td>CHI 598 06 1050 79 038</td>
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<td>Northwest Regional Planning Commission, Spooner, WI FYE 12/31/79</td>
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<td>CHI 597 06 1050 79 040</td>
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<td>Central Upper Peninsula Plan &amp; Dev Reg Comm, Escanaba, MI FYE 9/30/80</td>
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EDA Planning Grants 302(b)/301(b)

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<tr>
<td>CHI 539 04 1051 79 023</td>
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<td>West Shoreline Regional Development Commission, Muskegon, MI 7/17/79-9/30/79</td>
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<td>DAL 446 06 1051 79 038</td>
<td>04/26/79</td>
<td>COEDD, Shawnee, OK Indirect Cost Rate</td>
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<td>DAL 445 03 1051 79 039</td>
<td>05/14/79</td>
<td>COEDD, Shawnee, OK 08-15-1100; 08-05-11006-07; 08; 09; 08-15-11006</td>
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<td>DAL 445 03 1051 79 061</td>
<td>05/14/79</td>
<td>COEDD, Shawnee, OK 08-15-11006</td>
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<td>DAL 445 03 1051 79 062</td>
<td>05/14/79</td>
<td>COEDD, Shawnee, OK 08-05-11006-07</td>
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<td>DAL 445 03 1051 79 063</td>
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<td>COEDD, Shawnee, OK 03-05-11006-08</td>
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<td>DAL 445 03 1051 79 064</td>
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<td>COEDD, Shawnee, OK 03-05-11006-09</td>
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<td>DAL 441 06 1051 79 042</td>
<td>05/16/79</td>
<td>Coastal Bend C of G, Corpus Christi, TX ICR CY 79</td>
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<tr>
<td>SFC 526 03 1051 79 072</td>
<td>06/21/79</td>
<td>Trico-EDA 07-05-11011-06 &amp; 07</td>
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<td>SFC 543 03 1051 79 079</td>
<td>07/17/79</td>
<td>Viejas Tribal Council, Alpine, CA FA 07-05-15057</td>
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<td>SFC 543 03 1051 79 080</td>
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<td>Southern California Reservation Plan Org, Escondido, CA CA 07-05-15060</td>
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<td>SFC 543 03 1051 79 081</td>
<td>07/17/79</td>
<td>Southern California Reservation Plan Org, Escondido, CA IA 07-05-15060-01</td>
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<td>DAL 459 06 1051 79 065</td>
<td>08/15/79</td>
<td>Lower Rio Grande Valley Development Council, McAllen, TX ICR Prov CY 79</td>
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<td>DAL 455 06 1051 79 066</td>
<td>08/24/79</td>
<td>South Western Oklahoma Development Authority, Burns Flat, OK ICR Prov FY 76;77;78</td>
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<td>DAL 450 06 1051 79 067</td>
<td>09/12/79</td>
<td>Texoma Regional Planning Commission, Denison, TX ICR FY 1980</td>
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<tr>
<td>DAL 463 06 1051 79 068</td>
<td>09/13/79</td>
<td>COEDD, Shawnee, OK ICR FY 1980</td>
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LISTING OF CONTRACT, GRANT AND LOAN AUDIT REPORTS ISSUED
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<td>DAL 464 or 1051 79 070 09/21/79</td>
<td>Northeast Counties of Oklahoma EDA, Vinita, OK IICR FYE 9/1980</td>
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<td>Southwestern Oklahoma Development Authority, Burns Flat, OK 08-15-11103</td>
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</table>

**EDA Technical Assistant Grants**

| NYC 478 03 1071 79 032 04/26/79 | Puerto Rico Planning Board                                      |
| SFC 515 03 1071 79 077 07/12/79 | Anchorage Oppn Indian Center, Anchorage, AK FA 07-6-01520         |
| SFC 516 03 1071 79 090 08/20/79 | EDC of Puget Sound FA 07-6-01524-21, -1, and -2                |
| SFC 516 03 1071 79 091 08/20/79 | EDC of Puget Sound IA 07-6-01524-3 thru 12-31-79                |
| JAD 106 03 1071 79 002 11/17/78 | (Misnumbered) MD Dept of Economic & Community Develp. 99-6-09370 |

**Old West Regional Commission**

| CHI 520 03 1540 79 025 04/27/79 | Office of the Lt. Governor, State of Montana 10776184 |
| CHI 521 03 1540 79 026 04/30/79 | Montana, Dept. of Comm Affairs 10570129, 10X70002, 10771212 |
| CHI 522 03 1540 79 030 05/04/79 | North Dakota, Ofc. of the Gov, Bis ND 10470128, 10X70004, 10773214(F&I) |
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<tr>
<td>CHI 569 03 4000 79 019 04/17/79</td>
<td>D'Escoto, Inc., Aurora, IL RO-A01-00-5207</td>
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<td>CHI 554 03 4000 79 020 04/20/79</td>
<td>Indiana State OMBE, Indianapolis, IN 05-30-20231-00</td>
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<td>SFC 524 02 4000 79 059 04/23/79</td>
<td>Arizona BRC FA 5-36657</td>
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<td>CHI 555 03 4000 79 021 04/24/79</td>
<td>Indiana State OMBE, Indianapolis, IN 05-30-20232-00</td>
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<td>SFC 535 03 4000 79 062 04/30/79</td>
<td>San Jose BDC FA 7-36418</td>
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<td>CHI 556 03 4000 79 029 05/10/79</td>
<td>Indiana State OMBE, Indianapolis, IN 05-30-20233-00(F)</td>
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<td>SFC 539 06 4000 79 074 07/03/79</td>
<td>Mariscal &amp; Co., Los Angeles CA Indirect Cost Rates</td>
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<td>SFC 524 03 4000 79 082 07/18/79</td>
<td>Arizona BRC, Phoenix, AZ IA RO-A01-78-00-5352</td>
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<td>SFC 541 03 4000 79 095 08/28/79</td>
<td>Mariscal &amp; Co. LA, CA FA T-36529</td>
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<td>SFC 569 01 4000 79 096 08/30/79</td>
<td>Mariscal &amp; Co LA, CA Procurement Practices</td>
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National Oceanic and Atmospheric Administration (NOAA)

| NYC 474 03 4800 79 031 04/24/79 | Scientific Radio Systems, Inc. |
| SFC 523 03 4800 79 065 05/03/79 | Pacific Marine Fisheries Comm., Portland, OR 04-5-158-67 |
| DEN 111 01 4800 79 008 08/22/79 | NOAA-Control of Discount Airline Coupons, No grant # |
| NYC 513 06 4800 79 057 08/28/79 | Maine State Planning Office |
| DEN 112 04 4800 79 011 09/27/79 | NOAA Proposal Evaluation - Gilian Instrument Co., No grant # |

NOAA National Marine Fishery Service-Grant in Aid to States

| SFC 528 00 4831 79 056 04/04/79 | Oregon Department of Fish and Wildlife FS 03-6-208-35445 |
APPENDIX V

LISTING OF CONTRACT, GRANT AND LOAN AUDIT REPORTS ISSUED
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<td>NYC 494 04 7000 79 044 06/28/79 Hague International 7-38046</td>
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<td>SFC 542 03 8050 79 073 06/19/79 Mariscal &amp; Co., FA DOT-70011</td>
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SUMMARY OF EACH REPORT TO THE SECRETARY
ON UNREASONABLE REFUSAL OF
INFORMATION OR ASSISTANCE

In accordance with Section 5(a)(5) of the Inspector General Act of 1978, we are reporting that during the period April 1, 1979 to September 30, 1979, there were no instances reported to the Secretary of Commerce wherein OIG was unreasonably refused information or assistance requested.