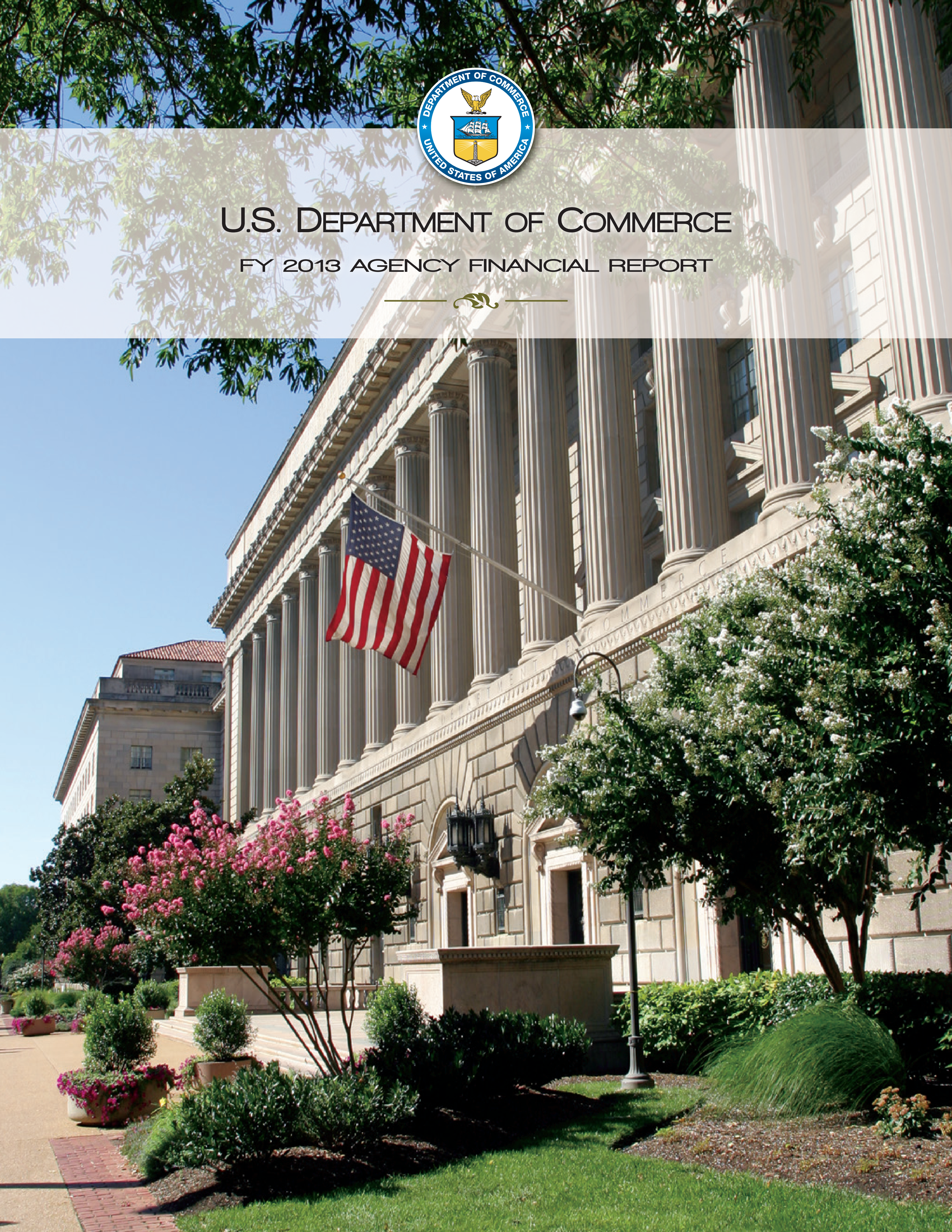
U.S. Department of Commerce

FY 2013 Agency Financial Report



This report can be found on the Internet at http://www.osec.doc.gov/ofm/OFM_Publications.html.

If you have questions or comments regarding this report, please call the Department's Office of Financial Management at (202) 482-1207 or email Atisha Burks at ABurks@doc.gov or Gordon Alston at GAlston@doc.gov.

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U.S. Department of Commerce
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U.S. Department of Commerce

Agency Financial Report

Fiscal Year

2013

THE DEPARTMENT AT A GLANCE

HISTORY AND ENABLING LEGISLATION

The Department of Commerce was originally established by Congressional Act on February 14, 1903 as the Department of Commerce and Labor (32 Stat. 826; 5 U.S.C. 591) and was subsequently renamed the U.S. Department of Commerce by President William H. Taft on March 4, 1913 (15 U.S.C. 1512). The defined role of the new Department was "to foster, promote, and develop the foreign and domestic commerce, the mining, manufacturing, and fishery industries of the United States."

MISSION

The Department of Commerce creates the conditions for economic growth and opportunity by promoting innovation, entrepreneurship, competitiveness, and stewardship.

Program Bureaus

- Bureau of Industry and Security (BIS)
- Economic Development Administration (EDA)
- Economics and Statistics Administration (ESA)
  - Bureau of Economic Analysis (BEA)
  - Census Bureau
- International Trade Administration (ITA)
- Minority Business Development Agency (MBDA)
- National Institute of Standards and Technology (NIST)
  - National Technical Information Service (NTIS)
- National Oceanic and Atmospheric Administration (NOAA)
- National Telecommunications and Information Administration (NTIA)
- U.S. Patent and Trademark Office (USPTO)

STRATEGIC THEMES

PROGRAMMATIC THEMES

- *Economic Growth*
- *Science and Information*
- *Environmental Stewardship*

MANAGEMENT THEMES

- *Customer Service*
- *Organizational Excellence*
- *Workforce Excellence*

LOCATION

The Department is headquartered in Washington, D.C., at the Herbert Clark Hoover Building, which is located on eight acres of land covering three city blocks. The Department also has field offices in all states and territories and maintains offices in more than 86 countries worldwide.

EMPLOYEES

As of September 30, 2013, the Department had approximately 46 thousand employees.

BUDGET AUTHORITY

The Department's FY 2012 and FY 2013 net budget authority was approximately $8.0 billion.

INTERNET

The Department's Internet address is *www.commerce.gov*.

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MESSAGE FROM SECRETARY PRITZKER

I am pleased to present the Department of Commerce's Agency Financial Report (AFR) for fiscal year (FY) 2013. The AFR is an opportunity for us to highlight the Department's accomplishments and challenges in FY 2013. This report also provides information on our financial management and performance.

When I came on board as Secretary this past summer, I hung a sign on my office door that says "Open for Business." To me, this simple phrase reflects the Department's focus on creating the right conditions for businesses to grow and hire. More than ever before, we are partnering with the private sector to foster a vibrant, innovative, and competitive American economy.

In FY 2013, the Department continued to help American businesses grow and succeed in the 21st century. In FY 2014, the Department will focus on priority areas of trade and investment, innovation, data, and the environment. With these priorities, we will continue to support our private sector, which has created 8 million jobs since 2010.

Our 46,000 employees will continue to play a crucial role. They are working harder than ever to put more and better tools in the hands of U.S. firms, despite a challenging fiscal environment.

The Commerce Department remains committed to operational excellence and public accountability in everything we do. This report provides an important window of transparency for our key stakeholders and the American public to assess our financial information and performance for this past year.

Our financial management systems have been found to be in substantial compliance with the Federal Financial Management Improvement Act (FFMIA) of 1996. In accordance with Office of Management and Budget (OMB) Circulars A-136 and A-11, the financial and performance data published in this report are substantially complete and reliable.

These data provide an accurate and transparent accounting of the Department's financial situation and high-level performance results. For the 15th year in a row, the independent auditors tasked with reviewing our financial statements have provided an unqualified opinion. However, the Department received a Significant Deficiency relating to needed improvement in two areas: (1) accounting for property at the National Oceanic and Atmospheric Administration, and (2) Department-wide information technology, relating to segregation of duties, access controls, and configuration management.

Throughout FY 2013, we greatly improved the controls that surround property, evidenced by the reduction of the FY 2012 Material Weakness to a Significant Deficiency. We will continue making improvements to our property and information technology, and we will continue to aggressively strengthen those controls in FY 2014.

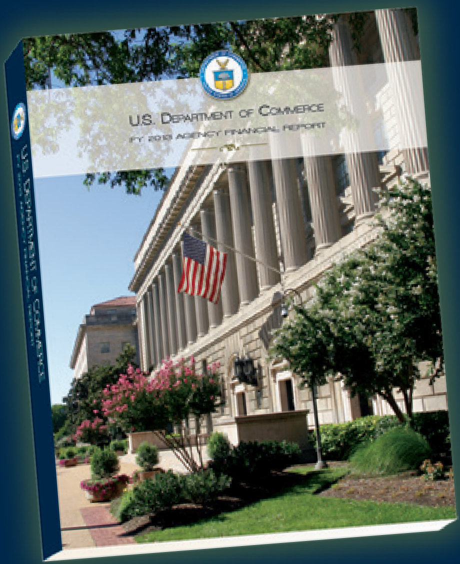
The Federal Managers' Financial Integrity Act of 1982 (FMFIA) and OMB Circular A-123 provide the framework within which Departmental and operating unit managers may determine whether adequate internal controls are in place and operating as they should. We rely on a wide range of studies conducted by programmatic and administrative managers, the Office of the Inspector General, the Government Accountability Office, and others to assist in this effort. Based on activities undertaken during FY 2013, the Department is able to provide an unqualified statement of assurance that its internal controls and financial management systems meet the objectives of FMFIA.

More detailed performance information and results will be released in the *Annual Performance Report* in February 2014.

I am proud of the work we do and the progress we have made. I hope you find this report useful.

Penny Pritzker
Secretary of Commerce
December 16, 2013

How to Use this Report



This Agency Financial Report (AFR) for the fiscal year ended September 30 (FY) 2013 provides the Department of Commerce's financial and summary performance information in accordance with OMB Circular A-136, *Financial Reporting Requirements*.

Beginning in FY 2013, the Department has chosen to produce an Agency Financial Report (AFR) and Annual Performance Report (APR). The Department will include its FY 2013 APR with its Congressional Budget Justification and will post it on the Department's Web site at *http://www.osec.doc.gov/bmi/budget/.*

The Department's annual AFR is available on the Department's Web site at *http://www.osec.doc.gov/ofm/OFM_Publications.html.* The Department welcomes feedback on the form and content of this report.

This report is organized into the following major components:

Statement from the Secretary of Commerce

The Secretary's statement includes an assessment of the reliability and completeness of the financial and summary performance information presented in the report and a statement of assurance on the Department's management controls as required by the FMFIA.

Management's Discussion and Analysis (MD&A)

This section provides an overview of the financial and summary-level performance information contained in the Performance Summary, Financial Section, and Appendices. MD&A includes an overview of the summary of the performance process and current status of systems and internal control weaknesses.

Financial Section

This section contains details of the Department's finances in FY 2013. A message from the Department's Chief Financial Officer (CFO) is followed by information on the Department's financial management, analysis of FY 2013 financial condition and results, audited financial statements, required supplementary information, other information, and the independent auditors' report.

Appendices

This section provides a discussion of management challenges including actions taken to address them as well as the FY 2014 management challenges, financial information, and a glossary of key acronyms.

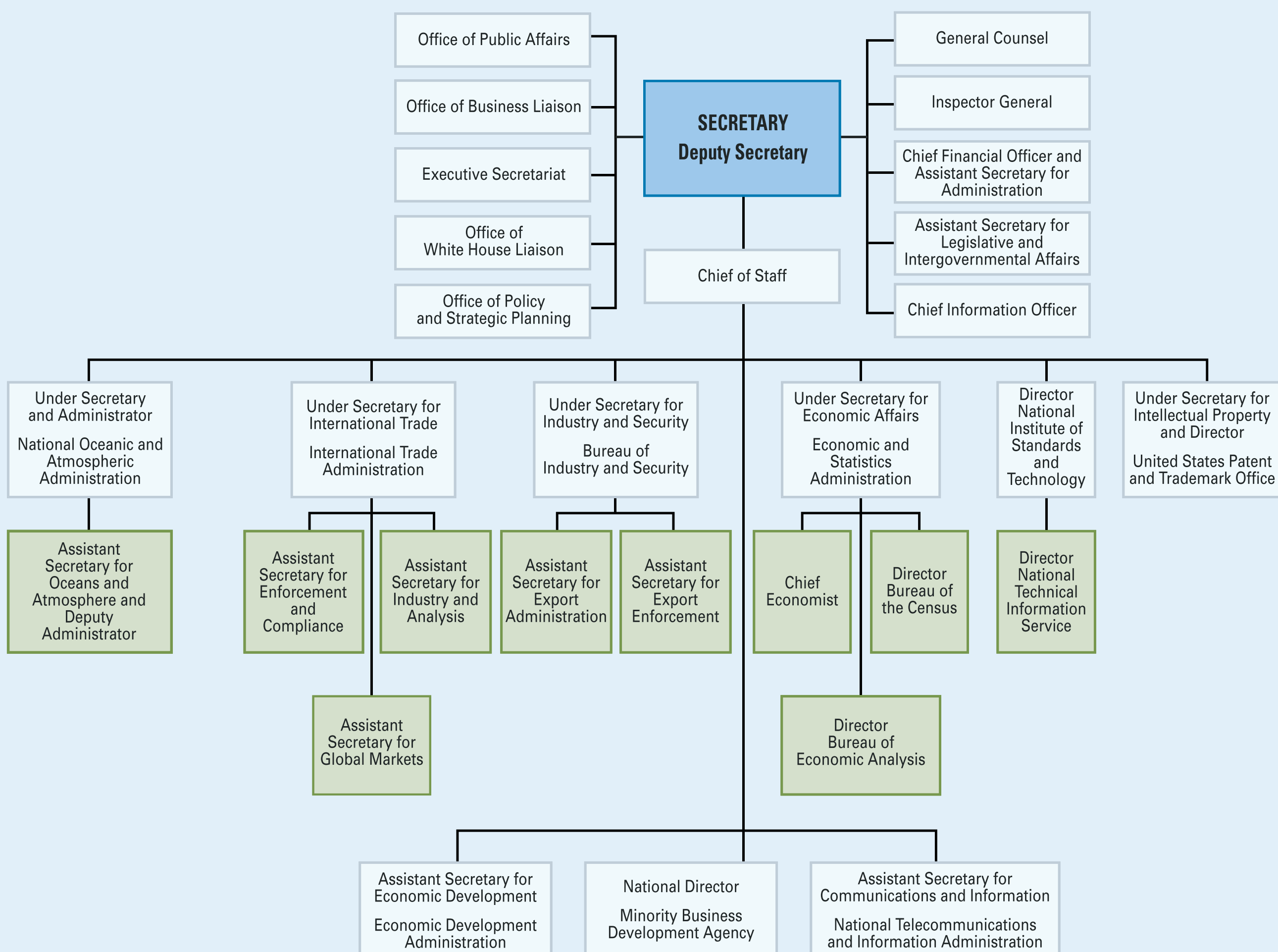
Management's Discussion and Analysis

MISSION AND ORGANIZATION

MISSION

THE DEPARTMENT OF COMMERCE CREATES THE CONDITIONS FOR ECONOMIC GROWTH AND OPPORTUNITY BY PROMOTING INNOVATION, ENTREPRENEURSHIP, COMPETITIVENESS, AND STEWARDSHIP.

U.S. DEPARTMENT OF COMMERCE



THE DEPARTMENT OF COMMERCE PROCESS FOR STRATEGIC PLANNING AND PERFORMANCE REPORTING

STRATEGIC PLANNING AND PERFORMANCE REPORTING STRUCTURE

The Department of Commerce strategic plan is developed through meetings and retreats where leadership uses relevant data and stakeholder input to assess goals, objectives, and strategies. A new plan is developed at the beginning of a presidential term. Strategies are affected by bureaus or groups of bureaus, depending on the objective.

The Department has a four-year strategic plan. However, the plan may be revised during the four years based on stakeholder feedback, evidence on the effectiveness of strategies, or changes in the economic environment. The point of departure for the plan is the Department's mission. The plan has four goal areas: Trade and Investment, Innovation, Environment, and Data. A fifth goal area "Operational Excellence" provides strategies that affect mission delivery in all areas. It has the Department strategies for improving customer service, employee engagement, and work processes. In all five goals areas performance indicators are used to define the specific results a strategic objective should achieve.

In February 2014, the Department of Commerce FY 2014 – FY 2018 Strategic Plan will be posted on *www.Performance.gov.* It will also be available on the Department's Web site.

In addition to the Department structure of goals, objectives, and strategies, there are Agency Priority Goals (APG). These are two-year initiatives that have been earmarked for focus and close monitoring. The APGs and quarterly progress reports are posted on *www.Performance.gov.*

The Congressional budget submission has bureau-specific performance measures required by the Government Performance and Results Act (GPRA measures). The bureau-specific measures and targets for performance are linked to resource requirements. The FY 2013 budget submission and associated performance plans can be found at *http://www.osec.doc.gov/bmi/budget/.*

Performance measures in Senior Executive Service (SES) member performance plans are linked to the Department's system of goals, objectives, APGs, and performance indicators. This supports deployment of strategic plans to bureau operations.

How the Department's Objectives and Measures are Used

Data on performance measures/indicators are used to assess progress toward goals and objectives and how well strategies are working. When considered with business feedback and program evaluations, these measures give valuable insight into the effectiveness of Department programs and how to improve programs. Performance results for FY 2013 and prior years are available in budget submissions. The budget documents also provide information on how results for each measure are verified. Department budget submissions can be found at *www.osec.doc.gov/bmi/budget/*.

Performance Reviews

As required by the Government Performance and Results Modernization Act of 2010, Goal Leaders and the Department's Chief Operating Officer (the Deputy Secretary) review progress on APGs. These quarterly reviews have also included other performance measures central to "mission health," the efficiency of operations, Administration Initiatives, and employee engagement. During most of FY 2013, the bureau quarterly performance reviews were conducted by the Deputy Secretary at meetings with the leadership and staff of the bureau being reviewed. For fourth quarter of FY 2013, APG results were reviewed by the entire Executive Management Team; the team includes the leadership of all 12 Departmental bureaus. Performance data reviews are also conducted by bureaus, and councils of Chief Financial Officers, Chief Human Capital Officers, and Chief Information Officers.

Financial data are reviewed through audits and other financial management controls. During the FY 2012 Consolidated Financial Statement audit, tests and review of the core accounting system and internal controls were conducted as required by the Chief Financial Officers (CFO) Act. Further, the Department conducted its assessment of the effectiveness of internal control over financial reporting, which includes safeguarding of assets and compliance with applicable laws and regulations, in accordance with the requirements of Appendix A of Office of Management and Budget (OMB) Circular A-123, *Management's Responsibility for Internal Control*. Based on the results of this evaluation, the Department provided reasonable assurance that its internal control over financial reporting was operating effectively.

FY 2013 PERFORMANCE SUMMARY

Four Agency Priority Goals (APG) were selected by leadership for particular focus. Progress toward performance targets for the APGs has been monitored at quarterly meetings between the Department's Chief Operating Officer (the Deputy Secretary) and Goal Leaders (bureau Under Secretary or Assistant Secretary). Results and goal descriptions are posted on *www.Performance.gov*. The following is a summary of FY 2013 APG results.

Expand broadband service to communities. Access to the Internet creates economic and educational opportunity. Therefore, $4.7 billion in American Recovery and Reinvestment Act of 2009 (ARRA) funds were provided to extend broadband service to unserved and underserved areas. The Broadband Technology Opportunities Program (BTOP) has exceeded expectations. A target was set to create 100 thousand additional miles of broadband access by September 2013. By the end of FY 2013 (September 30, 2013), 110,900 miles had been added to the Nation's broadband network. In addition, over 20 thousand public access centers have been created and 46 thousand new workstations added. The National Telecommunications and Information Administration (NTIA) continues to work with grantees to further increase these results.

Increase lead time for flash flood warnings. Flash floods claim more lives than any other type of extreme weather event. Therefore, an APG was established for the average amount of advanced warning the National Oceanic and Atmospheric Administration (NOAA) provides to areas subject to flash floods. The seasonal and annual number of weather events varies widely. This creates challenges for event forecasting and establishing targets. NOAA met and exceeded the target of 58 minutes; lead time at August 31, 2013 was 66 minutes.

Expand markets for U.S. exporters. Establishing targets for exports is challenging. Export levels are highly influenced by worldwide economic conditions and currency exchange rates. However, the International Trade Administration (ITA) established an APG for a subset of exports that could be influenced by focused efforts of its now Global Markets Program. ITA set a target for increasing the number of current exporters that it could help bring to additional markets. Companies already exporting have the soft and hard infrastructure to export. The cycle time for assisting them reach additional markets is often shorter that the time required to help a firm export for the first time. Given the need for short-term economic growth, focus was given to "new to market."

ITA essentially reached the target of bringing 6,121 exporters to a second market. By the end of FY 2013, ITA assisted 6,024 firms reach additional markets.

Reduce the patent backlog. Innovation makes U.S. companies competitive and creates jobs. Innovation is supported by a high functioning intellectual property protection system. Therefore, a FY 2013 APG was established to reduce the backlog of unexamined patent applications waiting for first action by the U.S. Patent and Trademark Office (USPTO) and reducing the time for processing patents. Major legislative changes and re-engineering of the patent review process are central to the approach for accelerating the patent process. The targets for FY 2013 were to reduce the backlog to 529 thousand applications (from 670 thousand at the end of FY 2011). For optimum workload, the inventory of applications waiting to be processed would be 300 thousand. Another target was to reduce total pendency, or the time for a final determination on a patent, from 33.7 months (in FY 2011) to 30.1 months. Funding reductions affected progress; however, as of the fourth quarter of FY 2013, the backlog was decreased to 585 thousand. The average time for total pendency is currently 29.1 months, faster than the target time. This was accomplished in spite of a spike in new filings in March 2013; in that month filings were almost 60 percent above the monthly average for the last two fiscal years.

MANAGEMENT CONTROLS

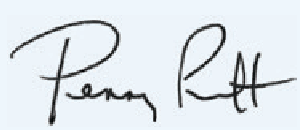
The Department's management is responsible for establishing and maintaining effective internal control and financial management systems that meet the objectives of the Federal Managers' Financial Integrity Act (FMFIA). During FY 2013, the Department assessed its internal control over the effectiveness and efficiency of operations and compliance with applicable laws and regulations in accordance with Office of Management and Budget (OMB) Circular A-123, *Management's Responsibility for Internal Control*. As a result, to the best of my knowledge, the Department is able to provide an unqualified statement of assurance that its internal controls and financial management systems meet the objectives of FMFIA.

During FY 2013, the National Oceanic and Atmospheric Administration (NOAA) successfully remediated the one FY 2012 material weakness identified in financial management oversight for the unauthorized reprogramming of funds at the National Weather Service. Corrective actions by NOAA include policy and procedural changes that increase internal controls. No significant findings were noted in the areas of budgetary controls and accounting for satellites and property when the Department assessed its internal control over the effectiveness and efficiency of operations and compliance with applicable laws and regulations in accordance with OMB Circular A-123.

The supplemental funding received under the American Recovery and Reinvestment Act of 2009 (ARRA) continued to receive comprehensive programmatic and administrative attention throughout the Department in order to achieve the legislative goals attributable to it. Funds have been awarded and expended for authorized purposes in as prompt and efficient a manner as possible while safeguarding against fraud, waste, and abuse. Reporting associated with this funding has been performed clearly, transparently, and comprehensively. Monitoring has been and will continue to be conducted to insure that recipients are meeting the goals stated in their application and as incorporated into award documents, and will also focus on the results of these activities.

The Department also assessed the effectiveness of management and administrative internal controls. The Office of Human Resources Accountability coordinated and/or led six Delegated Examining on-site accountability and oversight audits at several bureaus and operating unit human resources offices.

Based on reviews conducted by the Department, it has been able to determine that its financial systems are in conformance with government-wide requirements.



Penny Pritzker
Secretary of Commerce
December 16, 2013

FEDERAL MANAGERS' FINANCIAL INTEGRITY ACT (FMFIA) OF 1982

The objective of the Department's management control system is to provide reasonable assurance that:

- Obligations and costs are in compliance with applicable laws;
- Assets are safeguarded against waste, loss, and unauthorized use of appropriations;
- Revenues and expenditures applicable to the Department's operations are properly recorded and accounted for, permitting accurate accounts, reliable financial reports, and full accountability for assets; and
- Programs are efficiently and effectively carried out in accordance with applicable laws and management policy.

During FY 2013, the Department reviewed its management control system in accordance with the requirements of FMFIA, and OMB and Departmental guidelines.

SECTION 2 OF FMFIA – INTERNAL MANAGEMENT CONTROLS

Section 2 of FMFIA requires that federal agencies report, on the basis of annual assessments, any material weaknesses that have been identified in connection with their internal and administrative controls. The efficiency of the Department's operations is continually evaluated using information obtained from reviews conducted by the Government Accountability Office (GAO) and the Office of Inspector General (OIG), evaluations conducted by other federal agencies such as the Office of Personnel Management (OPM), and other specifically requested studies. The diverse reviews that took place during FY 2013 relative to non-financial controls provide assurance that Departmental systems and management controls comply with standards established under FMFIA.

The following table reflects the number of material weaknesses reported under Section 2 of FMFIA in recent years by the Department.

NUMBER OF MATERIAL WEAKNESSES UNDER SECTION 2

	NUMBER AT BEGINNING OF FISCAL YEAR	NUMBER CORRECTED	NUMBER ADDED	NUMBER REMAINING AT END OF FISCAL YEAR
FY 2009	1	0	0	1
FY 2010	1	1	0	0
FY 2011	0	0	0	0
FY 2012	0	0	1	1
FY 2013	1	1	0	0

Key Administrative and Management Internal Control Activities

Human Resource Management

In compliance with FMFIA, the Office of Human Resources Management (OHRM) provides the following information regarding the adequacy of management and internal control systems. Highlights of OHRM's FY 2013 accomplishments relative to management and internal controls are detailed below.

Strategic Human Capital Management. The Department developed a strategic approach to accountability in human capital management that proactively addresses the challenges of aligning human capital strategies with Department strategies, and to improve leadership, knowledge management, acquisition of talent, and performance. During FY 2013, OHRM leadership continued its focus on top-down reviews of systems, human resources (HR) practices, and HR service delivery, surveying managers and employees and implementing changes when needed, utilizing technology to run and monitor OHRM programs, and continuing to collaborate with business partners to identify customer needs and required oversight to mitigate potential risk.

Oversight and Accountability Audits. In accordance with Title 5, U.S. Code § 1104(a)(2) and Executive Order 13197, *Government-wide Accountability for Merit Systems Principles; Workforce Information*, dated January 18, 2001, and the Interagency Delegated Examining Agreement Number DOC-1, between OPM and the Department, and HR Bulletin 036, FY 2006, Human Resources Management Accountability System, the Office of Human Resources Accountability coordinated and/or led six Delegated Examining on-site audits. The Delegated Examining audits have two fundamental responsibilities: (1) to ensure that the Department's vacant positions are filled with the best-qualified persons from a sufficient pool or well-qualified, eligible persons; and (2) to uphold the laws, regulations, and policies of merit selections in accordance with federal laws, regulations, OPM procedures, and Departmental policies.

Administrative. During FY 2013, the Director for Human Resources Management continued to monitor internal controls for each OHRM office to mitigate risks identified. Weekly monitoring of OHRM's budget was conducted by the Director and Deputy Director and quarterly meetings were held with staff from the Office of Financial Management. OHRM has a multi-level review process for all purchases. Typically, the signature from the requestor, the budget officer, the Deputy Director, and the Director are required before any funds are expended for equipment, supplies, or training. Property management continued to be a high priority for OHRM during FY 2013. All accountable property is physically signed down to an end-user after it has been assigned in Sunflower, the Department's property management system. Training for new property custodians continued throughout the year. A complete physical inventory of OHRM's property was completed in the fourth quarter of FY 2013.

Protecting Personally Identifiable Information (PII). OHRM and the Department remain vigilant to ensure that PII records are secure. This includes:

- Annual audit/review of users' access and permissions to sensitive data;
- Identification, implementation, and communication of existing policies that are compliant with safeguarding PII;
- Exposure of security gaps and providing recommendations to patch the gaps;
- Coordinate/conduct information technology (IT) security awareness training/briefings; and
- Communicate the need and monitor the completion of the Department-wide IT security awareness training.

Administrative Services

In June 2012, GAO reported on the accuracy of the Federal Real Property Profile (FRPP). While there was no explicit direction issued by OMB or the General Services Administration (GSA) regarding the data quality improvement in 2013, they did revise the 2013 FRPP guidance to eliminate specific data fields and revise data to be reported in other fields. The Office of Real Property Programs reviewed the real property database and, as part of the FRPP upload for 2013, updated 9,553 datum to correct identified anomalies as well as self-identified or required revisions in the real property inventory system. These changes improved the quality and reliability of the Department's inventory.

Acquisition Improvement Project (AIP) Scalable Acquisition Framework. The Office of Acquisition Management (OAM) successfully completed Department-wide policy for acquisition project management with the Deputy Secretary's signing of the policy on Commerce Acquisition Project Management in November 2012. The remainder of FY 2013 was devoted to the policy's implementation to bring about cultural change for its adoption and refinement of processes to make it work smoothly. OAM also completed all coordination for a complimentary policy on cost estimation and independent cost estimates. Its purpose is to establish a clear requirement and standard procedures for cost estimating work products and their review and approval. This policy responds to findings in 2012 by the GAO that identified that the Department did not have a clear requirement or policy for cost estimating, lacked a standard structure for defining cost estimating work products and their review and approval, and failed to comply with cost estimating best practices.

Grants Policies and Management. OAM continued its review of the Department's Grants and Cooperative Agreements Manual to keep pace with the rapid growth and change in the government-wide financial assistance culture and policy. In FY 2012, a Department-wide project team, under the direction of OAM's Grants Management Division, collaborated on a comprehensive review of all chapters of the manual resulting in significant updates to the document. The revised manual was issued in March 2013.

The Department's Financial Assistance Pre-award Notification Requirements for Grants and Cooperative Agreements informs the public of all statutory, regulatory, and certain other requirements associated with Department grants and cooperative agreements. This notice was last revised in FY 2008. The project team revisited and updated the notice to reflect the extensive changes in financial assistance law and policy that have emerged since FY 2008. Consequently, an update was issued by the Director of OAM and published in the Federal Register in December 2012.

The Department's Financial Assistance Standard Terms and Conditions (STC), which had not been updated since March 2008, were also subject to review and revision by the intra-agency project team. This work resulted in a significantly updated document resulting in the issuance of revised STCs in January 2013.

OAM determined that policy revisions should be performed on a more consistent and predictable schedule going forward. In an effort to establish a more structured schedule to the Department's STCs, Pre-award Notice, and the Grants Manual, guidance was issued by OAM requiring the review and revision of these key financial assistance policy documents annually. Therefore, all bureaus, including program offices and grant offices, and other collateral support offices related to financial assistance were directed in February 2013 to follow a specific schedule for update, review, and clearance of these policy documents. The schedule was provided via memorandum from OAM.

ARRA Funds Management. Federally Awarded Contracts—a new C-Awards system (Comprizon) was deployed across NOAA, the National Institute of Standards and Technology (NIST), Census Bureau, and the Department in November 2011. This new version has improved the Department's capacity to track the elements required for ARRA Reporting.

Purchase Card Program. OAM continuously monitors and updates internal control measures and processes to manage the Department's Purchase Card Program and certifies that the appropriate policies and controls are in place and corrective actions have been taken to mitigate the risk of fraud and inappropriate charge card practices.

In FY 2013, the Department enhanced policy requirements, implemented structured procedures, and underwent an internal audit by the Department's OIG to assess the effectiveness of the program's internal controls. Enhancements to the purchase card program included: additional oversight of reconciliation process; development of customized classroom training course curriculum to cover various Department-specific aspects of the program; development of an online customized refresher training scenario-based course to provide cardholders with situational training; updated the Commerce Acquisition Management (CAM) Chapter to address audit findings; and implemented a cardholder community newsletter, "APC Digest," to better communicate updates within the program to the cardholder community.

Property and Facilities. The Office of Facilities and Environmental Quality (OFEQ) addressed the Herbert C. Hoover Building (HCHB) Renovation Project concerns identified by the OIG. OFEQ specifically addressed issues referring to actions such as developing metrics for the HCHB renovation. Metrics were included in the Department's balanced scorecard, and are measured to assess budget, schedule, project scope, and frequency of customer disruptions affiliated with the renovation.

In the FY 2012 FMFIA statement, there was mention that OMB and GSA were planning to issue directions that would respond to the GAO report on the quality of the facility data reported in the FRPP. While there was no explicit direction issued by OMB or GSA regarding the data quality improvement in 2013, they did revise the 2013 FRPP guidance to eliminate specific data fields and revise data to be reported in other fields. The Office of Real Property Programs reviewed the real property database and reported anomalies to the three bureaus with responsibilities for owned facilities and direct leases that are reported to FRPP.

IT Security Receives Continued Focus

The Office of the Chief Information Officer (OCIO) conducts reviews of its IT investments to ensure their efficiency and effectiveness in support of the Department's missions. The Department, following OMB policies and guidelines[1], and complying with Federal Information Security Management Act (FISMA) requirements, oversees and manages IT resources by establishing and implementing policies and controls to mitigate IT risks.

Accomplishments resulting from the Department's efforts to address the deficiencies include additional policies and guidance on password management, role-based training, account management and deactivation, and an annual assessment smart spot checklist. The Department continued to develop its HCHB IT Security Shared Services initiative including development of IT security policy and identification of common controls to be implemented. The Department began implementing an Enterprise Cyber security Monitoring and Operations (ECMO) tool to monitor and track continuous monitoring of IT security-related events throughout the Department. The Department continued to work toward

[1] *OMB policy and guidelines, and key legislations are available at: http://www.whitehouse.gov/omb/inforeg/infopoltech.html.*

launching an Enterprise Security Oversight Center (ESOC). To manage supply chain risks within certain IT acquisitions, the Department implemented a supply chain risk management process. The Department also worked with personnel with significant IT security roles and responsibilities through the CIOs' Council, the IT Security Coordinating Committee, the IT Audit Working Group, and the IT Security Shared Services working group to devise enterprise-wide solutions to deficiencies.

While these improvements will allow the Department to elevate its IT security posture, more work remains to be accomplished. The OIG acknowledges progress the Department has made toward implementing ECMO and ESOC, which are critical to maintaining general network hygiene, implementing continuous monitoring, and providing timely cyber situational awareness across the Department. However, the OIG cautions that timely implementation of these initiatives is crucial to the Department's cyber security program; particularly in light of the ever-increasing cyber threats facing government systems. Thus, the OIG encourages the Department to ensure that current efforts for these initiatives move forward as planned and that operating units cooperate and participate to the fullest extent. The OIG has ongoing audit work related to security incident response and recognizes progress the Department is making toward improving Department-wide incident response.

Accomplishments toward FMFIA

To ensure that the Department effectively manages the ongoing IT security concerns, the OCIO has been developing a Cyber Security Strategic Plan to strengthen its IT security posture and operations. Additionally, the OCIO security office continues to conduct rigorous IT security compliance reviews based on FISMA requirements, OMB policy, NIST standards and guidelines, and previous OIG recommendations.

In addition to completing most significant corrective actions addressing IT security deficiencies, the following are highlights significant to IT security accomplishments in FY 2013:

OCIO IT Security Performance Measures. New Department-wide metrics were developed for tracking operating unit program management and technical progress with the implementation of the Cross-Agency Goals for Cyber Security: Continuous Monitoring; Strong Authentication using Personal Identity Verification (PIV); and Trusted Internet Connection (TIC).

Enterprise Initiatives. Migration of the HCHB network to a commercial TIC provider was completed. The Homeland Security Presidential Directive 12 (HSPD-12) PIV logical access control requirements were integrated with the Windows 7 migration project undertaken by the Office of the Secretary. Participated in early engagement group for the Department of Homeland Security (DHS) Continuous Diagnostics and Mitigation program. Received annual DHS TIC Access Provider (TICAP) Cyber Security Capabilities Validation for the four NOAA TICAPs.

Department of Commerce Computer Security Incident Response Team (DOC-CIRT). Incident tracking system was implemented. A third-party assessment of the current DOC-CIRT policies, procedures, and capabilities was conducted. Staffing was increased with two certified incident handlers; quarterly federation of CIRT meetings was established. Revised DOC-CIRT Service Level Agreement to reflect Department-wide tiered service offerings.

IT Security Policy. Department policies were issued for: *Information System Security Training for Significant Roles*—an update to the existing Commerce Interim Technical Requirements (CITR)-006 policy and aims to replace inactive links with a dynamic training list; *Account Deactivation Timeframe Requirements and Reminder Joint Memo to All Staff*— memo communicating benchmarks for account deactivations upon employee or contractor termination. This version includes separate provisions for the servicing HR office and/or Contracting Officer Technical Representative to notify the servicing IT office upon an employee or contractor's departure; *Prohibition of Personal E-mail for Official Communication*— policy memo prohibiting the use of personal e-mail for official Department business; *Waiver/Deviation Process*—a standard recommended taxonomy and guidelines for the use of Departmental waivers and deviations; *Password Management*—Departmental policy outlining requirements for password authentication to Department information systems; and, *FAQ Guidance #2*—frequently asked questions (FAQ) clarifying the Department's CITR implementation.

Shared Services. Launched the IT Security Shared Services initiative to explore and expand IT security common control opportunities. Established and offered a set of HCHB operating unit common controls in Awareness and Training, Physical Security, and Policy and Procedures. Developed the IT Security Shared Services Policy. Created Security Shared Services procedures that align to NIST Special Publication 800-53 control families to complement the Security Shared Services IT Security Policy.

Compliance. Completed 34 IT security assessments, exceeding the FY 2013 target of 30 assessments including IT security checks of all Department operating units. Conducted pre-assessments of six financial systems in the areas of access and configuration management controls. Engaged DHS Risk Vulnerability Assessments for an assessment of the operating unit wireless system and two additional independent assessments. Migrated from the Cyber Security Assessment and Management (CSAM) 2.0 to CSAM 3.0. Created training manuals and conducted extensive user training. Performed monthly reviews of 34 Departmental IT investments and provided IT security program compliance ratings and nine Commerce Information Technology Review Board (CITRB) reviews of IT investments. Focused efforts on the Economic Development Administration (EDA) compliance and configuration management assessments to assist in recovery and reconstitution of EDA IT security infrastructure. Successfully solicited and coordinated the DHS external network vulnerability assessment for all of the Department's operating units except the U.S. Patent and Trademark Office (USPTO).

IT Security Training. Role-based training to include instructor-led training and virtual Webinar courses on risk assessment, common controls, security categorization, risk management framework, and plan of actions and milestones, was expanded. Designated IT security administrator to handle training records management in the Commerce Learning Center (CLC) application. Integrated Department of Defense Federal Information Systems Security (ISS) Awareness Training in CLC. Launched the FY 2013 IT Security Awareness Campaign, which included security conferences, instructor-led trainings, and online Webinars. Developed an IT Security Awareness training Web page that provides the training schedule; and list of complimentary external security training opportunities. The Department Federal Virtual Training Environment (FedVTE) Community, which provides free supplemental online, on-demand cyber security training to the Department's IT security workforce, was established.

IT Investment Review Process. Since IT expenditures constitute such a large portion of the Department's annual budget (an IT portfolio of $1.64 billion for FY 2013), it is imperative that special management attention be given to the Department's proposed and continuing IT investments. This is done through an OCIO-led Capital Planning and Investment Control process to provide timely analysis of the health, risk, and performance of IT investments, including projects under development, projects recently completed and deployed, as well as of the overall performance of the IT portfolio.

This process is based on OMB Exhibit 300, "Capital Asset Plan and Business Case Summary," and Exhibit 53, "Agency IT Investment Portfolio," and has linkage to all Departmental IT planning processes and documents. In a cooperative effort with the Office of Budget and OAM, the OCIO established the OMB Exhibit 300 as the primary documentation for summarizing the business case for each IT project, and as the foundation for IT budget justifications, IT acquisition approvals, and major system reviews. This provides the Department with a consistent foundation for monitoring the selection, control, and evaluation of major IT investments, helping ensure that proposed investments contribute to the Department's strategic vision, mission requirements, and performance goals. It also helps ensure that the operating units employ sound IT investment methodologies, comply with Departmental and federal architectures, and provide the highest return on the investment at acceptable project risk.

The OCIO has worked closely with the Office of Budget to establish a framework and schedule for linking the IT investment review of proposed initiatives with the budget process. As initiatives are developed by the operating units for submission to the Department, those initiatives that have a significant IT component are reviewed by the OCIO. Major proposals are reviewed by the Department's CITRB, which is co-chaired by the CIO and the Chief Financial Officer (CFO) and Assistant Secretary for Administration, and whose members include the Department's Budget Officer, Procurement Executive, Director for the Office of Financial Management, and selected operating unit CIOs. The CITRB evaluates proposals relative to contribution to the mission, role in maintaining or achieving key performance results, IT security and privacy management and funding, risk management, acquisition strategy, the viability and appropriateness of the IT solution including conformance to Departmental and federal architectures, and overall project management. Guidance for improving project proposals is provided by the CITRB and OCIO staff. This process results in the identification of IT investment initiatives that have sound IT management proposals.

In addition to the aforementioned focus, the CITRB continues to place emphasis on the link between proposed IT investments and the qualifications of the IT project managers and contracting officers who manage the Department's IT programs. The CITRB ensures that high-quality certification and accreditation packages, which are critical to the confidentiality, integrity, and availability of the Department's IT investments, are in place. By ensuring that qualified managers are available for these programs, the risk associated with large-scale IT investments is significantly reduced. The OCIO leads a continuing training process for IT project managers, working together with the OHRM, to ensure that the Department has a pool of well-qualified IT project managers to be assigned to new or continuing projects.

As part of the Department's risk reduction efforts, the OCIO submits updated reporting and provides CIO ratings for 32 business cases to the federal IT dashboard each month, demonstrating to the public the sound management of the Department's IT investments. Based on the findings of the Department's monthly dashboard review process, an investment may be identified as requiring either a CITRB review or for a specific major problem, a TechStat. The TechStat process is a face-to-face, risk-based review by the Department's senior management that produces corrective action strategies for any of the Department's major IT investments which are underperforming or at high risk of underperforming.

On average, the Department achieved within 20 percent of its cost, schedule, and performance targets for the major IT investments undergoing development and enhancement. This was in large part due to the inability of investments to implement their original project plans due to drastic budget fluctuations in their budgets throughout the year because of the prolonged Continuing Resolution and then the sequester.

To provide rigorous analysis of cost, schedule, and performance, in support of the risk review process, the Department systematically uses Earned Value Management (EVM) data for major IT investments under development. This provides regular monitoring of the performance of Departmental projects and early warning of projects that may not be meeting cost, schedule, or performance goals, allowing course correction to bring the development effort back on track, if needed. The EVM analysis has been supported by focused training sessions on EVM techniques.

In addition, operating unit CIOs and major investment owners are required to conduct operational analyses to certify that steady-state investments meet cost, schedule, and performance goals. The operating unit reviews of proposed and continuing projects are also supplemented with formal evaluation or post-implementation reviews by the CITRB. The approach helps ensure all project managers can benefit from lessons learned from other implementation efforts.

Future Efforts

The Department is actively proceeding with future plans to respond to the ever changing IT security environment.

Using new and existing tools and programs, the Department will continue to address significant areas of deficiency and strengthen its IT security posture in FY 2014. The Department will leverage the ECMO tool to gain visibility and oversight of continuous monitoring throughout the Department. The Department will also work to launch the ESOC to centralize management of IT security-related events and continue to implement the PIV program to deliver multifactor logical access to Office of the Secretary users.

The Department will continue to leverage its CSAM tool to track and manage risk and identify IT security weaknesses. The HCHB IT Security Shared Services working group will continue to identify common controls and shared services to improve and standardize IT security controls within participating bureaus. The Department is also moving forward with plans to update and revise the Department's standards and policies as new guidelines become available.

In conclusion, the OCIO is able to provide reasonable assurance that management controls are in place and operating effectively to oversee and manage the Department's significant investments in IT. Where the cost, schedule, or performance goals of IT investments are not yet being fully achieved, the processes in place have detected the problems and directed corrective action.

Other Internal Control Enhancement Activities Continue

During FY 2013, the Department's OMB Circular A-123 Appendix A review and assessment included the following:

- Utilized the Senior Management Council to implement, direct, and oversee the assessment process, and the Senior Assessment Team to develop OMB Circular A-123 planning documentation, administer internal control test plans, and monitor and review the test work;
- Updated Departmental sampling plan and Department-wide testing templates for selected key processes/sub-processes;
- Each of the Department's bureaus has completed an entity-level controls assessment as required by OMB Circular A-123, Appendix A;
- Utilized contractor assistance with performing quarterly validation and verification of acquisition and administrative savings including selecting samples and reviewing supporting documentation;
- Analyzed the results of the overall effort to assess and document the adequacy of the Department's internal controls in order to develop the annual statement of assurance issued by the Secretary and published in the FY 2013 Agency Financial Report;
- Utilized contractor assistance with consolidating and analyzing the OMB Circular A-123 Appendix A review lead sheet at each of the applicable bureaus including assessing and documenting the findings and recommendations for corrective actions (if applicable) at the Department level; and
- Initiated the planning phase of the creation of the Office of Forensic Accounting (OFA). Throughout FY 2013, the Department has performed research into best practices in order to develop the roles and duties of OFA.

SECTION 4 OF FMFIA – INTERNAL CONTROLS OVER FINANCIAL MANAGEMENT SYSTEMS

As reflected in the following table, the Department has reported no material weaknesses under FMFIA Section 4 in recent years.

NUMBER OF MATERIAL WEAKNESSES UNDER SECTION 4

	NUMBER AT BEGINNING OF FISCAL YEAR	NUMBER CORRECTED	NUMBER ADDED	NUMBER REMAINING AT END OF FISCAL YEAR
FY 2009	0	0	0	0
FY 2010	0	0	0	0
FY 2011	0	0	0	0
FY 2012	0	0	0	0
FY 2013	0	0	0	0

Based on reviews conducted by the Department and its bureaus for FY 2013, the financial systems in the Department are compliant with GAO principles and standards, the requirements of the CFO Act, and OMB requirements.

FEDERAL FINANCIAL MANAGEMENT IMPROVEMENT ACT (FFMIA) OF 1996

Under FFMIA, the Department is required to have financial management systems that comply with federal financial management system requirements, federal accounting standards, and the U.S. Government Standard General Ledger at the transaction level. In FY 2013, the Department remained in compliance with FFMIA.

REPORT ON AUDIT FOLLOW-UP

The Inspector General Act, as amended, requires that the Secretary report to Congress on the final action taken for Inspector General audits. This report covers Commerce Department audit follow-up activities for the period June 1, 2012, through May 31, 2013.

SUMMARY OF ACTIVITY ON AUDIT REPORTS
JUNE 1, 2012 THROUGH MAY 31, 2013

	DISALLOWED COSTS[1]		FUNDS TO BE PUT TO BETTER USE[2]		NONMONETARY REPORTS[3]	TOTAL
	NUMBER OF REPORTS	DOLLARS	NUMBER OF REPORTS	DOLLARS	NUMBER OF REPORTS	REPORTS
Beginning Balance	20	$ 28,822,087	3	$ 709,996	27	50
New Reports	25	17,846,288	7	64,942,838	24	56
Total Reports	45	46,668,375	10	65,652,834	51	106
Reports Closed	(14)	(8,617,789)	(3)	(300,501)	(23)	(40)
Ending Balance	31	$ 38,050,586	7	$ 65,352,333	28	66

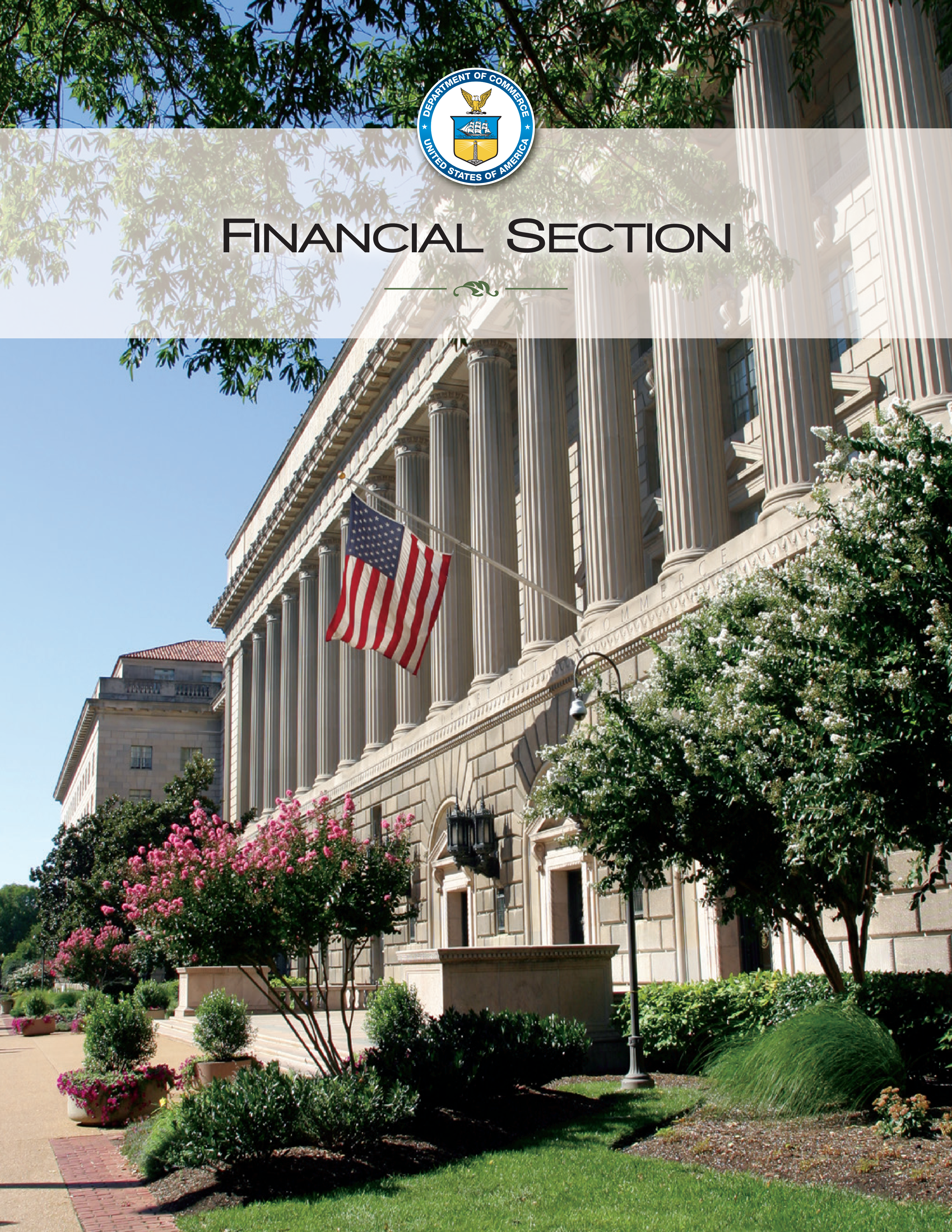
1. Disallowed costs are questioned costs that management has sustained or agreed should not be charged to the government.
2. "Funds to be Put to Better Use" refers to any management action to implement recommendations where funds should be applied to a more efficient use.
3. Includes management, contract, grant, loan, and financial statement audits with nonmonetary recommendations.

BIENNIAL REVIEW OF FEES

OMB Circular A-25 Revised, *User Charges*, requires the biennial review of agency programs to determine whether fees should be charged for government goods or services, and to ascertain that existing charges are adjusted to reflect unanticipated changes in costs or market values.

The Department's bureaus conduct reviews of its programs at least biennially, with some bureaus conducting annual reviews. The Department is in compliance with the requirement to adjust its fees to meet the Circular A-25 Revised requirement of full-cost recovery for user charges.

FINANCIAL SECTION



Message from the Chief Financial Officer

This FY 2013 Agency Financial Report provides financial and high-level program performance information to enable the Department's stakeholders to understand and evaluate the Department's achievements relative to its mission and resources. The Department is committed to operational excellence and providing outstanding service to our customers. This includes providing the public with highlights of our performance, and detailed financial information. This report also fulfills several statutory requirements, including the Reports Consolidation Act of 2000, the Chief Financial Officers Act, the Federal Managers' Financial Integrity Act (FMFIA), and the Government Management Reform Act.

For FY 2013, the Department achieved an unqualified audit opinion for the fifteenth consecutive year. The Department made significant progress toward remediating the material weakness identified in FY 2012 related to the National Oceanic and Atmospheric Administration (NOAA) financial management oversight. These efforts resulted in the material weakness being reduced to a significant deficiency relating to the accounting for property at NOAA. The Department continued to have a significant deficiency in Department-wide information technology (IT) relating to segregation of duties, access controls, and configuration management. We will continue making improvements as it relates to the accounting for property and IT, and will continue to aggressively strengthen those controls in FY 2014.

The Department is enhancing financial and non-financial controls under FMFIA and Office of Management and Budget (OMB) Circular A-123. The Department has provided an unqualified statement of assurance that its internal controls and financial management systems meet the objectives of FMFIA, and that internal controls operated effectively.

The Department's leadership continues its commitment to our employees and to providing our employees the tools and services they need to meet our mission. This includes streamlining internal processes and providing more effective enterprise approach for our key services. This will not only allow for better service delivery, but also smarter and more efficient, effective use of taxpayer resources.

For example, in 2013 we continued to implement our enterprise-wide Human Resource System, moving from a manual-based human resource system into one Department-wide solution, with full implementation expected by the end of FY 2014. In FY 2013 we began the planning phase of the Business Application Solutions (BAS), which is an enterprise shared service approach with a federal partner agency. BAS will result in Department-wide data standardization supporting data transparency and enhanced information analysis and decision-making. We also fully implemented the Acquisition Improvement Policy, which is a Department-wide effort to provide more effective and timely oversight of major acquisition activities. We did this all while exceeding our target of $176 million in administrative savings.

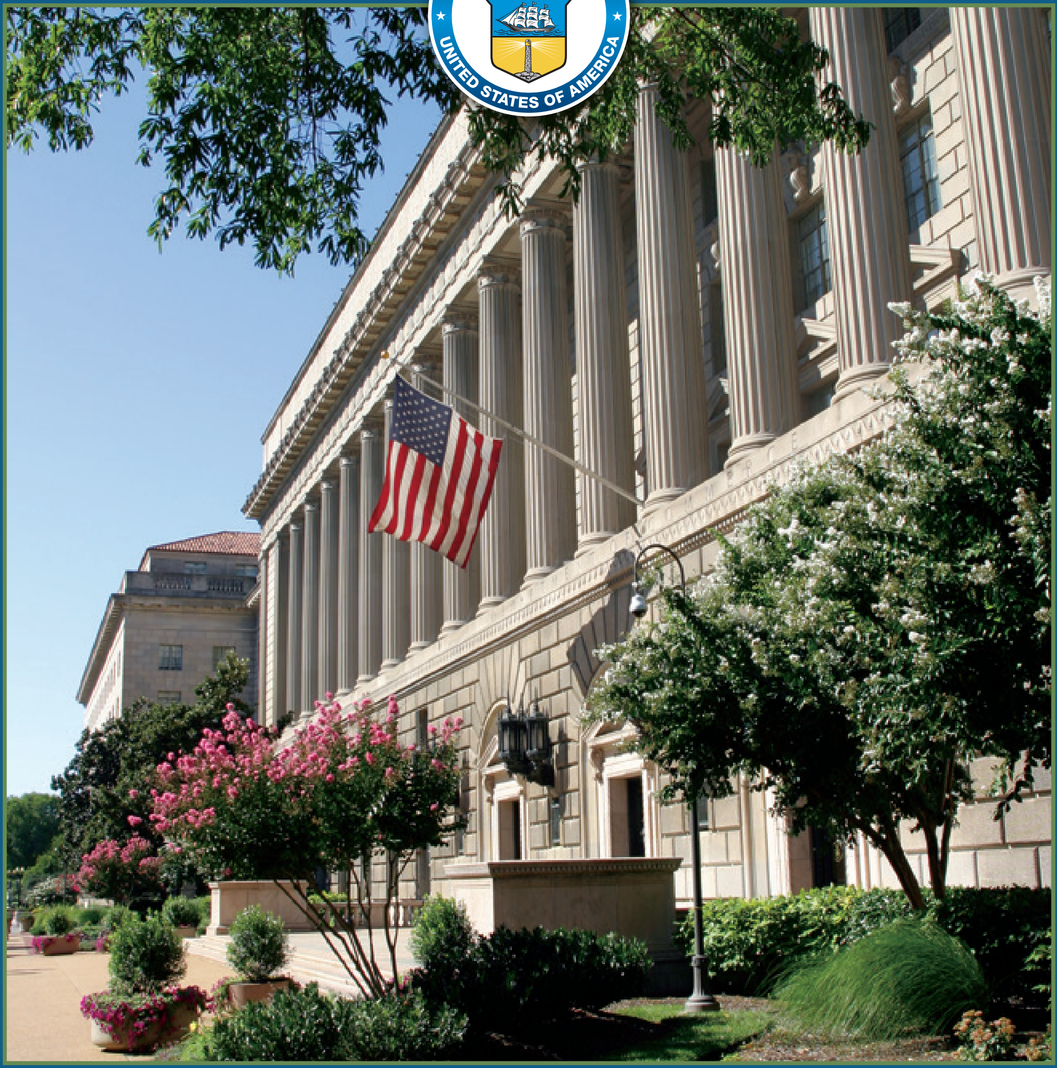
These are just a few examples that our talented and diverse workforce has demonstrated in FY 2013, with their commitment to integrity, first-rate customer service, effective stewardship of taxpayer resources, and overall operational excellence. We will continue this commitment in FY 2014. Our updated Strategic Plan which will be available in 2014 will provide direction for new initiatives and priorities and position the Department for continued success in the years ahead.

Ellen Herbst

Ellen Herbst
Chief Financial Officer
and Assistant Secretary for Administration
December 16, 2013

FINANCIAL SECTION

Financial Management and Analysis



FINANCIAL MANAGEMENT AND ANALYSIS

Under the Secretary's leadership, the Department is continuing to give the highest priority to providing accurate financial data to its internal and external customers, and to its accountability for all assets. Ensuring that there are strong internal controls throughout the Department remains a priority. The Department has created a financial management environment that complies with federal laws and regulations and that provides its executives with timely, accurate financial and performance information. This is evidenced with the Department continuing to receive unqualified audit opinions, maintaining a single integrated financial system, and continuing its compliance with the Federal Financial Management Improvement Act (FFMIA).

Highlights of accomplishments for FY 2013 and future initiatives are discussed further below.

FINANCIAL MANAGEMENT SYSTEMS

The Department maintains an FFMIA-compliant financial management system, the Commerce Business Systems (CBS). CBS provides reliable, timely information within a sophisticated security infrastructure. The system is capable of producing both financial and budget reports from information generated within the financial management system. CBS consists of a Core Financial System, including the Commerce Purchase Card System and the Budget and Execution Data Warehouse. CBS is interfaced with the Commerce Standard Acquisition and Reporting System (CSTARS), the National Finance Center Payroll System, and the Automated Standard Application for Payments (ASAP).

The financial information from CBS is integrated in the Corporate Database for consolidated financial reporting, resulting in a single integrated financial management system. The Corporate Database is a commercial, off-the-shelf software package for consolidating financial data and producing financial reports. The Corporate Database is an integrated solution that provides financial statements and Adjusted Trial Balances reported at the Department, bureau, and U.S. Department of the Treasury (Treasury) Appropriation/Fund Group level. It also provides the ability to perform data analysis and produce the Department's footnotes, financial analysis reports, and other additional information required for the government-wide financial statements.

During FY 2013, the Department accomplished the following initiatives:

- Continued Operations and Maintenance (O&M) activities for CBS;
- Continued definition and planning for the Business Application Solutions (BAS) project that will modernize the Department's financial and administrative business systems;
- Completed Initiation and Discovery phases for BAS, including engagement with the U.S. Department of Transportation's (DOT) Enterprise Services Center (ESC) to explore the feasibility of the Department using the DOT ESC Federal Shared Service Provider (FSSP) solution to modernize the Department's core financial, acquisition, property, and data warehouse capabilities;
- Began the Planning phase to develop detailed plans for the implementation of BAS;
- Continued maintenance for the C.Suite application—CSTARS contract writing and management system—for the National Oceanic and Atmospheric Administration (NOAA), Office of the Secretary, National Institute of Standards and Technology (NIST), and the Census Bureau;

- Completed the design, development, and testing of the Six-digit U.S. Standard General Ledger, Accelerated Payments to Small Businesses, Summary Level Transfer, and ASAP modifications to CBS and deployed into production;

- Continued design and development of modifications to CBS to accommodate several new federal mandates, including the Government-wide Treasury Account Symbol Adjusted Trial Balance System (GTAS), Payment Application Modernization (PAM), and Central Contractor Registration – System for Award Management (CCR-SAM);

- Completed several technical CBS upgrades, including Fusion Middleware/WebLogic and Single Sign On to Oracle Access Manager upgrade;

- Completed the Oracle database migration to 11g and the upgrade of two of the three bureau's production environment hardware and operating systems;

- Continued enhancement of the Commerce Community Connector, a central location for the Department's financial and administrative management communities to share information about best practices, challenges and solutions, and deadlines;

- Deployed the production version of the Process Toolbox that describes processes and provides the tools, templates, and samples to support the effective management of initiatives and provide guidance on how to perform project management and solution deployment activities;

- Deployed content for the Department's Enterprise Risk Management (ERM) Framework in the Process Toolbox that describes processes and provides the tools, templates, and samples to support the effective enterprise risk management in compliance with Department-approved ERM processes;

- Deployed the redesigned Project Dashboard that provides a Web-based, online graphical view of the Chief Financial Officer (CFO)/Assistant Secretary for Administration (ASA) Information Technology (IT) project portfolio, supports communication of project status, provides a project document repository, and facilitates IT project status review processes;

- Completed an inventory and analysis of all CFO/ASA IT systems and projects to support effective IT system portfolio management and decision-making;

- Created an initial draft of the CFO/ASA IT Governance Framework (in alignment with the Department Acquisition Framework Policy) to inform and support IT system and project decision-making and CFO/ASA IT planning, policy, and operations; ensure that risks are managed appropriately; and verify that resources are being used responsibly and strategically;

- Continued to assess the Invoice Processing Platform (formerly known as Internet Payment Platform) solution approach and next steps; and

- Maintained and enhanced the Department's Executive Dashboard application (DASHER). The DASHER provides a Department-wide, executive-level overview of the Department's highest priority and highest risk mission and administrative initiatives, including High-Priority Performance Goals, Risk Management, Financial Management, Customer Service, Human Capital and Administrative Metrics, as well as more Operational Initiatives such as Acquisition Metrics, Sustainability, and Program Results.

In FY 2014 and beyond, the Department will continue its efforts to enhance its financial systems. The Department plans to accomplish the following:

- Continue O&M activities for CBS;
- Continue Planning phase and begin Phase I Implementation for BAS;
- Continue stakeholder outreach, incorporate stakeholder feedback, and include additional process guidance in the production version of the process;
- Complete the design, development, and testing of the GTAS, PAM, ASAP Phase 2, and CCR-SAM modifications to CBS and deploy into production;
- Deploy content for the Department Acquisition Framework Policy in the Process Toolbox that describes processes and provides the tools, templates, and samples to support stakeholder communication and organizational compliance with Department-approved policy;
- Develop the initial functional and technical design for the redesigned Modernization Blueprint Portal that will provide CFO/ASA IT system portfolio information;
- Continue to maintain and enhance the DASHER; and
- Maintain and enhance the Commerce Community Connector.

FINANCIAL REPORTING

The Department accomplished the following initiatives that resulted in meeting the aforementioned goals:

- In 2013, the Department completed payment recapture audits of contracts/obligations for NIST and NOAA, and Department-wide grants and other cooperative agreements;
- Each of the Department's bureaus/reporting entities continued to prepare or update improper payment risk assessments covering all programs/activities as required by the Office of Management and Budget (OMB) Circular A-123, Appendix C, *Requirements for Effective Measurement and Remediation of Improper Payments*. These improper payment risk assessments of the entity's programs/activities also include assessments of the control, procurement, and grants management environments, and are now in the continuous process stage of being updated every three years, unless significant changes occur, in which case an assessment will be updated more quickly;
- Implemented in FY 2013, for applicable bureau payment offices, pre-payment eligibility reviews in Treasury's Do Not Pay portal solution;
- Implemented, effective FY 2013, for NIST and NOAA, Technical Bulletin 2006-1, *Recognition and Measurement of Asbestos-related Cleanup Costs*, which clarifies required recognition of liabilities and expenses for asbestos-related cleanup costs;

- Piloted, across the Department, full reporting of accounting information on a transactional basis in Treasury's financial systems;

- Continued to review and validate conference spending to confirm accuracy and compliance with Department policies, Federal Travel Regulation (FTR), Federal Acquisition Regulation (FAR), and regulations promulgated by other regulatory bodies;

- Facilitated intragovernmental transaction reconciliations using the Department's Corporate Database application to collect, extract, and report on a quarterly basis its intragovernmental account balances, by trading partner, to Treasury. The Department took a proactive approach of initiating contact with all trading partner agencies to reconcile large differences. Although the Department has seen an improvement in trading partners' participation, continued improvement is needed in order to reconcile all differences;

- Quarterly financial metrics were compiled, analyzed, and reported to individual bureaus, which also included a status report comparing bureau results with Departmental goals. The results of bureaus' metrics and any corrective actions needed were discussed at the bureau CFO's individual monthly meetings; and

- Published guidance on the preparation and submission of financial statements, including a calendar of milestone dates. Each quarter, with the participation of all bureaus, guidance was reviewed and updated to reflect lessons learned and to identify best practices among the bureaus. When necessary, task forces were formed to resolve issues that could have impeded the Department's ability to produce timely, accurate financial statements.

In FY 2014 and beyond, the Department plans to accomplish the following:

- Continue to monitor and minimize improper payments, including the performance of payment recapture audits, and carry out the FY 2014 implementation for applicable bureau payment offices of pre-payment eligibility reviews in Treasury's Do Not Pay portal solution;

- Improve the appropriate use of the Purchase Card Convenience Checks by continuing to monitor and evaluate compliance of the Department's Purchase Card Convenience Check usage with FAR, OMB Circular A-123 Appendix B Revised, *Improving the Management of Government Charge Card Programs*, and Commerce Acquisition Manual 1313.301, *Purchase Card Program*;

- Implementation across the Department of full reporting of accounting information on a transactional basis in Treasury's financial systems;

- Improve safeguards and internal controls regarding the Department's overall travel card program through the development of data analytics methodologies and metrics that will be used to monitor travel card transactions;

- Continue to work with OMB, Treasury Department, and the government-wide Central Reporting Team to improve the intragovernmental transactions reconciliation process; and

- Continue to work with the Treasury Department to implement GTAS for production FY 2015, except for U.S. Patent and Trademark Office (USPTO), which will be implementing GTAS in FY 2014 for expenditure fund groups.

GRANT MANAGEMENT

Under the CFO/ASA, the Office of Acquisition Management (OAM) is responsible for the Department's enterprise-wide grants management policy, projects, and oversight. The Department's focus is to standardize policies and procedures for its grant and cooperative agreement programs in order to strengthen compliance, work toward a single automated grants management system, and enhance/formalize workforce education. Targeted efforts continue to transform the decentralized Department grants management community into an effective and efficient partnership. The sharing of resources and responsibilities to accomplish enterprise goals is a recurring theme throughout the partnership effort.

An important feature of the Department's effort to move aggressively into the world of electronic grants management is the continued use of NOAA's Grants OnLine system. NOAA administers almost two-thirds of the Department's financial assistance programs. Grants OnLine is designed to facilitate efficiencies through standardized business processes and provide a direct interface to other Departmental systems and with grant recipients. It continues to demonstrate significant success in reducing paperwork, increasing accountability, and simplifying the post award process.

The Department is in the process of migrating NIST and the Economic Development Administration (EDA) to NOAA's Grants Online. The current stove piped configuration of separate bureau grant management systems is not conducive to maximum efficiency in resource and time management. At this point, EDA has completed its charter for consolidation with Grants OnLine and NIST is in the process of completing its charter.

OAM coordinates regular Departmental Grants Council meetings and works closely with the Office of Inspector General (OIG) and the Office of General Counsel (OGC) to implement sound policy and ensure consistency for the Department's financial assistance programs. The Department is committed to the goal of strengthening its grant operations and improving its business processes to provide better services to its customers in the federal grant recipient community, and the Grants Council is OAM's platform for achieving that goal.

The Department revised its Pre-Award Notice, Grants, and Cooperative Agreements Manual (Grants Manual), and Standard Terms and Conditions resulting in the publication of these three critical policy guidance documents in the second quarter of FY 2013. OAM has established a schedule that updates these policy guidance documents on an annual basis that will keep the Department on pace with the rapidly changing federal financial assistance programs.

The Grants Overview, established in FY 2012, strengthens oversight and provides insight into the extent to which the Department grants management process functions efficiently and effectively. The Grants Overview examined the status of awards by dollars in various phases of the grants management process. Risk factors were identified and shared with the Department grants community.

One of the risk factors identified by the Grants Overview revealed the significant backlog of expired and unexpired financial assistance awards that are pending closeout but the recipient organization is no longer in existence or is unresponsive to bureau notifications and requests for information and documentation relative to the closeout of the award. Accordingly, this information was shared with the Department grants community via the Grants Council and a tiger team was established to resolve the issue. As a result of this team's efforts, the *Policy for the Unilateral Termination and/or Administrative Closeout of Certain Financial Assistance Awards when a Recipient is No longer in Existence or is Unresponsive to Bureau Notifications and Requests for Information* was implemented in August 2013. The guidance provides a policy for Department Grants Officers to effectuate a unilateral termination and/or an administrative closeout of:

1. Expired and unexpired awards pending closeout where the recipient is no longer in existence; and
2. Expired awards pending closeout where the recipient is in existence, but is unresponsive to bureau notifications and attempts to contact.

This guidance does not apply to unexpired awards where the recipient is in existence, but is materially non-compliant with the terms and conditions of the award. In such cases, Grants Officers should take appropriate enforcement action under the award in accordance with 15 C.F.R. §§ 14.60 – 14.62 or 15 C.F.R. 24.43 (as applicable); the terms and conditions of the award; Chapter 11, 'Enforcement," of the Grants Manual; and bureau policy. Once an active award is terminated, such an award may become subject to this guidance.

This guidance also does not apply to recipients that are a party to an active bankruptcy case which, in accordance with Chapter 4.C.1.b.(4) of the Grants Manual should be coordinated with OGC's General Litigation Division with such coordination generally through OGC's Federal Assistance Law Division (FALD). OGC's General Litigation Division (through FALD) will also be consulted where a recipient is dissolved or reorganized upon an order of the U.S. Bankruptcy Court.

Preliminary feedback from Department bureaus suggests that this new policy should facilitate expedited closeout of awards that fall within this category.

The Grants Overview also includes tracking of pre-award and post-award requirements such as audit resolution and compliance with negotiated indirect cost rate requirements. The Overview monitors and analyzes these two phases with monthly reports intended to prompt closer monitoring of the financial assistance award. These are just some of the examples of key activities of the grants life cycle addressed by the Grants Overview and the Grants Council. Note: in FY 2013 OAM transferred the responsibility for the negotiation of indirect cost rates back to the respective grant-making bureaus. The Departmental review concluded that decentralizing this function by moving it back to the bureau grant offices responsible for enforcing the requirement would result in stronger monitoring and a more efficient business process.

The Grants Overview is regularly updated and serves as a framework for OAM's effort to reach out to the Department's grant-making bureaus to energize the oversight relationship. It has served as the basis for meetings and ongoing dialogue with each Department bureau to create a path forward for the development of more efficient business practices and tighter internal controls in the administration of Departmental financial assistance awards.

As of FY 2013, the Department continues to be up-to-date with its three major grant making bureaus—NIST, NOAA, and EDA—providing accurate and complete prime federal award financial data to USAspending.gov, consistent with the goal established in the FY 2008 Performance and Accountability Report. The data is downloaded from their respective core financial systems and uploaded monthly to USASpending.gov through the Data System Validation Tool. In June 2013, the Deputy Controller of OMB transmitted a memorandum to all agency CFOs in an effort to improve the quality of financial data reported to USASpending.gov. The Department is in complete compliance with this directive.

OAM will continue to actively seek opportunities to support government-wide goals of transparency and data quality management.

HUMAN CAPITAL

Both the President and Congress recognize that the federal workforce is central to the delivery of services to the U.S. public. Acknowledging that people are the key to mission accomplishment, Departmental leadership continues to implement and evaluate programs to ensure that there is succession planning in the area of financial management. Internships, leadership development programs, technical training opportunities, telework, and succession plans are used as vehicles for making progress in the recruitment, development, and retention of a highly-skilled and diverse workforce. Internship programs provide students and recent graduates an opportunity to gain hands-on experience, while introducing potential future employees to the opportunities that exist at the Department. Ongoing training and development opportunities are offered as a component of continuous learning in the area of financial management. Telework is encouraged as a means of promoting a healthy work/life balance for sustainable productivity. Succession plans are used to ensure a continuity of operations within the most critical financial management positions.

The Department continued its recruitment efforts in the area of financial management by hiring student and recent graduate trainees through the Pathways Programs—the Internship Program, Recent Graduates Program, and Presidential Management Fellows Program. Collectively, these programs offer federal internships for students in high school through post-graduate school and career opportunities for recent graduates, providing meaningful training and career development opportunities for individuals who are at the beginning of their federal service. In FY 2013, the Department hosted 14 Pathways Programs trainees as accountants and budget analysts, including seven new hires and two who were converted to permanent positions. Trainees were located within finance and accounting offices in the Bureau of Economic Analysis, Census Bureau, International Trade Administration, and NOAA.

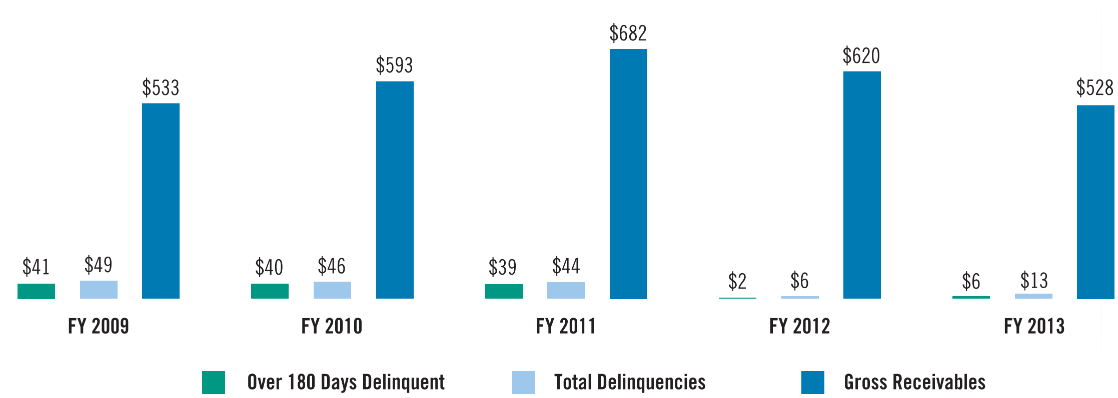
Developmental opportunities for financial management professionals included the Department's flagship leadership development programs, online training courses, and traditional classroom courses and seminars. As one of the Department's recognized mission-critical occupations, accounting and budgeting series employees at the GS-13 through GS-15 and equivalent levels are eligible to apply for the following major leadership development programs: Executive Leadership Development Program and Senior Executive Service Candidate Development Program. Program activities include competency assessments, formal classroom training, developmental assignments, seminars, action learning task team projects, and mentoring sessions. The Commerce Learning Center (CLC), the Department's Learning Management System, offers 69 Department-wide and bureau-specific online financial management courses that were completed by 71 employees in the 0500 accounting and budgeting occupational group and by an additional 502 employees in other occupations, during FY 2013. The CLC also recorded 187 employees in the 0500 occupational group attending 77 financial management classroom courses.

To maintain a highly-skilled financial management workforce, the Department's retention and succession strategies include the increased use of telework and development of succession plans. In FY 2013, approximately 32 percent of accounting and budgeting employees engaged in telework, which is used by the Department to position itself as an "employer of choice" in attracting qualified employees, facilitating employee work/life balance, increasing employee satisfaction and engagement, and ultimately increasing employee productivity. Additionally, in accordance with the Balanced Scorecard's Workforce Excellence guidance, the Office of the Secretary's Office of Financial Management has developed a succession plan that focuses on high-impact, high-risk positions. The plan will be incorporated into the CFO/ASA Succession Plan by the end of FY 2013.

RECEIVABLES AND DEBT MANAGEMENT

The Department provides policies and procedures for the management and collection of non-tax debts owed to Departmental entities in its debt collection regulations, *Commerce Debt Collection*, which adopts and incorporates all provisions of the Federal Claims Collections Standards (FCCS), which were jointly published by Treasury and the U.S. Department of Justice. The Department's debt collection regulations supplement FCCS by prescribing procedures consistent with FCCS, as necessary and appropriate for Departmental operations. FCCS clarifies and simplifies federal debt collection procedures and reflects changes under the Debt Collection Improvement Act of 1996 and the General Accounting Office Act of 1996. The Department also provides guidance for debt management and collection in its *Credit and Debt Management Operating Standards and Procedures Handbook*, to ensure that consistent debt management practices are established and followed throughout the Department, and to establish and enhance Departmental management practices.

GROSS RECEIVABLES *(In Millions)*

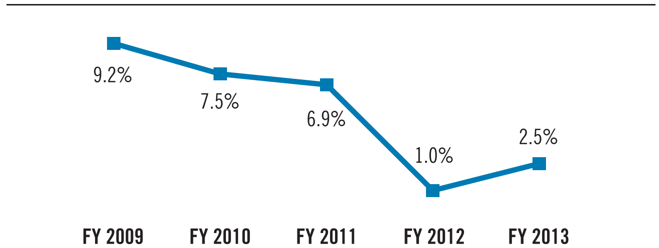


The Debt Collection Improvement Act of 1996 established Treasury as the collection agency for eligible federal agency debts that are more than 180 days delinquent. It also established Treasury's Financial Management Service as the federal government's debt collection center.

The Department's gross receivables decreased 14.8 percent, from $620 million at September 30, 2012 to $528 million at September 30, 2013, as reported on the Department's Treasury Report on Receivables (TROR). TROR is the primary means for the Department to provide comprehensive information on its gross receivables and delinquent debt due from the public. Debt over 180 days delinquent increased from $2 million at September 30, 2012 to $6 million at September 30, 2013. Total delinquencies as a percentage of gross receivables increased from 1.0 percent at September 30, 2012 to 2.5 percent at September 30, 2013. Approximately $47 million in delinquent debt has been referred to Treasury for cross-servicing since FY 2002.

Prescreening procedures, account-servicing standards, determined collection of delinquent debt, and extensive referrals of delinquent debt to Treasury which includes the Treasury Offset Program have all contributed to effective debt management.

TOTAL DELINQUENCIES AS A PERCENTAGE OF GROSS RECEIVABLES

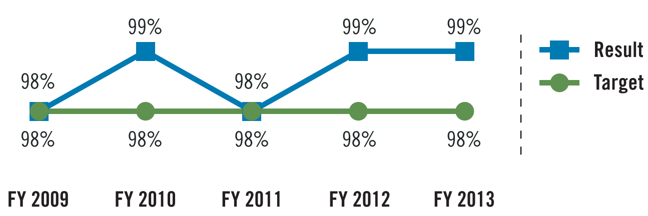


PAYMENT PRACTICES

Prompt Payment

The Prompt Payment Act of 1982 generally requires agencies to pay their bills to vendors on a timely basis (within 30 days of receipt of relevant documents), and to pay interest penalties when payments are made late. The Department closely monitors its prompt payment performance, and the bureaus submit quarterly reports of prompt payment performance to the Deputy CFO.

TIMELY VENDOR PAYMENT *(Percentage)*



The Department has maintained its prompt payment performance of 99 percent in FY 2013 from 99 percent in FY 2012. The number of invoices with late-payment interest penalties decreased significantly to 1,994 in FY 2013 from 2,562 in FY 2012. The Department continues to focus on improving its prompt payment percentage by working closely with its bureaus to identify opportunities for new or improved business processes. Most of the Department will be transitioning to DOT ESC which will become the Department's federal shared-service provider for accounting services. As such, the Department would in large part adopt ESC's Internet-based invoice processing system. USPTO will not be transitioning to ESC, and will instead maintain its own financial system. USPTO is planning to kick off a series of projects starting in 2015 with the purpose of implementing an Internet-based invoice processing system.

A July 2012 OMB memorandum, *Providing Prompt Payment to Small Business Subcontractors*, established the executive branch policy, that, to the full extent permitted by law, agencies shall take steps to ensure that prime contractors are able to pay their small business subcontractors in a prompt fashion. In particular, agencies should, to the full extent permitted by law, temporarily for one year accelerate payments to all prime contractors, in order to allow them to provide prompt payments to small business subcontractors. Agencies shall make payments to all prime contractors as soon as practicable, with a goal of paying all prime contractors within 15 days of receiving proper documentation. The Department implemented in July 2012 this new payment policy for all prime contractors, and is monitoring bureaus' monthly performance. A July 2013 OMB memorandum, *Extension of Policy to Provide Accelerated Payment to Small Business Subcontractors*, extends the temporary policy by one year, to July 11, 2014. This extension will allow OMB and agencies to continue to evaluate the impact of accelerated payment on small business subcontractors. The Department's acquisition offices are also taking appropriate actions with prime contractors regarding new and existing contracts to help maximize accelerated payments to small business subcontractors.

Bankcards

The Department is committed to the use of bankcards (purchase cards) as a means to improve mission support by streamlining the procurement and payment processes, and reducing administrative costs. The Department has implemented more effective training, oversight, and risk management reviews in order to enhance the purchase card program. Purchase card usage is closely monitored, and those accounts that are no longer needed are promptly closed. In addition, purchase card accounts without any activity within the preceding 18-month period are considered "inactive" and are closed unless there are extenuating circumstances. More customized training requirements for cardholders, approving officials, and program coordinators have been instituted in order to enhance knowledge of the use and management of the purchase card, administration of the purchase card program, and card maintenance. This has contributed to a steady decrease in the number of purchase cards issued and in use by the Department.

Based on the results of OMB Circular A-123, *Management's Responsibility for Internal Control*, Appendix A testing by the Department in FY 2012, the purchase card sub-process continued to present a significant deficiency for the Department. During FY 2013, OAM updated its purchase card policy to enhance the review and approval process. The Department also developed and implemented a customized in-class training curriculum and is in the process of developing online purchase card refresher training. The Department is additionally working closely with bureaus to ensure that appropriate planned corrective actions were implemented on time. The Department will continue to monitor the internal controls surrounding the purchase card program and perform the necessary testing to validate whether the proper controls are in place during FY 2014.

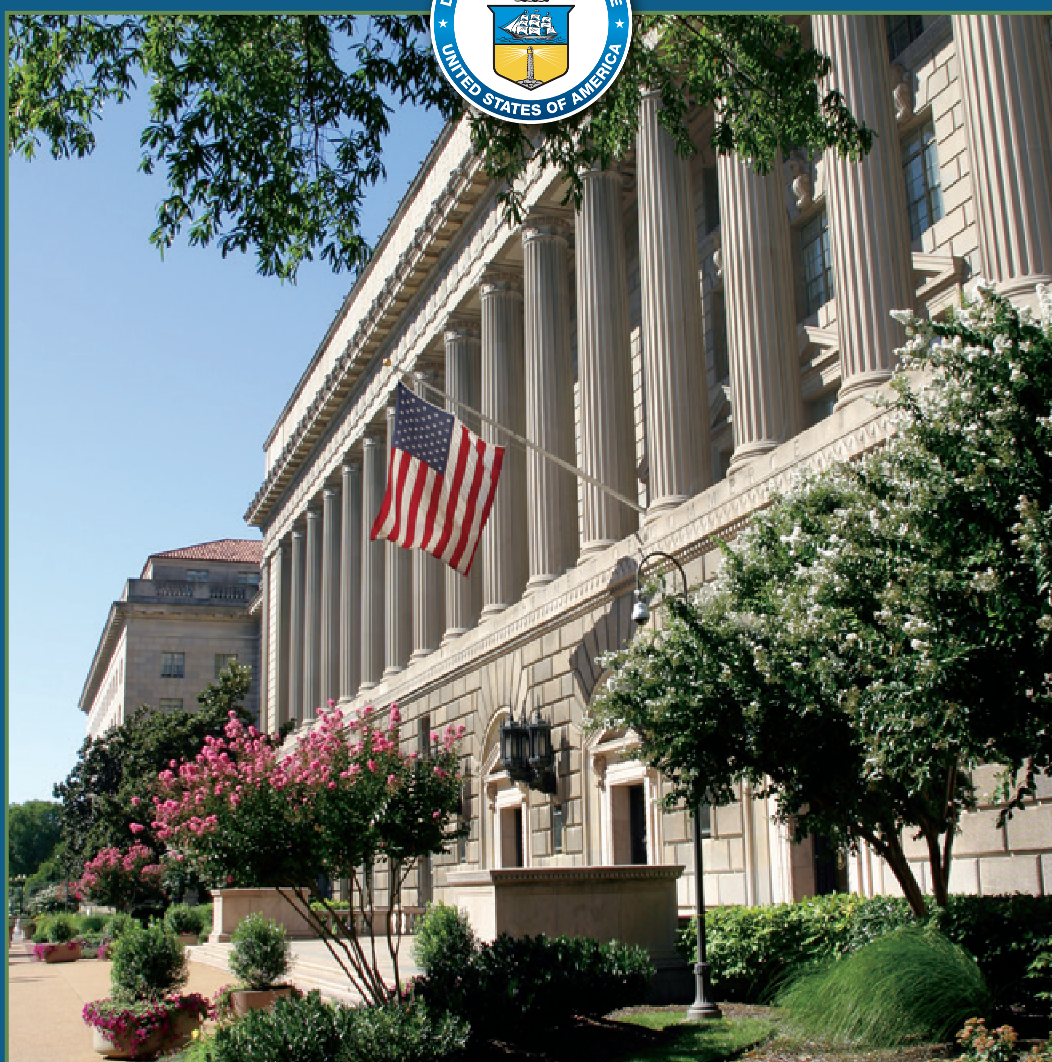
LIMITATIONS OF THE FINANCIAL STATEMENTS

These financial statements have been prepared to report the overall financial position and results of operations of the Department, pursuant to the requirements of 31 U.S.C. 3515(b). While the statements have been prepared from the books and records of the Department in accordance with the form and content prescribed by OMB, the statements are in addition to the financial reports used to monitor and control budgetary resources that are prepared from the same books and records.

These financial statements should be read with the realization that they are for a component of the U.S. government, a sovereign entity. One implication of this is that liabilities cannot be liquidated without legislation that provides the resources to do so.

FINANCIAL SECTION

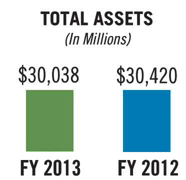
Analysis of FY 2013 Financial Condition and Results

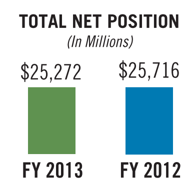


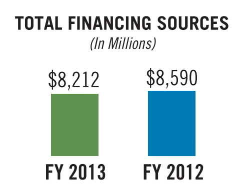
ANALYSIS OF FY 2013 FINANCIAL CONDITION AND RESULTS

Financial Highlights

(Dollars In Thousands)	Percentage Change	FY 2013	FY 2012
As of September 30, 2013 and 2012			
Condensed Balance Sheets:			
ASSETS:			
Fund Balance with Treasury	-7%	$ 18,002,497	$ 19,261,281
General Property, Plant, and Equipment, Net	11%	11,103,844	10,000,512
Direct Loans and Loan Guarantees, Net	-6%	533,692	570,348
Other	-32%	398,278	587,406
TOTAL ASSETS	**-0.1%**	**$ 30,038,311**	**$ 30,419,547**
LIABILITIES:			
Unearned Revenue	5%	$ 1,461,122	$1,386,503
Federal Employee Benefits	5%	897,191	851,211
Accounts Payable	13%	513,815	452,901
Accrued Grants	-16%	536,711	635,856
Debt to Treasury	4%	575,603	554,281
Accrued Payroll and Annual Leave	-19%	467,706	580,715
Other	30%	314,082	241,846
TOTAL LIABILITIES	**1%**	**$ 4,766,230**	**$ 4,703,313**
NET POSITION:			
Unexpended Appropriations	-20%	$ 5,340,879	$ 6,716,434
Cumulative Results of Operations	5%	19,931,202	18,999,800
TOTAL NET POSITION	**-2%**	**$ 25,272,081**	**$ 25,716,234**
TOTAL LIABILITIES AND NET POSITION	**-0.1%**	**$ 30,038,311**	**$ 30,419,547**
For the Years Ended September 30, 2013 and 2012			
Condensed Financing Sources:			
Appropriations Received, Net of Reductions	-2%	$ 7,733,541	$ 7,878,808
Imputed Financing Sources from Cost Absorbed by Others	-1%	295,288	297,694
Other	-56%	183,372	413,840
TOTAL FINANCING SOURCES	**-4%**	**$ 8,212,201**	**$ 8,590,342**







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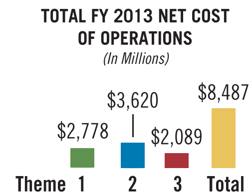
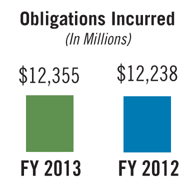
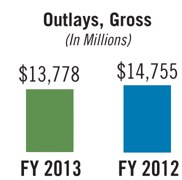
(Dollars In Thousands)	**Percentage Change**	**FY 2013**	**FY 2012**
For the Years Ended September 30, 2013 and 2012			
Condensed Statements of Net Cost:			
Theme 1: Economic Growth Net Program Costs	-29%	$ 2,778,159	$ 3,902,083
Theme 2: Science and Information Net Program Costs	-0.4%	3,619,659	3,635,663
Theme 3: Environmental Stewardship Net Program Costs	-3%	2,089,217	2,144,275
TOTAL NET COST OF OPERATIONS	**-12%**	**$ 8,487,035**	**$ 9,682,021**
Total Gross Costs	-7%	$ 12,056,144	$ 13,018,305
Less: Total Earned Revenue	7%	(3,569,109)	(3,336,284)
Total Net Cost of Operations	**-12%**	**$ 8,487,035**	**$ 9,682,021**
For the Years Ended September 30, 2013 and 2012			
Selected Budgetary Information:			
Obligations Incurred	**1%**	**$ 12,354,766**	**$ 12,238,097**
Outlays, Gross	**-7%**	**$ 13,778,017**	**$ 14,754,794**





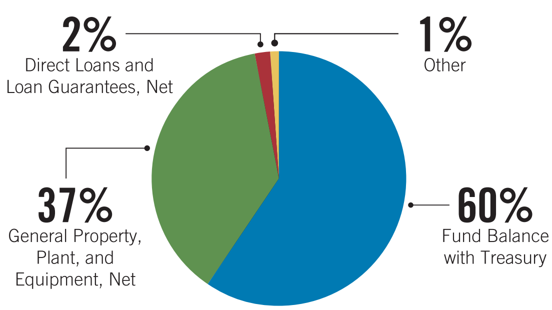


Composition of Assets and Assets by Responsibility Segment

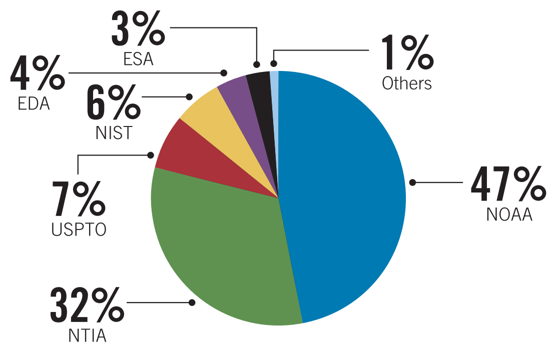
The composition (by percentage) and distribution (by responsibility segment) of the Department's assets changed somewhat from September 30, 2012 to September 30, 2013. Fund Balance with Treasury decreased from 63 percent of total assets to 60 percent of total assets. General Property, Plant, and Equipment (General PP&E), Net of Accumulated Depreciation increased from 33 percent of total assets to 37 percent of total assets. As a result of the above fluctuations (explained in Trends in Assets section on the following page), the National Oceanic and Atmospheric Administration's (NOAA) assets increased from 44 percent of total assets to 47 percent of total assets, and the National Telecommunications and Information Administration's (NTIA) assets decreased from 35 percent of total assets to 32 percent of total assets.

Total assets amounted to $30.04 billion at September 30, 2013. Fund Balance with Treasury of $18.00 billion is the aggregate amount of funds available to make authorized expenditures and pay liabilities. General PP&E, Net of $11.10 billion includes $6.76 billion of Construction-in-progress, primarily of satellites and weather measuring and monitoring systems; $2.09 billion of Satellites/Weather Systems Personal Property; $1.28 billion of Structures, Facilities, and Leasehold Improvements; and $971 million of other General PP&E. Direct Loans and Loan Guarantees, Net of $534 million primarily relates to NOAA's direct loan programs. Other Assets of $398 million primarily includes Accounts Receivable, Net of $156 million; Advances and Prepayments of $129 million; and Inventory, Materials, and Supplies, Net of $100 million.

COMPOSITION OF THE DEPARTMENT'S ASSETS AT SEPTEMBER 30, 2013



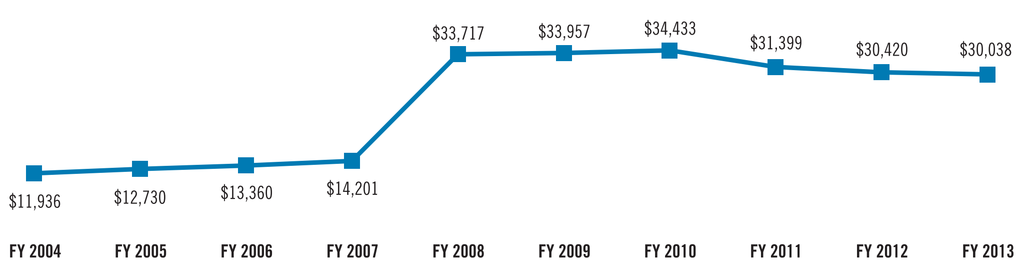
ASSETS BY RESPONSIBILITY SEGMENT AT SEPTEMBER 30, 2013



Trends in Assets

Total Assets decreased $381 million or 0.1 percent, from $30.42 billion at September 30, 2012 to $30.04 billion at September 30, 2013. Fund Balance with Treasury decreased $1.26 billion or 7 percent, from $19.26 billion to $18.00 billion, primarily due to a $959 million decrease in Fund Balance with Treasury for NTIA's Broadband Technology Opportunities Program (BTOP) – American Recovery and Reinvestment Act of 2009 (ARRA) mainly due to payments to grantees for prior-years' unpaid obligations; and also due to the Economic Development Administration (EDA) receiving a disaster relief and emergency assistance appropriation of $200 million in FY 2012 but not in FY 2013. General PP&E, Net increased $1.10 billion or 11 percent, from $10.00 billion to $11.10 billion, mainly due to an increase of $1.33 billion in NOAA Satellites/Weather Systems Personal Property. Other Assets decreased by $189 million or 32 percent, from $587 million to $398 million, primarily due to a decrease of $117 million in Intragovernmental Advances and Payments mainly consisting of a decrease of $74 million in NOAA advances to the Department of the Navy for the Pacific Region Center construction project and a $37 million decrease in NTIA advances to the U.S. Department of Transportation and the U.S. Department of Homeland Security for its Digital Television Transition and Public Safety Fund, which includes the Public Safety Interoperable Communications program and other programs. Other Assets also decreased due to a $41 million decrease in Accounts Receivable With the Public mainly resulting from a $53 million decrease in NOAA Accounts Receivable from an oil company for restoration activities in response to the 2010 Deepwater Horizon oil spill.

TRENDS IN TOTAL ASSETS AT SEPTEMBER 30 *(In Millions)*

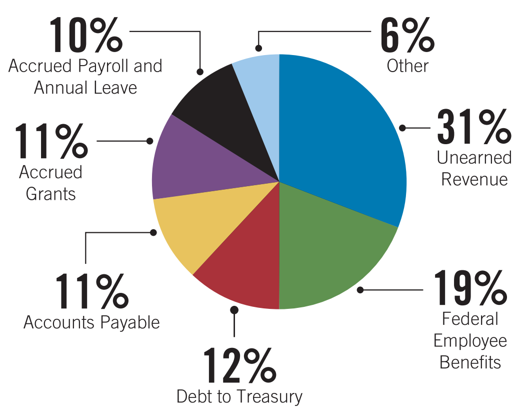


NOTE: *The significant fluctuation between FY 2007 and FY 2008 assets is primarily due to NTIA proceeds of $18.96 billion from the Federal Communications Commission auction of licenses for recovered analog spectrum in FY 2008.*

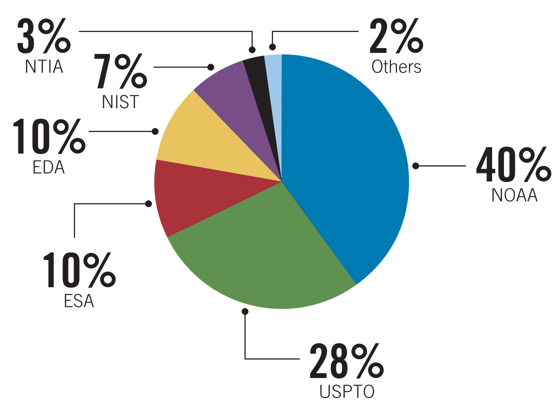
Composition of Liabilities and Liabilities by Responsibility Segment

The composition (by percentage) and distribution (by responsibility segment) of the Department's liabilities remained consistent from September 30, 2012 to September 30, 2013. Total liabilities amounted to $4.77 billion at September 30, 2013. Unearned Revenue of $1.46 billion represents the portion of monies received from customers for which goods and services have not been provided or rendered by the Department. Federal Employee Benefits Liability of $897 million is composed of the actuarial present value of projected benefits for the NOAA Corps Retirement System ($612 million) and the NOAA Corps Post-retirement Health Benefits ($42 million), and the Department's Actuarial Federal Employees Compensation Act (FECA) Liability ($243 million), which represents the actuarial liability for future workers' compensation benefits. Accrued Grants of $537 million, which relates to a diverse array of financial assistance programs and projects, includes EDA's accrued grants of $406 million for its economic development assistance funding to state and local governments. Accrued Payroll and Annual Leave of $468 million includes salaries and wages earned by employees, but not disbursed as of September 30, 2013. Debt to Treasury of $576 million consists of $525 million borrowed for NOAA's direct loan programs, and also includes $51 million borrowed for NTIA's Public Safety Trust Fund and State and Local Implementation Fund. Accounts Payable of $514 million consists primarily of amounts owed for goods, services, or capitalized assets received, progress on contract performance by others, and other expenses due. Other Liabilities of $314 million primarily includes Environmental and Disposal Liabilities of $157 million, Accrued FECA Liability of $36 million, Accrued Benefits of $31 million, the International Trade Administration's (ITA) Foreign Service Nationals' Voluntary Separation Pay Liability of $12 million, Resources Payable to Treasury of $11 million, and Capital Lease Liabilities of $7 million.

COMPOSITION OF THE DEPARTMENT'S LIABILITIES AT SEPTEMBER 30, 2013



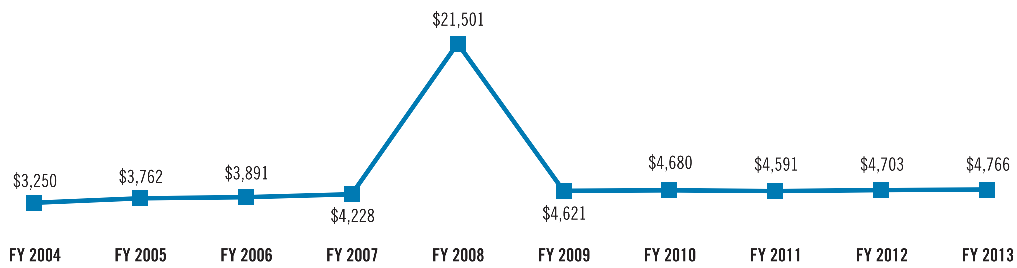
LIABILITIES BY RESPONSIBILITY SEGMENT AT SEPTEMBER 30, 2013



Trends in Liabilities

Total Liabilities increased $63 million or 1 percent, from $4.70 billion at September 30, 2012 to $4.77 billion at September 30, 2013. Environmental and Disposal Liabilities increased by $97 million or 161 percent, from $60 million to $157 million, primarily due to a Prior Period Adjustment of $93 million to record the FY 2013 beginning liability balance as of October 1, 2012 for asbestos-related cleanup costs for the National Institute of Standards and Technology (NIST) and NOAA in conformity with Technical Bulletin 2006-1, *Recognition and Measurement of Asbestos-related Cleanup Costs*. Unearned Revenue increased by $75 million or 5 percent, from $1.39 billion to $1.46 billion, primarily due to an increase in the United States Patent and Trademark Office's (USPTO) Unearned Revenue, largely from patent fees. Accounts Payable increased by $61 million or 13 percent, from $453 million to $514 million, primarily due to an increase of $65 million in NOAA Accounts Payable With the Public largely resulting from improvements to NOAA's accrual methodology for Accounts Payable. Federal Employee Benefits Liability increased $46 million or 5 percent, from $851 million to $897 million, primarily due to an increase of $34 million in the NOAA Corps Retirement System Liability and a $14 million increase in the Department's Actuarial FECA Liability.

TRENDS IN TOTAL LIABILITIES AT SEPTEMBER 30 *(In Millions)*

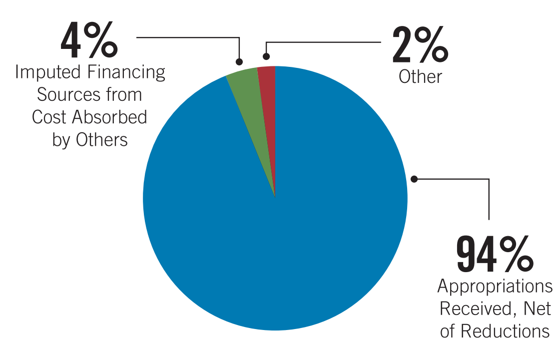


NOTE: *The significant fluctuation between FY 2007 and FY 2008 liabilities is primarily due to NTIA's Spectrum Auction Proceeds Liability to the Federal Communications Commission (FCC) for auction proceeds for which licenses have not yet been granted by FCC as of September 30, 2008. During FY 2009, this liability was significantly reduced as a significant amount of licenses were granted by FCC.*

The increases described above for Total Liabilities are offset in large part by two substantial decreases. Accrued Payroll and Annual Leave decreased by $113 million or 19 percent, from $581 million to $468 million, due to a significant reduction in the number of days accrued at September 30, 2013 as compared to September 30, 2012. Accrued Grants decreased by $99 million or 16 percent, from $636 million to $537 million, in part due to a decrease of $34 million in NIST Accrued Grants which largely resulted from enhancements in NIST's accrual methodology for Accrued Grants and from payments made to grantees for costs incurred for NIST's ARRA funds for construction of research facilities. Accrued Grants also decreased due to a $25 million decrease in NOAA's Accrued Grants mainly due to less grantee costs exceeding NOAA's grant disbursements, and due to a $16 million decrease in NTIA's Accrued Grants resulting from accrual methodology enhancements and a $9 million decrease due to the winding-down of the Public Telecommunications Facilities, Planning and Construction program and programs under the Digital Television Transition and Public Safety Fund.

Composition of and Trends in Financing Sources

COMPOSITION OF THE DEPARTMENT'S FY 2013 FINANCING SOURCES



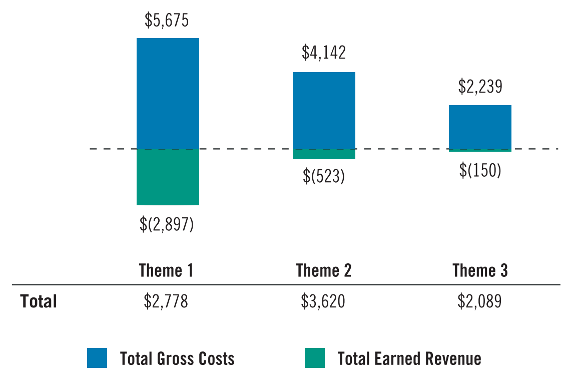
The composition by percentage of the Department's financing sources remained consistent from FY 2012 to FY 2013. The Department's Financing Sources, shown on the Consolidated Statements of Changes in Net Position, are traditionally obtained primarily from Appropriations Received, Net of Reductions. Appropriations Received, Net of Reductions decreased by $145 million or 2 percent, from $7.88 billion for FY 2012 to $7.73 billion for FY 2013, mainly due to funding decreases of $560 million resulting from significant sequestrations in budgetary resources as well as from across-the-board rescissions of 1.877 percent and 0.2 percent in certain discretionary accounts. These decreases were offset by $326 million of appropriations received by NOAA in FY 2013 as a result of the Hurricane Sandy supplemental appropriation. On January 29, 2013, the President signed into law the Disaster Relief Appropriations Act, which provides a total of $50.5 billion in aid for Hurricane Sandy disaster victims and their communities. NOAA received $326 million of funds under the act in FY 2013 for Hurricane Sandy recovery and other disaster-related activities. Other typical Financing Sources include net transfers to and from other federal agencies without reimbursement, and imputed financing sources from costs absorbed by other federal agencies. Other Financing Sources decreased by $230 million or 56 percent, from $414 million to $183 million, mainly due to a decrease of $239 million in NOAA Transfers In/Out Without Reimbursement, Net with the National Aeronautics and Space Administration related to a satellite. Total Financing Sources decreased by $378 million or 4 percent, from $8.59 billion to $8.21 billion, primarily due to decreases resulting from sequestrations, rescissions, and transfers, offset by the new Hurricane Sandy supplemental appropriation funding for NOAA in FY 2013.

Composition of FY 2013 Net Cost of Operations

In FY 2013, Net Cost of Operations amounted to $8.49 billion, which consists of Gross Costs of $12.06 billion less Earned Revenue of $3.57 billion.

Theme 1, Economic Growth, with Net Program Costs of $2.78 billion for the Department (Gross Costs of $5.67 billion less Earned Revenue of $2.90 billion), is related to enabling economic growth through innovation and entrepreneurship, market development and commercialization, and trade promotion and compliance. Theme 1 includes Net Program Costs of $(226) million (Gross Costs of $2.49 billion less Earned Revenue of $2.72 billion) for USPTO patents and trademark programs. The issuance of patents provides incentives to invent and invest in new technology by allowing innovators the opportunity to benefit from their discoveries. Registration of trademarks assists businesses in protecting their investments and safeguards consumers against confusion and deception in the marketplace by providing notice of trademarks in use. Through dissemination of patent and trademark information, the Department promotes a global understanding of intellectual property protection and facilitates the development and sharing of new technologies worldwide. Theme 1 also includes Net Program Costs of $665 million (Gross Costs of $728 million less Earned Revenue of $63 million) for NIST's Measurement and Standards Laboratories. These laboratories are the stewards of the Nation's measurement infrastructure, and provide measurement methods, reference materials, test procedures, instrument calibrations, fundamental data, and standards that comprise essential tools for research, production, and buyer-seller transactions. NTIA's programs and activities also support Theme 1, with Net Program Costs of $1.05 billion (Gross Costs of $1.07 billion less Earned Revenue of $22 million), including $974 million of Gross Costs for BTOP – ARRA. NTIA serves as the principal adviser to the President on domestic and international communications and information policy-making, promotes access to telecommunications services for all Americans and competition in domestic and international markets, manages all federal use of the electromagnetic spectrum and generally promotes efficient use of spectrum, and conducts telecommunications technology research, including standards-setting in partnership with business and other federal agencies. ITA's programs and activities also support Theme 1, with Net Program Costs of $456 million (Gross Costs of $478 million less Earned Revenue of $22 million). ITA assists the export growth of small and medium-sized businesses, enforces U.S. trade laws and trade agreements, monitors and maintains trading relationships with established markets, promotes new business in emerging markets, and improves access to overseas markets by identifying and pressing for the removal of trade barriers. Theme 1 also includes Net Program Costs of $418 million (Gross Costs of $430 million less Earned Revenue of $12 million) for EDA. EDA helps distressed communities address problems associated with long-term economic distress, as well as sudden and severe economic dislocations including recovering from the economic impacts of natural disasters, the closure of military installations and other federal facilities, changing trade patterns, and the depletion of natural resources.

FY 2013 NET COST OF OPERATIONS BREAKDOWN OF GROSS COSTS AND EARNED REVENUE BY THEME *(In Millions)*



Theme 2, Science and Information, with Net Program Costs of $3.62 billion for the Department (Gross Costs of $4.14 billion less Earned Revenue of $523 million), includes Net Program Costs of $2.38 billion (Gross Costs of $2.50 billion less Earned Revenue of $125 million) for NOAA's programs and activities related to 1) improving weather, water quality, and climate reporting and forecasting; and 2) enabling informed decision-making through an expanded understanding of the U.S. economy, society, and environment by providing data, standards, and services. NOAA develops and procures satellite systems, aircraft, and ships to provide information to determine weather patterns and predict weather forecasts. The Census Bureau also supports Theme 2, with Net Program Costs of $1.10 billion (Gross Costs of $1.43 billion less Earned Revenue of $329 million). The Census Bureau carries out the Decennial Census, periodic censuses, and demographic and other surveys, and prepares and releases targeted data products for economic and other programs.

Theme 3, Environmental Stewardship, with Net Program Costs of $2.09 billion for the Department (Gross Costs of $2.24 billion less Earned Revenue of $150 million), includes Net Program Costs of $2.05 billion (Gross Costs of $2.21 billion less Earned Revenue of $152 million) related to NOAA's efforts to promote economically-sound environmental stewardship and science, including developing sustainable and resilient fisheries, habitats, and species; supporting climate adaption and mitigation; and supporting coastal communities that are environmentally and economically sustainable.

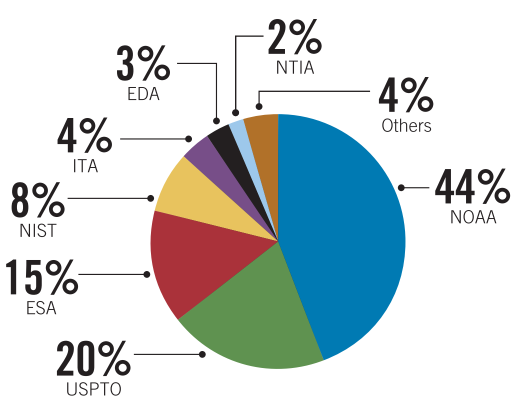
Trends in Net Cost of Operations

The Theme 1 decrease in FY 2013 Net Program Costs over FY 2012 of $1.12 billion or 29 percent, from $3.90 billion to $2.78 billion, is primarily due to a decrease in Gross Costs of $681 million for NTIA's BTOP – ARRA as grant costs are decreasing significantly as the program progresses; a decrease in Gross Costs of $260 million for NTIA's Digital Television Transition and Public Safety Fund as programs under this fund are winding-down; and an increase in Earned Revenue of $293 million for USPTO due to increased fee rates implemented as a result of the Leahy-Smith America Invents Act of 2011. Theme 2 Net Program Costs decreased slightly by $16 million or 0.4 percent, from $3.64 billion in FY 2012 to $3.62 billion in FY 2013. Theme 3 Net Program Costs decreased slightly by $55 million or 3 percent, from $2.14 billion to $2.09 billion.

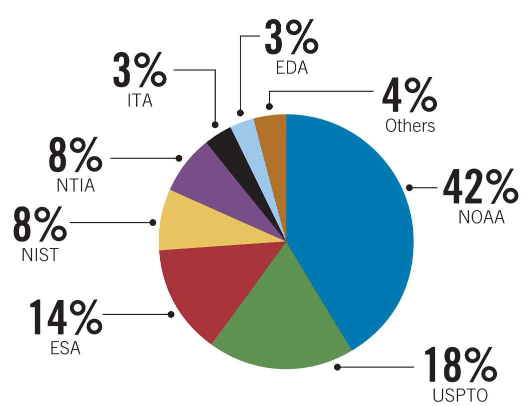
Composition of Selected Budgetary Information

The distribution by responsibility segment of the Department's Obligations Incurred remained consistent from FY 2012 to FY 2013, while the distribution by responsibility segment of the Department's Outlays, Gross changed somewhat. NTIA's Outlays, Gross decreased from 13 percent of the Departmental total to 8 percent due to significant decreases in NTIA's Outlays, Gross as explained in the *Trends in Selected Budgetary Information* section below.

FY 2013 OBLIGATIONS INCURRED BY RESPONSIBILITY SEGMENT



FY 2013 OUTLAYS, GROSS BY RESPONSIBILITY SEGMENT

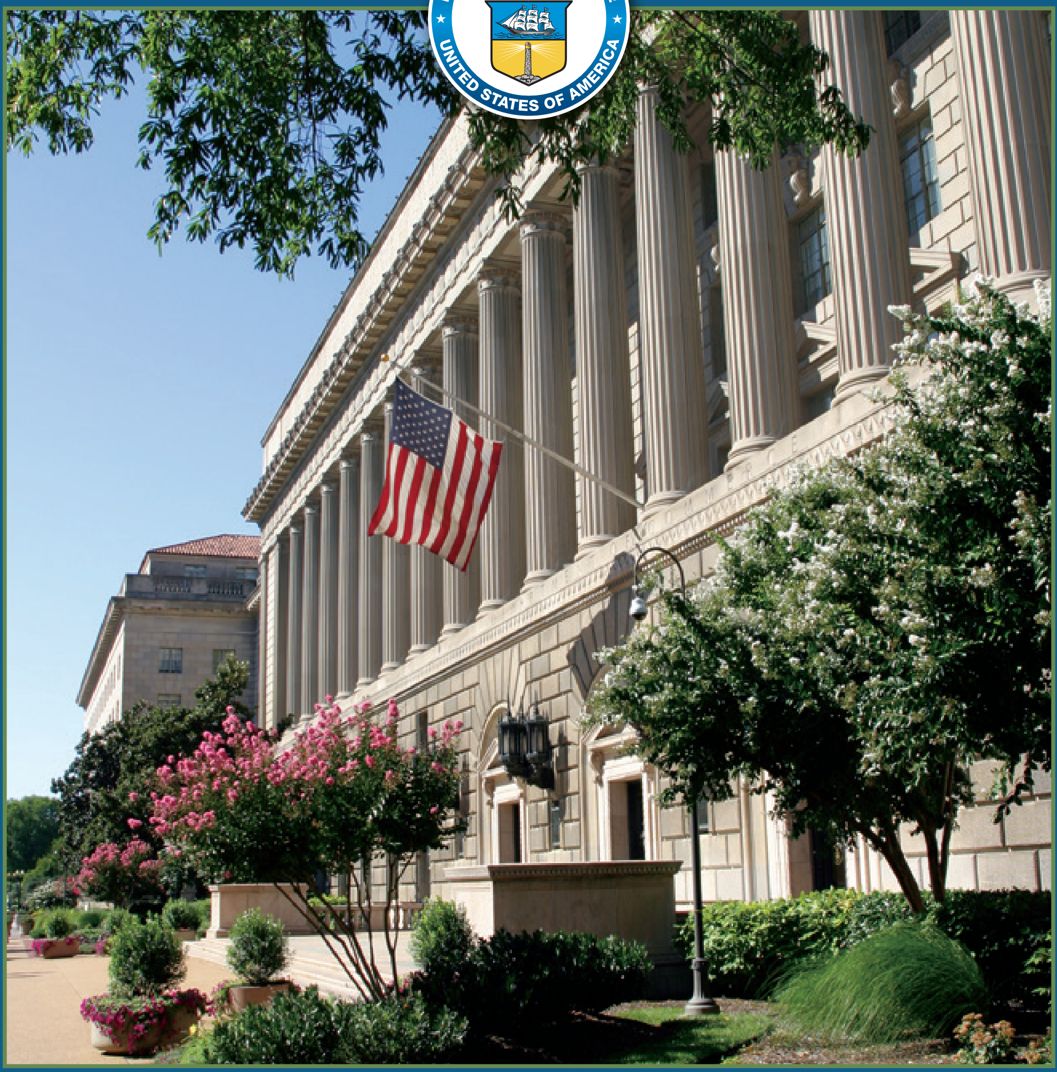


Trends in Selected Budgetary Information

The Department's Obligations Incurred slightly increased by $117 million or 1 percent, from $12.24 billion in FY 2012 to $12.35 billion in FY 2013. Outlays, Gross decreased by $977 million or 7 percent, from $14.75 billion to $13.78 billion. The decrease in Outlays, Gross is primarily due to a decrease of $627 million in Outlays, Gross under NTIA's BTOP – ARRA, from $1.59 billion to $962 million, mainly due to a decrease in payments to grantees for prior years' unpaid obligations. The decrease in Outlays, Gross is also due to a decrease of $199 million in Outlays, Gross under NTIA's Digital Television Transition and Public Safety Fund, from $220 million to $21 million, as programs under this fund are winding-down.

FINANCIAL SECTION

SUMMARY OF STEWARDSHIP INFORMATION



SUMMARY OF STEWARDSHIP INFORMATION

Stewardship Property, Plant, and Equipment (Stewardship PP&E)

The Department has certain resources entrusted to it and certain stewardship responsibilities assumed by the Department. The physical properties of Stewardship PP&E resemble those of the General PP&E that is capitalized traditionally in the financial statements of federal entities. Given the nature of these assets, federal standard-setting bodies have determined that valuation is unduly burdensome and matching costs with specific periods is not meaningful. Therefore, federal accounting standards require the disclosure of the nature and quantity of these assets. The National Oceanic and Atmospheric Administration (NOAA) is the primary bureau within the Department that maintains Stewardship PP&E, while the National Institute of Standards and Technology (NIST) and the Census Bureau also maintain Stewardship PP&E.

NOAA maintains the following Stewardship PP&E: 13 National Marine Sanctuaries; Marine National Monuments (Papahānaumokuākea; Rose Atoll; Marianas Trench; and Pacific Remote Islands); Aleutian Islands Habitat Conservation Area; California's Russian River Watershed Habitat Focus Area; Heritage Assets (Galveston Laboratory; National Marine Fisheries Service (NMFS) St. George Sealing Plant; NMFS Cottage M, St. George; NMFS St. Paul Old Clinic/Hospital; NMFS Aquarium; and Great Lakes Environmental Research Laboratory, Lake Michigan Field Station); and Collection-type Heritage Assets (primarily included in the NOAA Central Library, the Thunder Bay Sanctuary Research Collection, and the National Climatic Data Center Library).

NIST maintains Collection-type Heritage Assets under its Museum and History Program, which collects, conserves, and exhibits artifacts and scientific instruments, equipment and objects, and historical books and manuscripts. The Census Bureau maintains collection-type heritage assets that help illustrate the social, educational, and cultural heritage of the Census Bureau, including artifacts, gifts, and collectable assets such as publications, books, manuscripts, photographs, and maps.

Stewardship Investments

Stewardship investments are substantial investments made by the federal government for the benefit of the nation, but are not physical assets owned by the federal government. Though treated as expenses when incurred to determine the Department's Net Cost of Operations, these items merit special treatment, so that users of federal financial reports know the extent of investments that are made for the long-term benefit of the nation.

Investments in Non-federal Physical Property: These investments are for the purchase, construction, or major renovation of physical property owned by state and local governments. The Economic Development Administration (EDA) and NOAA have significant investments in non-federal physical property. EDA's investments in FY 2013 totaled $348 million and included its Public Works program, Economic Adjustment Assistance program, Global Climate Change Mitigation Incentive Fund, and Disaster Recovery. NOAA's investments in FY 2013 totaled $5 million and included the National Estuarine Research Reserves and the Coastal and Estuarine Land Conservation Program.

Investments in Human Capital: These investments are for education and training programs that are intended to increase or maintain national economic productive capacity and produce outputs and outcomes that provide evidence of the constant or increasing national productive capacity. These investments exclude education and training expenses for federal civilian and military personnel. The most significant dollar investments in human capital are by NOAA, whose investments in FY 2013 totaled $20 million and included the National Sea Grant College Program, the National Estuarine Research Reserve Program, the Educational Partnership Program, the Ernest F. Hollings Undergraduate Scholarship Program, the Southeast Fisheries Science Center's Recruiting Training Research Program, the Northeast Fisheries Science Center Partnership Education Program, and the Northeast Fisheries Science Center's Bradford E. Brown Student Internship Program.

Investments in Research and Development (R&D): These investments include investments in basic research, applied research, and development, which are made with the expectation of maintaining or increasing national economic productive capacity and/or yielding other future economic or societal benefits. The only significant investments in R&D are by NIST and NOAA. NIST's investments in FY 2013 totaled $625 million, including $604 million for NIST laboratories and $21 million for its Technology Innovation Program. NOAA's investments in FY 2013 totaled $513 million, which primarily included $326 million for environmental and climate programs, and also included $187 million for Fisheries, Marine Operations and Maintenance, Aircraft Services, National Weather Service, and other programs.

FINANCIAL SECTION

Principal Financial Statements

United States Department of Commerce Consolidated Balance Sheets
As of September 30, 2013 and 2012 *(In Thousands)*

	FY 2013	FY 2012
ASSETS		
Intragovernmental:		
Fund Balance with Treasury (Notes 2 and 18)	$ 18,002,497	$ 19,261,281
Accounts Receivable (Note 3)	92,197	116,009
Advances and Prepayments	91,641	208,368
Total Intragovernmental	**18,186,335**	**19,585,658**
Cash (Note 4)	5,806	4,834
Accounts Receivable, Net (Note 3)	64,130	104,941
Direct Loans and Loan Guarantees, Net (Note 5)	533,692	570,348
Inventory, Materials, and Supplies, Net (Note 6)	99,607	104,978
General Property, Plant, and Equipment, Net (Note 7)	11,103,844	10,000,512
Other (Note 8)	44,897	48,276
TOTAL ASSETS	**$ 30,038,311**	**$ 30,419,547**
Stewardship Property, Plant, and Equipment (Note 23)		
LIABILITIES		
Intragovernmental:		
Accounts Payable	$ 150,275	$ 156,032
Debt to Treasury (Note 10)	575,603	554,281
Other		
Resources Payable to Treasury	11,267	12,862
Unearned Revenue	313,926	332,923
Other (Note 11)	74,505	102,412
Total Intragovernmental	**1,125,576**	**1,158,510**
Accounts Payable	363,540	296,869
Loan Guarantee Liabilities (Notes 5 and 16)	516	518
Federal Employee Benefits (Note 12)	897,191	851,211
Environmental and Disposal Liabilities (Note 13)	156,673	59,945
Other		
Accrued Payroll and Annual Leave	467,706	580,715
Accrued Grants	536,711	635,856
Capital Lease Liabilities (Note 14)	7,021	8,377
Unearned Revenue	1,147,196	1,053,580
Other (Note 11)	64,100	57,732
TOTAL LIABILITIES	**$ 4,766,230**	**$ 4,703,313**
Commitments and Contingencies (Note 16)		
NET POSITION – FY 2012 Restated		
Unexpended Appropriations		
Unexpended Appropriations - Funds from Dedicated Collections	$ -	$ -
Unexpended Appropriations - All Other Funds	5,340,879	6,716,434
Cumulative Results of Operations		
Cumulative Results of Operations - Funds from Dedicated Collections (Note 21)	10,033,602	9,904,756
Cumulative Results of Operations - All Other Funds	9,897,600	9,095,044
Total Net Position – Funds from Dedicated Collections	**$ 10,033,602**	**$ 9,904,756**
Total Net Position – All Other Funds	**$ 15,238,479**	**$ 15,811,478**
TOTAL NET POSITION	**$ 25,272,081**	**$ 25,716,234**
TOTAL LIABILITIES AND NET POSITION	**$ 30,038,311**	**$ 30,419,547**

The accompanying notes are an integral part of these financial statements.

United States Department of Commerce Consolidated Statements of Net Cost
For the Years Ended September 30, 2013 and 2012 (Note 17) *(In Thousands)*

	FY 2013	FY 2012
Theme 1: Economic Growth		
Gross Costs	$ 5,674,809	$ 6,531,035
Less: Earned Revenue	(2,896,650)	(2,628,952)
Net Program Costs	**2,778,159**	**3,902,083**
Theme 2: Science and Information		
Gross Costs	4,142,171	4,156,232
Less: Earned Revenue	(522,512)	(520,569)
Net Program Costs	**3,619,659**	**3,635,663**
Theme 3: Environmental Stewardship		
Gross Costs	2,239,164	2,331,038
Less: Earned Revenue	(149,947)	(186,763)
Net Program Costs	**2,089,217**	**2,144,275**
NET COST OF OPERATIONS	**$ 8,487,035**	**$ 9,682,021**

The accompanying notes are an integral part of these financial statements.

United States Department of Commerce Consolidated Statements of Changes in Net Position
For the Years Ended September 30, 2013 and 2012 *(In Thousands)*

	FY 2013			FY 2012		
	Funds from Dedicated Collections (Note 21)	All Other Funds	Consolidated Total	Restated Funds from Dedicated Collections (Note 21)	Restated All Other Funds	Consolidated Total
Cumulative Results Of Operations:						
Beginning Balance	$ 9,904,756	$ 9,095,044	$ 18,999,800	$ 10,018,759	$ 7,569,497	$ 17,588,256
Changes in Accounting Principle (Notes 7 and 13)	-	(169,319)	(169,319)	-	-	-
Beginning Balance, as Adjusted	9,904,756	8,925,725	18,830,481	10,018,759	7,569,497	17,588,256
Budgetary Financing Sources:						
Appropriations Used	-	9,096,654	9,096,654	-	10,270,400	10,270,400
Non-exchange Revenue	101,468	3,754	105,222	222,492	12,541	235,033
Donations and Forfeitures of Cash and Cash Equivalents	-	11,400	11,400	-	5,303	5,303
Transfers In/(Out) Without Reimbursement, Net	3,650	132,720	136,370	13,058	109,751	122,809
Rescissions/Sequestrations (Note 18)	-	-	-	(350)	(17,848)	(18,198)
Other Budgetary Financing Sources/(Uses), Net	-	137	137	-	6,208	6,208
Other Financing Sources (Non-exchange):						
Donations and Forfeitures of Property	-	856	856	-	579	579
Transfers In/(Out) Without Reimbursement, Net	-	(56,353)	(56,353)	-	182,220	182,220
Imputed Financing Sources from Cost Absorbed by Others	44,818	250,470	295,288	-	297,694	297,694
Other Financing Sources/(Uses), Net	350	(2,168)	(1,818)	19,480	(27,963)	(8,483)
Total Financing Sources	**150,286**	**9,437,470**	**9,587,756**	**254,680**	**10,838,885**	**11,093,565**
Net Cost of Operations	**(21,440)**	**(8,465,595)**	**(8,487,035)**	**(368,683)**	**(9,313,338)**	**(9,682,021)**
Net Change	**128,846**	**971,875**	**1,100,721**	**(114,003)**	**1,525,547**	**1,411,544**
Cumulative Results of Operations – Ending Balance	**10,033,602**	**9,897,600**	**19,931,202**	**9,904,756**	**9,095,044**	**18,999,800**
Unexpended Appropriations:						
Beginning Balance	-	6,716,434	6,716,434	-	9,219,657	9,219,657
Budgetary Financing Sources:						
Appropriations Received (Note 18)	-	8,293,875	8,293,875	-	7,884,258	7,884,258
Appropriations Transferred In/(Out), Net	-	27,299	27,299	-	23,223	23,223
Rescissions/Sequestrations of Appropriations (Note 18)	-	(560,334)	(560,334)	-	(5,450)	(5,450)
Other Adjustments	-	(39,741)	(39,741)	-	(134,854)	(134,854)
Appropriations Used	-	(9,096,654)	(9,096,654)	-	(10,270,400)	(10,270,400)
Total Budgetary Financing Sources	**-**	**(1,375,555)**	**(1,375,555)**	**-**	**(2,503,223)**	**(2,503,223)**
Unexpended Appropriations – Ending Balance	**-**	**5,340,879**	**5,340,879**	**-**	**6,716,434**	**6,716,434**
NET POSITION	**$ 10,033,602**	**$ 15,238,479**	**$ 25,272,081**	**$ 9,904,756**	**$ 15,811,478**	**$ 25,716,234**

The accompanying notes are an integral part of these financial statements.

United States Department of Commerce Combined Statements of Budgetary Resources
For the Years Ended September 30, 2013 and 2012 (Note 18) *(In Thousands)*

	FY 2013		FY 2012	
	Budgetary	Non-budgetary Credit Program Financing Accounts	Budgetary	Non-budgetary Credit Program Financing Accounts
BUDGETARY RESOURCES:				
Unobligated Balance, Brought Forward, October 1	$ 10,352,397	$ 2	$ 9,995,115	$ 86
Adjustments to Unobligated Balance, Brought Forward	(157)	-	3	(1)
Unobligated Balance, Brought Forward, October 1, as Adjusted	10,352,240	2	9,995,118	85
Actual Recoveries of Prior-years Unpaid Obligations	253,455	6,355	298,066	4,561
Actual Nonexpenditure Transfers of Unobligated Balance, Net	10,647	-	17,329	-
Borrowing Authority Withdrawn	-	(6,355)	-	(4,561)
Other Changes in Unobligated Balance, Net	(38,198)	-	(134,689)	-
Unobligated Balance From Prior-years Budget Authority, Net	**10,578,144**	**2**	**10,175,824**	**85**
Appropriations	7,907,642	-	8,035,812	-
Borrowing Authority	251,231	48,029	2,538	71,668
Spending Authority From Offsetting Collections	4,232,937	38,558	4,270,868	33,701
TOTAL BUDGETARY RESOURCES	**$ 22,969,954**	**$ 86,589**	**$ 22,485,042**	**$ 105,454**
STATUS OF BUDGETARY RESOURCES:				
Obligations Incurred	$ 12,268,184	$ 86,582	$ 12,132,645	$ 105,452
Unobligated Balance, End of Year				
Apportioned	1,499,168	-	1,157,028	-
Exempt From Apportionment	3,848	-	136,995	-
Unapportioned	9,198,754	7	9,058,374	2
Total Unobligated Balance, End of Year	**10,701,770**	**7**	**10,352,397**	**2**
TOTAL STATUS OF BUDGETARY RESOURCES	**$ 22,969,954**	**$ 86,589**	**$ 22,485,042**	**$ 105,454**
CHANGE IN UNPAID OBLIGATED BALANCE, NET:				
Unpaid Obligations:				
Unpaid Obligations, Brought Forward, October 1	$ 8,348,384	$ 130,136	$ 11,152,608	$ 145,079
Adjustments to Unpaid Obligations, Brought Forward	157	-	153	4
Obligations Incurred	12,268,184	86,582	12,132,645	105,452
Outlays, Gross	(13,707,047)	(70,970)	(14,638,956)	(115,838)
Actual Recoveries of Prior-years Unpaid Obligations	(253,455)	(6,355)	(298,066)	(4,561)
UNPAID OBLIGATIONS, END OF YEAR	**$ 6,656,223**	**$ 139,393**	**$ 8,348,384**	**$ 130,136**
Uncollected Customer Payments:				
Uncollected Customer Payments, Brought Forward, October 1	$ (608,330)	$ (494)	$ (646,248)	$ (390)
Adjustments to Uncollected Customer Payments, Brought Forward	-	-	(158)	(1)
Change in Uncollected Customer Payments	139,541	27	38,076	(103)
UNCOLLECTED CUSTOMER PAYMENTS, END OF YEAR	**$ (468,789)**	**$ (467)**	**$ (608,330)**	**$ (494)**
Unpaid Obligated Balance, Net, Brought Forward, October 1	**$ 7,740,054**	**$ 129,642**	**$ 10,506,360**	**$ 144,689**
Unpaid Obligated Balance, Net, End of Year	**$ 6,187,434**	**$ 138,926**	**$ 7,740,054**	**$ 129,642**
BUDGET AUTHORITY, NET:				
Budget Authority, Gross	$ 12,391,810	$ 86,587	$ 12,309,218	$ 105,369
Actual Offsetting Collections	(4,522,862)	(98,154)	(4,304,870)	(104,012)
Change in Uncollected Customer Payments	139,541	27	38,076	(103)
BUDGET AUTHORITY, NET	**$ 8,008,489**	**$ (11,540)**	**$ 8,042,424**	**$ 1,254**
OUTLAYS, NET:				
Outlays, Gross	$ 13,707,047	$ 70,970	$ 14,638,956	$ 115,838
Actual Offsetting Collections	(4,522,862)	(98,154)	(4,304,870)	(104,012)
Outlays, Net	9,184,185	(27,184)	10,334,086	11,826
Distributed Offsetting (Receipts)/Outlays, Net	(46,853)	-	(62,667)	-
AGENCY OUTLAYS, NET	**$ 9,137,332**	**$ (27,184)**	**$ 10,271,419**	**$ 11,826**

The accompanying notes are an integral part of these financial statements.

FINANCIAL SECTION

Notes to the Financial Statements

Notes to the Financial Statements

(All Tables are Presented in Thousands)

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A Reporting Entity

The Department of Commerce (the Department) is a cabinet-level agency of the Executive Branch of the U.S. government. Established in 1903 to promote U.S. business and trade, the Department's broad range of responsibilities includes predicting the weather, granting patents and registering trademarks, measuring economic growth, gathering and disseminating statistical data, expanding U.S. exports, developing innovative technologies, helping local communities improve their economic development capabilities, promoting minority entrepreneurial activities, and monitoring the stewardship of national assets. The Department is composed of 12 bureaus, the Emergency Steel Loan Guarantee Program, and Departmental Management.

For the *Consolidating Statements of Net Cost* (see Note 17), the Department's entities have been grouped together as follows:

- National Oceanic and Atmospheric Administration (NOAA)
- U.S. Patent and Trademark Office (USPTO)
- Economics and Statistics Administration (ESA) — based on organizational structure
  - Bureau of Economic Analysis (BEA)
  - Census Bureau
- National Institute of Standards and Technology (NIST)
- National Telecommunications and Information Administration (NTIA)[1]
- Others
  - Bureau of Industry and Security (BIS)
  - Economic Development Administration (EDA)
  - Emergency Steel Loan Guarantee Program (ELGP)
  - International Trade Administration (ITA)
  - Minority Business Development Agency (MBDA)
  - National Technical Information Service (NTIS)

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[1] The Middle Class Tax Relief and Job Creation Act of 2012 created the First Responder Network Authority as an independent authority within NTIA, to provide emergency responders with the first high-speed, nationwide network dedicated to public safety.

- Departmental Management (DM)
    - Franchise Fund
    - Gifts and Bequests (G&B)
    - Herbert C. Hoover Building Renovation Project (HCHB)
    - Office of Inspector General (OIG)
    - Salaries and Expenses (S&E)
    - Working Capital Fund (WCF)

B Basis of Accounting and Presentation

The Department's fiscal year ends September 30. These financial statements reflect both accrual and budgetary accounting transactions. Under the accrual method of accounting, revenues are recognized when earned and expenses are recognized when incurred, without regard to the receipt or payment of cash. Budgetary accounting is designed to recognize the obligation of funds according to legal requirements, which in many cases is made prior to the occurrence of an accrual-based transaction. Budgetary accounting is essential for compliance with legal constraints and controls over the use of federal funds.

These financial statements have been prepared from the accounting records of the Department in conformance with U.S. generally accepted accounting principles (GAAP) and the form and content for entity financial statements specified by the Office of Management and Budget (OMB) in Revised Circular A-136, *Financial Reporting Requirements*. GAAP for federal entities are the standards prescribed by the Federal Accounting Standards Advisory Board, which is the official body for setting the accounting standards of the U.S. government.

Throughout these financial statements, intragovernmental assets, liabilities, earned revenue, and costs have been classified according to the type of entity with whom the transactions were made. Intragovernmental assets and liabilities are those from or to other federal entities. Intragovernmental earned revenue represents collections or accruals of revenue from other federal entities, and intragovernmental costs are payments or accruals to other federal entities.

The Department has allocation transfer transactions with other federal agencies as both a transferring (parent) entity and as a receiving (child) entity. Allocation transfers are legal delegations by one department of its authority to obligate budget authority and outlay funds to another department. A separate fund account (allocation account) is created in the U.S. Department of the Treasury (Treasury) as a subset of the parent fund account for tracking and reporting purposes. All allocation transfers of balances are credited to this account, and subsequent obligations and outlays incurred by the child entity are charged to this allocation account as they execute the delegated activity on behalf of the parent entity. Generally, all financial activity related to these allocation transfers (e.g., budget authority, obligations, and outlays) is reported in the financial statements of the parent entity, from which the underlying legislative authority, appropriations, and budget apportionments are derived. EDA allocates funds, as the parent, to the U.S. Department of Agriculture's Rural Development Administration. Therefore, all financial activity related to these EDA funds are reported in the Department's financial statements. NOAA, EDA, the Census Bureau, and BEA have received allocation transfers, as the child, from the U.S. General Services Administration (GSA), U.S. Environmental Protection Agency, Delta Regional Authority, Appalachian Regional Commission, and the Northern Border Regional Commission. Activity relating to these child allocation transfers is not reported in the Department's financial statements, except that the Department has recognized Imputed Costs and Imputed Financing Sources From Cost Absorbed by Others for expenses, as the child, under GSA's Federal Buildings Fund.

C Funds from Dedicated Collections

Effective FY 2013, the Department implemented Statement of Federal Financial Accounting Standards (SFFAS) 43, *Funds from Dedicated Collections: Amending SFFAS 27, Identifying and Reporting Earmarked Funds*, changing the name and description of Earmarked Funds. The financial statements affected by the change are the *Consolidated and Consolidating Balance Sheets (Net Position section),* and the *Consolidated Statements of Changes in Net Position*.

Funds from Dedicated Collections are financed by specifically identified revenues, often supplemented by other financing sources that are originally provided to the federal government by a non-federal source, which remain available over time. These specifically identified revenues and other financing sources are required by statute to be used for designated activities, benefits, or purposes, and must be accounted for separately from the government's general revenues.

Funds from Dedicated Collections include general funds, public enterprise revolving funds (not including credit reform financing funds), special funds, and a trust fund. (See Note 21, *Funds from Dedicated Collections*.)

In accordance with SFFAS 43, Funds from Dedicated Collections are restated for the comparative FY 2012 financial statements and Note 21.

D Elimination of Intra-entity and Intra-Departmental Transactions and Balances

Transactions and balances within a reporting entity (intra-entity) have been eliminated from the financial statements, except as noted below. Transactions and balances among the Department's entities (intra-Departmental) have been eliminated from the *Consolidated Balance Sheets,* the *Consolidated Statements of Net Cost*, and the *Consolidated Statements of Changes in Net Position*. The *Statements of Budgetary Resources* are presented on a combined basis; therefore, intra-Departmental and intra-entity transactions and balances have not been eliminated from these statements.

E Fund Balance with Treasury

Fund Balance with Treasury is the aggregate amount of funds in the Department's accounts with Treasury. Deposit Funds include amounts held in customer deposit accounts.

Treasury processes cash receipts and disbursements for the Department's domestic operations. Cash receipts and disbursements for the Department's overseas operations are primarily processed by the U.S. Department of State's financial service centers.

F Accounts Receivable, Net

Accounts Receivable are recognized primarily when the Department performs reimbursable services or sells goods. Accounts Receivable are reduced to net realizable value by an Allowance for Uncollectible Accounts. This allowance is estimated periodically using methods such as the identification of specific delinquent receivables, and the analysis of aging schedules and historical trends adjusted for current market conditions.

G Advances and Prepayments

Advances are payments the Department has made to cover a part or all of a grant recipient's anticipated expenses, or are advance payments for the cost of goods and services to be acquired. For grant awards, the recipient is required to periodically (monthly or quarterly) report the amount of costs incurred. Prepayments are payments the Department has made to cover certain periodic expenses before those expenses are incurred, such as subscriptions and rent. Advances and Prepayments are included in Other Assets.

H Direct Loans and Loan Guarantees, Net

A direct loan is recorded as a receivable after the Department disburses funds to a borrower. The Department also makes loan guarantees with respect to the payment of all or part of the principal or interest on debt obligations of non-federal borrowers to non-federal lenders. A borrower-defaulted loan guaranteed by the Department is recorded as a receivable from the borrower after the Department disburses funds to the lender.

Interest Receivable generally represents uncollected interest income earned on loans. For past-due loans, only up to 180 days of interest income is generally recorded.

Foreclosed Property is acquired primarily through foreclosure and voluntary conveyance, and is recorded at the fair market value at the time of acquisition. Foreclosed Property is adjusted to the current fair market value each fiscal year-end.

Direct Loans and Loan Guarantees Obligated before October 1, 1991 (pre-FY 1992): Loans Receivable are reduced by an Allowance for Loan Losses, which is based on an analysis of each loan's outstanding balance. The value of each receivable, net of any Allowance for Loan Losses, is supported by the values of pledged collateral and other assets available for liquidation, and by the Department's analysis of financial information of parties against whom the Department has recourse for the collection of these receivables.

The Economic Development Revolving Fund is required to make annual interest payments to Treasury after each fiscal year-end, based on its outstanding receivables as of September 30.

Direct Loans and Loan Guarantees Obligated after September 30, 1991 (post-FY 1991): Post-FY 1991 obligated direct loans and loan guarantees and the resulting receivables are governed by the Federal Credit Reform Act of 1990.

For a direct or guaranteed loan disbursed during a fiscal year, a subsidy cost is initially recognized. Subsidy costs are intended to estimate the long-term cost to the U.S. government of its loan programs. The subsidy cost equals the present value of estimated cash outflows over the life of the loan, minus the present value of estimated cash inflows, discounted at the applicable Treasury interest rate. Administrative costs such as salaries are not included in the subsidy costs. Subsidy costs can arise from interest rate differentials, interest subsidies, delinquencies and defaults, loan origination and other fees, and other cash flows. The Department calculates its subsidy costs based on a model created and provided by OMB.

A Loan Receivable is recorded at the present value of the estimated cash inflows less cash outflows. The difference between the outstanding principal of the loan and the present value of its net cash inflows is recorded as the Allowance for Subsidy Cost. A subsidy reestimate is normally performed annually, as of September 30. The subsidy reestimate takes into account all factors that may have affected the estimated cash flows. Any adjustment resulting from the reestimate is recognized as a subsidy expense (or a reduction in subsidy expense). The portion of the Allowance for Subsidy Cost related to subsidy modifications and reestimates is calculated annually, as of September 30.

The amount of any downward subsidy reestimates as of September 30 must be disbursed to Treasury in the subsequent fiscal year. Appropriations are normally obtained in the following fiscal year for any upward subsidy reestimates.

I Inventory, Materials, and Supplies, Net

Inventory, Materials, and Supplies, Net are stated at the lower of cost or net realizable value primarily under the average, weighted-average, and first-in, first-out methods, and are adjusted for the results of physical inventories. Inventory, Materials, and Supplies are expensed when consumed. There are no restrictions on their sale, use, or disposition.

J General Property, Plant, and Equipment, Net

General Property, Plant, and Equipment, Net (General PP&E) is composed of capital assets used in providing goods or services. General PP&E is stated at full cost, including all costs related to acquisition, delivery, and installation, less Accumulated Depreciation. General PP&E also includes assets acquired through capital leases, which are initially recorded at the amount recognized as a liability for the capital lease at its inception.

Capitalization Threshold: The Department's general policy is to capitalize General PP&E if the initial acquisition price is $25 thousand or more and the useful life is two years or more. NOAA, NIST and USPTO are an exception to this policy, based on a cost vs. benefits and materiality analysis given the size of these bureaus, having a capitalization threshold of $200 thousand for NOAA, and $50 thousand for NIST and USPTO. General PP&E with an acquisition cost less than the capitalization threshold is expensed when purchased. All bureaus other than NOAA have a personal property bulk purchase capitalization threshold of $250 thousand, and NOAA has a personal property bulk purchase capitalization threshold of $1 million.

Depreciation: Depreciation is recognized on a straight-line basis over the estimated useful life of the asset with the exception of leasehold improvements, which are depreciated over the remaining life of the lease or over the useful life of the improvement, whichever is shorter. Land and Construction-in-progress are not depreciated.

Real Property: GSA provides most of the facilities in which the Department operates, and generally charges rent based on comparable commercial rental rates. Accordingly, GSA-owned properties are not included in the Department's General PP&E. The Department's real property primarily consists of facilities for NIST and NOAA. Land Improvements consist of a retaining wall to protect against shoreline erosion.

Construction-in-progress: Costs for the construction, modification, or modernization of General PP&E are initially recorded as Construction-in-progress. The Department's construction-in-progress consists primarily of satellites under development for NOAA, and major laboratory renovations and construction projects under development for NIST. Upon completion of the work, the costs are transferred to the appropriate General PP&E account.

For the completion of satellites, the Department has elected to change its method of accounting for transferring costs from Construction-in-progress to completed General PP&E. Historically, the Department generally views satellites as operational when all NOAA's instruments associated with satellites are declared operational; however, in certain cases, effective for FY 2013, NOAA will declare certain instruments operational if the instruments are not interdependent.

K Notes Receivable

Notes Receivable, included in Other Assets, arise through the NOAA sale of foreclosed property to non-federal parties. The property is used as collateral, and an Allowance for Uncollectible Amounts is established if the net realizable value of the collateral is less than the outstanding balance of the Notes Receivable. An analysis of the collectability of receivables is performed periodically. Any gains realized through the sale of foreclosed property are initially deferred and recognized in proportion to the percentage of principal repaid.

L Non-entity Assets

Non-entity assets are assets held by the Department that are not available for use in its operations, and for which a liability has been recorded. Non-entity Fund Balance with Treasury includes customer deposits held by the Department until customer orders are received, and monies payable to the Treasury General Fund for custodial activity and loan programs. Non-entity Direct Loans and Loan Guarantees, Net includes EDA's Drought Loan Portfolio; the amount of the portfolio is also recorded as Resources Payable to Treasury.

M Liabilities

A liability for federal accounting purposes is a probable and measurable future outflow or other sacrifice of resources as a result of past transactions or events.

Accounts Payable: Accounts Payable are amounts primarily owed for goods, services, or capitalized assets received, progress on contract performance by others, and other expenses due.

Debt to Treasury: The Department has borrowed funds from Treasury through the Fisheries Finance Financing Account for various NOAA direct loan programs, through the Fishing Vessel Obligation Guarantee (FVOG) loan guarantee program, and through NTIA's Public Safety Trust Fund, and State and Local Implementation Fund. To simplify interest calculations, the Fisheries Finance Financing Account and FVOG borrowings are dated October 1. Interest rates are based on a weighted average of rates during the term of the borrowed funds. The weighted average rate for each cohort's borrowing is recalculated at the end of each fiscal year during which disbursements are made. Annual interest payments on unpaid principal balances as of September 30 are required. Principal repayments are required only at maturity, but are permitted at any time during the term of the loan. The Department's primary financing source for repayments of Debt to Treasury is the collection of principal on the associated Loans Receivable, and deposits from public safety communications and electromagnetic spectrum auction proceeds. Balances of any borrowed but undisbursed Fisheries Finance Financing Account and FVOG funds will earn interest at the same rate used in calculating interest expense. The amounts borrowed by NTIA are interest-free. The amounts reported for Debt to Treasury include accrued interest payable.

Resources Payable to Treasury: Resources Payable to Treasury includes liquidating fund assets in excess of liabilities that are being held as working capital for the Economic Development Revolving Fund loan programs and the FVOG loan guarantee program. EDA's Drought Loan Portfolio is a non-entity asset; therefore, the amount of the Portfolio is also recorded as Resources Payable to Treasury. The Drought Loan Portfolio collections are returned to the Treasury General Fund annually, and the liability is reduced accordingly.

Unearned Revenue: Unearned Revenue is the portion of monies received for which goods and services have not yet been provided or rendered by the Department. Revenue is recognized as reimbursable costs are incurred, and the Unearned Revenue balance is reduced accordingly. Unearned Revenue also includes the balances of customer deposit accounts held by the Department. The intragovernmental Unearned Revenue primarily relates to monies collected in advance under reimbursable agreements. The majority of the Unearned Revenue with the public represents patent and trademark application and user fees that are pending action.

Accrued FECA Liability: The Federal Employees Compensation Act (FECA) provides income and medical cost protection to covered federal civilian employees injured on the job, to employees who have incurred work-related occupational diseases, and to beneficiaries of employees whose deaths are attributable to job-related injuries or occupational diseases. The FECA program is administered by the U.S. Department of Labor (DOL), which pays valid claims against the Department and subsequently seeks reimbursement from the Department for these paid claims. Accrued FECA Liability, included in Intragovernmental Other Liabilities, represents amounts due to DOL for claims paid on behalf of the Department.

Loan Guarantee Liabilities: Post-FY 1991 obligated loan guarantees are governed by the Federal Credit Reform Act of 1990. For a guaranteed loan disbursed during a fiscal year, a subsidy cost is initially recognized. Subsidy costs are intended to estimate the long-term cost to the U.S. government of its loan programs. The subsidy cost equals the present value of estimated cash outflows over the lives of the loans, minus the present value of estimated cash inflows, discounted at the applicable Treasury interest rate. Administrative costs such as salaries are not included in the subsidy costs. Subsidy costs can arise from interest rate differentials, interest subsidies, delinquencies and defaults, loan origination and other fees, and other cash flows. The Department calculates its subsidy costs based on a model created and provided by OMB.

For a non-acquired guaranteed loan outstanding, the present value of the estimated cash inflows less cash outflows of the loan guarantee is recognized as a Loan Guarantee Liability. The Loan Guarantee Liability is normally reestimated annually each fiscal year, as of September 30. The subsidy reestimate takes into account all factors that may have affected the estimated cash flows. Any adjustment resulting from the reestimate is recognized as a subsidy expense (or a reduction in subsidy expense).

Federal Employee Benefits:

Actuarial FECA Liability: Actuarial FECA Liability represents the liability for future workers' compensation (FWC) benefits, which includes the expected liability for death, disability, medical, and miscellaneous costs for approved cases. The liability is determined by DOL annually, as of September 30, using a method that utilizes historical benefits payment patterns related to a specific incurred period to predict the ultimate payments related to that period. For FY 2013, projected annual payments are discounted to present value based on OMB's interest rate assumptions which are interpolated to reflect the average duration in years for income payments and medical payments. In FY 2012, these projected annual benefit payments were discounted to present value using OMB's economic assumptions for ten-year Treasury notes and bonds.

To provide more specifically for the effects of inflation on the liability for FWC benefits, wage inflation factors (Cost of Living Allowance) and medical inflation factors (Consumer Price Index - Medical) are applied to the calculation of projected future benefits. The actual rates for these factors are also used to adjust the methodology's historical payments to current-year constant dollars.

The model's resulting projections are analyzed by DOL to ensure that the amounts are reliable. The analysis is based on four tests: 1) a sensitivity analysis of the model to economic assumptions; 2) a comparison of the percentage change in the liability amount to the percentage change in the actual incremental payments; 3) a comparison of the incremental paid losses per case (a measure of case severity) in charge back-year to the average pattern observed during the most current three charge back-years; and 4) a comparison of the estimated liability per case in the projection to the average pattern for the projections of the most recent three years.

NOAA Corps Retirement System Liability and NOAA Corps Post-retirement Health Benefits Liability: These liabilities are recorded at the actuarial present value of projected benefits, calculated annually, as of September 30. The actuarial cost method used to determine these liabilities is the aggregate entry age normal method. Under this method, the actuarial present value of projected benefits is allocated on a level basis over the earnings or the service of the group between entry age and assumed exit ages. The portion of this actuarial present value allocated to the valuation year is called the normal cost. For purposes of calculating the normal cost, certain actuarial assumptions utilized for the actual valuation of U.S. Military Retirement System are used. Actuarial gains and losses, and prior and past service costs, if any, are recognized immediately in the fiscal year they occur, without amortization. The medical claim rates used for the NOAA Corps Post-retirement Health Benefits Liability actuarial calculations are based on the claim rates used for the U.S. Department of Defense Medicare-Eligible Retiree Health Care Fund actuarial valuations. Demographic assumptions appropriate to covered personnel are also used. For background information about these plans, see Note 1.Q, *Employee Retirement Benefits*.

Environmental and Disposal Liabilities: The Department has incurred asbestos-related cleanup costs related to the costs of removing, containing, and/or disposing of asbestos-containing materials from property, plant, and equipment; specifically, from facilities owned by NIST and NOAA, and from ships owned by NOAA. Effective FY 2013, as described in Note 13, *Environmental and Disposal Liabilities*, the Department implemented Technical Bulletin 2006-1, *Recognition and Measurement of Asbestos-related Cleanup Costs*, which clarifies required recognition of liabilities and expenses for asbestos-related cleanup costs. The Department has estimated its liabilities for asbestos-related cleanup costs for both friable and nonfriable asbestos-related cleanup costs. Estimates of asbestos-related cleanup costs are reviewed periodically, and updated as appropriate, to account for actual or estimated increases or decreases in asbestos-containing materials, material changes due to inflation or deflation, and changes in regulations, plans, and/or technology.

NIST operates a nuclear reactor licensed by the U.S. Nuclear Regulatory Commission, in accordance with NIST's mission of setting standards and examining new technologies. The Department currently estimates the cost of decommissioning this facility to be $75.3 million. The NIST decommissioning estimate includes an assumption that an offsite waste disposal facility will become available, when needed, estimated in 2029. Currently, an offsite disposal location has not been identified, and the NIST environmental liability cost estimate includes an amount approved by the Nuclear Regulatory Commission for offsite waste disposal. The total estimated decommissioning cost is being accrued on a straight-line basis over the expected life of the facility. Under current legislation, funds to cover the expense of decommissioning the facility's nuclear reactor should be requested in a separate appropriation when the decommissioning date becomes relatively certain.

The Department has incurred cleanup costs related to the costs of removing, containing, and/or disposing of hazardous waste from facilities used by NOAA. The Department has estimated its liabilities for environmental cleanup costs at all NOAA-used facilities, including the decommissioning of ships. The largest of NOAA's environmental liabilities relates to the cleanup of the Pribilof Islands in Alaska, which contains waste from the U.S. Department of Defense's use during World War II. The Department does not recognize a liability for environmental cleanup costs for NOAA-used facilities that are less than $25 thousand per project. When an estimate of cleanup costs includes a range of possible costs, the most likely cost is reported. When no cost is more likely than another, the lowest estimated cost in the range is reported. The liability is reduced as progress payments are made.

The Department may have liabilities associated with lead-based paints (LBP) at certain NOAA facilities. The Department has scheduled surveys to assess the potential for liabilities for LBP contamination. All known issues, however, are contained, and NOAA facilities meet current environmental standards. No cost estimates are presently available for facilities that have not yet been assessed for LBP issues.

Accrued Payroll and Annual Leave: These categories include salaries, wages, and other compensation earned by employees, but not disbursed as of September 30. Annually, as of September 30, the balances of Accrued Annual Leave are adjusted to reflect current pay rates. Sick leave and other types of non-vested leave are expensed as taken.

Accrued Grants: The Department administers a diverse array of financial assistance programs and projects concerned with the entire spectrum of business and economic development efforts that promote activities such as expanding U.S. exports, creating jobs, contributing to economic growth, developing innovative technologies, promoting minority entrepreneurship, protecting coastal oceans, providing weather services, managing worldwide environmental data, and using telecommunications and information technologies to better provide public services. Disbursements of funds under the Department's grant programs are generally made when requested by grantees. These drawdown requests may be received and fulfilled before grantees make the program expenditures. When the Department has disbursed funds but the grant recipient has not yet reported expenditures, these disbursements are recorded as advances. If a recipient, however, reports program expenditures that have not been advanced by the Department by September 30, such amounts are recorded as grant expenses and grants payable as of September 30.

Capital Lease Liabilities: Capital leases are leases for property, plant, and equipment that transfer substantially all the benefits and risks of ownership to the Department.

ITA Foreign Service Nationals' Voluntary Separation Pay: This liability, included in Other Liabilities, is based on the salaries and benefit statuses of employees in countries where governing laws require a provision for separation pay.

Contingent Liabilities and Contingencies: A contingency is an existing condition, situation, or set of circumstances involving uncertainty as to possible gain or loss. The uncertainty will ultimately be resolved when one or more future events occur or fail to occur. A contingent liability (included in Other Liabilities) and an expense are recognized when a past event has occurred, and a future outflow or other sacrifice of resources is measurable and probable. A contingency is considered probable when the future confirming event or events are more likely than not to occur, with the exception of pending or threatened litigation and unasserted claims. For pending or threatened litigation and unasserted claims, the future confirming event or events are likely to occur. A contingency is disclosed in the Notes to the Financial Statements if any of the conditions for liability recognition are not met and there is at least a reasonable possibility that a loss or an additional loss may have been incurred. A contingency is considered reasonably possible when the chance of the future confirming event or events occurring is more than remote but less than probable. A contingency is not recognized as a contingent liability and an expense nor disclosed in the Notes to the Financial Statements when the chance of the future event or events occurring is remote. A contingency is considered remote when the chance of the future event or events occurring is slight.

Liabilities Not Covered by Budgetary Resources: These are liabilities for which congressional actions are needed before budgetary resources can be provided. The Department anticipates that liabilities not covered by budgetary resources will be funded from future budgetary resources when required. These amounts are detailed in Note 15.

Under accrual accounting, the expense for annual leave is recognized when the leave is earned. However, for most of the Department's fund groups, appropriations are provided to pay for the leave when it is taken. As a result, budgetary resources do not cover a large portion of Accrued Annual Leave.

The Department generally receives budgetary resources for Federal Employee Benefits when they are needed for disbursements.

N Commitments

Commitments are preliminary actions that will ultimately result in an obligation to the U.S. government if carried through, such as purchase requisitions, estimated travel orders, or unsigned contracts/grants. Major long-term commitments are disclosed in Note 16, *Commitments and Contingencies*.

O Net Position

Net Position is the residual difference between assets and liabilities, and is composed of Unexpended Appropriations and Cumulative Results of Operations.

Unexpended Appropriations represent the total amount of unexpended budget authority that is classified as appropriations, both obligated and unobligated. Unexpended Appropriations is increased for Appropriations Received, is reduced for Appropriations Used, and is adjusted for other changes in appropriations, such as transfers and rescissions. Cumulative Results of Operations is the net result of the Department's operations since inception.

P Revenues and Other Financing Sources

Appropriations Used: Most of the Department's operating funds are provided by congressional appropriations of budget authority. The Department receives appropriations on annual, multiple-fiscal year, and no-year bases. Upon expiration of an annual or multiple-fiscal year appropriation, the obligated and unobligated balances retain their fiscal year identity, and are maintained separately within an expired account. The unobligated balances can be used to make legitimate obligation adjustments, but are otherwise not available for expenditures. Annual and multiple-fiscal year appropriations are canceled at the end of the fifth fiscal year after expiration. No-year appropriations do not expire. Appropriations of budget authority are recognized as used when costs are incurred, for example, when goods and services are received or benefits and grants are provided.

Exchange and Non-exchange Revenue: The Department classifies revenue as either exchange revenue or non-exchange revenue. Exchange revenue is derived from transactions in which both the government and the other party receive value, including processing patents and registering trademarks, the sale of weather data, nautical charts, and navigation information, and other sales of goods and services. This revenue is presented on the Department's *Consolidated Statements of Net Cost*, and serves to reduce the reported cost of operations borne by the taxpayer. Non-exchange revenue is derived from the government's sovereign right to demand payment, including fines for violations of fisheries and marine protection laws. Non-exchange revenue is recognized when a specifically identifiable, legally enforceable claim to resources arises, and to the extent that collection is probable and the amount is reasonably estimable. This revenue is not considered to reduce the cost of the Department's operations and is therefore reported on the *Consolidated Statements of Changes in Net Position*.

In certain cases, law or regulation sets the prices charged by the Department, and, for program and other reasons, the Department may not receive full cost (e.g., the processing of patents and registering of trademarks, and the sale of weather data, nautical charts, and navigation information). Prices set for products and services offered through the Department's working capital funds are intended to recover the full costs incurred by these activities.

Imputed Financing Sources from Cost Absorbed by Others (and Related Imputed Costs): In certain cases, operating costs of the Department are paid for in full or in part by funds appropriated to other federal entities. For example, Civil Service Retirement System pension benefits for applicable Departmental employees are paid for in part by the U.S. Office of Personnel Management (OPM), and certain legal judgments against the Department are paid for in full from the Judgment Fund maintained by Treasury. The Department includes applicable Imputed Costs on the *Consolidated Statements of Net Cost*. In addition, an Imputed Financing Source from Cost Absorbed by Others is recognized on the *Consolidated Statements of Changes in Net Position*.

Transfers In/(Out): Intragovernmental transfers of budget authority (i.e., appropriated funds) or of assets without reimbursement are recorded at book value.

Q Employee Retirement Benefits

Civil Service Retirement System (CSRS) and Federal Employees Retirement System (FERS): Most employees of the Department participate in either the CSRS or FERS defined-benefit pension plans. FERS went into effect on January 1, 1987. FERS and Social Security automatically cover most employees hired after December 31, 1983. Employees hired prior to January 1, 1984 could elect to either join FERS and Social Security, or remain in CSRS.

The Department is not responsible for and does not report CSRS or FERS assets, accumulated plan benefits, or liabilities applicable to its employees. OPM, which administers the plans, is responsible for and reports these amounts.

For CSRS-covered regular employees, the Department was required to make contributions to the plan equal to 7 percent of an employee's basic pay. Employees contributed 7 percent of basic pay. For each fiscal year, OPM calculates the U.S. government's service cost for covered employees, which is an estimate of the amount of funds, that, if accumulated annually and invested over an employee's career, would be enough to pay that employee's future benefits. Since the U.S. government's estimated service cost exceeds contributions made by employer agencies and covered employees, this plan is not fully funded by the Department and its employees. The Department has recognized an Imputed Cost and an Imputed Financing Source From Cost Absorbed by Others for the difference between the estimated service cost and the contributions made by the Department and its covered employees.

For FERS-covered regular employees, for employees hired prior to January 1, 2013, the Department was required to make contributions of 11.9 percent of basic pay. Employees contributed 0.8 percent of basic pay. Effective January 1, 2013, for new employees as defined in Public Law 112-96, Section 5001, the Department was required to make contributions of 9.6 percent of basic pay. Employees contributed 3.1 percent of basic pay. For each fiscal year, OPM calculates the U.S. government's service cost for covered employees. Since the U.S. government's estimated service cost exceeds contributions made by employer agencies and covered employees, this plan was not fully funded by the Department and its employees. The Department has recognized an Imputed Cost and an Imputed Financing Source From Cost Absorbed by Others for the difference between the estimated service cost and the contributions made by the Department and its covered employees.

Employees participating in FERS are covered under the Federal Insurance Contributions Act (FICA), for which the Department contributes a matching amount to the Social Security Administration.

NOAA Corps Retirement System: Active-duty officers of the NOAA Corps are covered by the NOAA Corps Retirement System, an unfunded, pay-as-you-go, defined-benefit plan administered by the Department. Participants do not contribute to this plan. Plan benefits are based primarily on years of service and compensation. Participants, as of September 30, 2013, included 322 active duty officers, 369 nondisability retiree annuitants, 16 disability retiree annuitants, and 51 surviving families. Key provisions include voluntary nondisability retirement after 20 years of active service, disability retirement, optional survivor benefits, Consumer Price Index (CPI) optional survivor benefits, and CPI adjustments for benefits.

Foreign Service Retirement and Disability System, and the Foreign Service Pension System: Foreign Commercial Officers are covered by the Foreign Service Retirement and Disability System and the Foreign Service Pension System. ITA makes contributions to the systems based on a percentage of an employee's pay. Both systems are multi-employer plans administered by the U.S. Department of State. The Department is not responsible for and does not report plan assets, accumulated plan benefits, or liabilities applicable to its employees. The U.S. Department of State, which administers the plan, is responsible for and reports these amounts.

Thrift Savings Plan (TSP): Employees covered by CSRS and FERS are eligible to contribute to the U.S. government's TSP, administered by the Federal Retirement Thrift Investment Board. A TSP account is automatically established for FERS-covered employees, and the Department makes a mandatory contribution of one percent of basic pay. The Department also makes matching contributions of up to four percent of basic pay for FERS-covered employees. FERS and CSRS-covered employees have no limit on the percentage of pay contributed to their TSP account. However, the total employee regular contribution for 2013 and 2012 may not exceed the IRS limit of $17.5 thousand and $17 thousand, respectively. The Department makes no matching contributions for CSRS-covered employees. TSP participants age 50 or older who are already contributing the maximum amount of contributions for which they are eligible may also make catch-up contributions, subject to the IRS dollar limit for catch-up contributions.

Federal Employees Health Benefit (FEHB) Program: Most Departmental employees are enrolled in the FEHB Program, which provides post-retirement health benefits. OPM administers this program and is responsible for the reporting of liabilities. Employer agencies and covered employees are not required to make any contributions for post-retirement health benefits. OPM calculates the U.S. government's service cost for covered employees each fiscal year. The Department has recognized the entire service cost of these post-retirement health benefits for covered employees as an Imputed Cost and an Imputed Financing Source From Cost Absorbed by Others.

NOAA Corps Post-retirement Health Benefits: Active-duty officers of the NOAA Corps are covered by the health benefits program for the NOAA Corps, which provides post-retirement health benefits. This is a pay-as-you-go plan administered by the Department. Participants do not make any contributions to this plan.

Federal Employees Group Life Insurance (FEGLI) Program: Most Department employees are entitled to participate in the FEGLI Program. Participating employees can obtain basic term life insurance, with the employee paying two-thirds of the cost and the Department paying one-third. Additional coverage is optional, to be paid fully by the employee. The basic life coverage may be continued into retirement if certain requirements are met. OPM administers this program and is responsible for the reporting of liabilities. For each fiscal year, OPM calculates the U.S. government's service cost for the post-retirement portion of basic life coverage. Because the Department's contributions to the basic life coverage are fully allocated by OPM to the pre-retirement portion of coverage, the Department has recognized the entire service cost of the post-retirement portion of basic life coverage as an Imputed Cost and an Imputed Financing Source From Cost Absorbed by Others.

R Use of Estimates

The preparation of financial statements requires the Department to make estimates and assumptions that affect these financial statements. Actual results may differ from those estimates.

S Tax Status

The Department is not subject to federal, state, or local income taxes. Accordingly, no provision for income taxes is recorded.

T Fiduciary Activities

Fiduciary activities are the collection or receipt, and the management, protection, accounting, and disposition by the U.S. government of cash or other assets in which non-federal individuals or entities have an ownership interest that the U.S. government must uphold. Fiduciary cash and other assets are not assets of the U.S. government, and, accordingly, are not recognized in the accompanying consolidated financial statements.

The Department's fiduciary activities consist of the following:

The Patent Cooperation Treaty authorizes USPTO to collect patent filing and search fees on behalf of the World Intellectual Property Organization (WIPO), European Patent Office, Korean Intellectual Property Office, and the Australian Patent Office, from U.S. citizens requesting an international patent. The Madrid Protocol Implementation Act authorizes USPTO to collect trademark application fees on behalf of the International Bureau of WIPO from U.S. citizens requesting an international trademark. These fiduciary activities are reported in Note 20.

NOTE 2. FUND BALANCE WITH TREASURY

Fund Balance with Treasury, by type, is as follows:

	FY 2013	FY 2012
General Funds	$ 7,903,145	$ 8,987,526
Revolving Funds	790,716	970,075
Special Funds		
Digital Television Transition and Public Safety Fund	8,828,569	8,842,490
Patent and Trademark Surcharge Fund	233,529	233,529
Others	82,511	83,948
Deposit Funds	135,562	138,405
Trust Funds	28,427	4,611
Other Fund Types	38	697
Total	$ 18,002,497	$ 19,261,281

Status of Fund Balance with Treasury is as follows:

	FY 2013	FY 2012
Temporarily Precluded From Obligation	$ 947,581	$ 796,526
Unobligated Balance		
Available	1,470,060	1,293,699
Unavailable	9,126,545	9,058,369
Obligated Balance Not Yet Disbursed	6,089,565	7,740,057
Non-budgetary	368,746	372,630
Total	$ 18,002,497	$ 19,261,281

See Note 18, *Combined Statements of Budgetary Resources*, for legal arrangements affecting the Department's use of Fund Balance with Treasury for FY 2013 and FY 2012.

NOTE 3. ACCOUNTS RECEIVABLE, NET

FY 2013	Accounts Receivable, Gross	Allowance for Uncollectible Accounts	Accounts Receivable, Net
Intragovernmental	$ 92,197	$ -	$ 92,197
With the Public	$ 75,908	$ (11,778)	$ 64,130

FY 2012	Accounts Receivable, Gross	Allowance for Uncollectible Accounts	Accounts Receivable, Net
Intragovernmental	$ 116,009	$ -	$ 116,009
With the Public	$ 116,327	$ (11,386)	$ 104,941

As a major partner in the federal response to the 2010 Deepwater Horizon oil spill, NOAA has incurred certain costs for providing coordinated scientific weather and biological response services to that region, for which it expects to be reimbursed. NOAA has receivables from an oil company (With the Public) for restoration activities that are winding down totaling $13.0 million and $66.0 million as of September 30, 2013 and 2012, respectively. NOAA believes these receivables are fully collectible, based on costs submitted to date, and reimbursements received. Therefore, no allowance for uncollectible accounts has been established for these receivables.

NOTE 4. CASH

	FY 2013	FY 2012
Cash Not Yet Deposited with Treasury	$ 5,453	$ 4,463
Imprest Funds	353	371
Total	$ 5,806	$ 4,834

Cash Not Yet Deposited with Treasury primarily represents patent and trademark fees that were not processed as of September 30, due to the lag time between receipt and initial review. Certain bureaus maintain imprest funds for operational necessity, such as law enforcement activities, and for environments that do not permit the use of electronic payments.

NOTE 5. DIRECT LOANS AND LOAN GUARANTEES, NET

The Department operates the following direct loan and loan guarantee programs:

Direct Loan Programs:	
EDA	Drought Loan Portfolio
EDA	Economic Development Revolving Fund
NOAA	Alaska Purse Seine Fishery Buyback Loans
NOAA	Bering Sea and Aleutian Islands Non-Pollock Buyback Loans
NOAA	Bering Sea Pollock Fishery Buyback
NOAA	Coastal Energy Impact Program (CEIP)
NOAA	Crab Buyback Loans
NOAA	Federal Gulf of Mexico Reef Fish Buyback Loans[1]
NOAA	Fisheries Finance Individual Fishing Quota (IFQ) Loans
NOAA	Fisheries Finance Traditional Loans
NOAA	Fisheries Finance Tuna Fleet Loans
NOAA	Fisheries Loan Fund
NOAA	New England Groundfish Buyback Loans[1]
NOAA	New England Lobster Buyback Loans[1]
NOAA	Pacific Groundfish Buyback Loans

[1] No loans have been issued under these programs as of September 30, 2013.

Loan Guarantee Programs:	
EDA	Economic Development Revolving Fund
ELGP-Steel	Emergency Steel Loan Guarantee Program
NOAA	Fishing Vessel Obligation Guarantee Program (FVOG Program)

The net assets for the Department's loan programs consist of:

	FY 2013	FY 2012
Direct Loans Obligated Prior to FY 1992	$ 14,750	$ 17,062
Direct Loans Obligated After FY 1991	518,423	552,764
Defaulted Guaranteed Loans from Pre-FY 1992 Guarantees	3	4
Defaulted Guaranteed Loans from Post-FY 1991 Guarantees	516	518
Total	$ 533,692	$ 570,348

Direct Loans Obligated Prior to FY 1992 consist of:

FY 2013

Direct Loan Program	Loans Receivable, Gross	Interest Receivable	Allowance for Loan Losses	Value of Assets Related to Direct Loans, Net
CEIP	$ 20,021	$ 5,222	$ (19,561)	$ 5,682
Drought Loan Portfolio	5,684	-	-	5,684
Fisheries Loan Fund	148	16	(164)	-
Economic Development Revolving Fund	3,416	3	(35)	3,384
Total	$ 29,269	$ 5,241	$ (19,760)	$ 14,750

FY 2012

Direct Loan Program	Loans Receivable, Gross	Interest Receivable	Allowance for Loan Losses	Value of Assets Related to Direct Loans, Net
CEIP	$ 20,124	$ 5,065	$ (19,404)	$ 5,785
Drought Loan Portfolio	7,207	95	(73)	7,229
Fisheries Loan Fund	148	16	(164)	-
Economic Development Revolving Fund	4,066	22	(40)	4,048
Total	$ 31,545	$ 5,198	$ (19,681)	$ 17,062

Direct Loans Obligated After FY 1991 consist of:

FY 2013

Direct Loan Program	Loans Receivable, Gross	Interest Receivable	Allowance for Subsidy Cost (Present Value)	Value of Assets Related to Direct Loans, Net
Bering Sea and Aleutian Islands Non-Pollock Buyback Loans	$ 33,468	$ 265	$ 4,862	$ 38,595
Bering Sea Pollock Fishery Buyback	38,070	37	2,294	40,401
Crab Buyback Loans	87,235	1,248	23,033	111,516
Fisheries Finance IFQ Loans	24,015	225	3,982	28,222
Fisheries Finance Traditional Loans	218,917	1,882	30,847	251,646
Pacific Groundfish Buyback Loans	29,498	46	7,845	37,389
Alaska Purse Seine Fishery Buyback Loans	10,106	15	533	10,654
Total	$ 441,309	$ 3,718	$ 73,396	$ 518,423

FY 2012

Direct Loan Program	Loans Receivable, Gross	Interest Receivable	Allowance for Subsidy Cost (Present Value)	Value of Assets Related to Direct Loans, Net
Bering Sea and Aleutian Islands Non-Pollock Buyback Loans	$ 32,122	$ 72	$ 6,425	$ 38,619
Bering Sea Pollock Fishery Buyback	42,695	75	2,817	45,587
Crab Buyback Loans	89,533	2,786	24,424	116,743
Fisheries Finance IFQ Loans	24,803	240	4,054	29,097
Fisheries Finance Traditional Loans	240,004	1,964	29,876	271,844
Pacific Groundfish Buyback Loans	30,040	989	7,724	38,753
Alaska Purse Seine Fishery Buyback Loans	11,861	13	247	12,121
Total	$ 471,058	$ 6,139	$ 75,567	$ 552,764

New Disbursements of Direct Loans (Post-FY 1991):

Direct Loan Program	FY 2013	FY 2012
Fisheries Finance IFQ Loans	$ 1,922	$ 5,595
Fisheries Finance Traditional Loans	18,181	56,734
Bering Sea and Aleutian Islands Non-Pollock Buyback Loans	2,700	-
Alaska Purse Seine Fishery Buyback Loans	-	13,133
Total	$ 22,803	$ 75,462

Subsidy Expense for Direct Loans by Program and Component:

Subsidy Expense for New Disbursements of Direct Loans:

FY 2013

Direct Loan Program	Interest Rate Differential	Defaults	Fees and Other Collections	Other	Total
Fisheries Finance IFQ Loans	$ (419)	$ 4	$ (13)	$ 176	$ (252)
Fisheries Finance Traditional Loans	(2,628)	11	(86)	804	(1,899)
Bering Sea and Aleutian Islands Non-Pollock Buyback Loans	(843)	870	-	-	27
Total	$ (3,890)	$ 885	$ (99)	$ 980	$ (2,124)

FY 2012

Direct Loan Program	Interest Rate Differential	Defaults	Fees and Other Collections	Other	Total
Fisheries Finance IFQ Loans	$ (1,205)	$ 11	$ (35)	$ 472	$ (757)
Fisheries Finance Traditional Loans	(8,017)	60	(194)	2,763	(5,388)
Total	$ (9,222)	$ 71	$ (229)	$ 3,235	$ (6,145)

Modifications and Reestimates:

FY 2013

Direct Loan Program	Total Modifications	Interest Rate Reestimates	Technical Reestimates	Total Reestimates
Bering Sea and Aleutian Islands Non-Pollock Buyback Loans	$ -	$ -	$ 1,206	$ 1,206
Bering Sea Pollock Fishery Buyback	-	-	30	30
Crab Buyback Loans	-	-	618	618
Fisheries Finance IFQ Loans	-	-	(3)	(3)
Fisheries Finance Traditional Loans	-	-	(953)	(953)
Pacific Groundfish Buyback Loans	-	-	(465)	(465)
Alaska Purse Seine Fishery Buyback Loans	-	-	(462)	(462)
Total	$ -	$ -	$ (29)	$ (29)

FY 2012

Direct Loan Program	Total Modifications	Interest Rate Reestimates	Technical Reestimates	Total Reestimates
Bering Sea and Aleutian Islands Non-Pollock Buyback Loans	$ -	$ -	$ 523	$ 523
Bering Sea Pollock Fishery Buyback	-	-	911	911
Crab Buyback Loans	-	-	(7,434)	(7,434)
Fisheries Finance IFQ Loans	-	-	1,045	1,045
Fisheries Finance Traditional Loans	-	-	7,481	7,481
Fisheries Finance Tuna Fleet Loans	-	-	-	-
Pacific Groundfish Buyback Loans	-	-	552	552
Total	$ -	$ -	$ 3,078	$ 3,078

Total Direct Loan Subsidy Expense:

Direct Loan Program	FY 2013	FY 2012
Bering Sea and Aleutian Islands Non-Pollock Buyback Loans	$ 1,233	$ 523
Bering Sea Pollock Fishery Buyback	30	911
Crab Buyback Loans	618	(7,434)
Fisheries Finance IFQ Loans	(255)	288
Fisheries Finance Traditional Loans	(2,852)	2,093
Pacific Groundfish Buyback Loans	(465)	552
Alaska Purse Seine Fishery Buyback Loans	(462)	-
Total	$ (2,153)	$ (3,067)

Subsidy Rates for Direct Loans by Program and Component:

Budget Subsidy Rates for Direct Loans for the Current Fiscal-year's Cohorts:

FY 2013

Direct Loan Program	Interest Rate Differential	Defaults	Fees and Other Collections	Other	Total
Fisheries Finance IFQ Loans	(10.87) %	0.10 %	(0.40) %	8.47 %	(2.70) %
Fisheries Finance Traditional Loans	(7.95) %	0.06 %	(0.49) %	3.55 %	(4.83) %

FY 2012

Direct Loan Program	Interest Rate Differential	Defaults	Fees and Other Collections	Other	Total
Fisheries Finance IFQ Loans	(23.54) %	0.19 %	(0.79) %	11.34 %	(12.80) %
Fisheries Finance Traditional Loans	(18.46) %	0.06 %	(0.53) %	5.16 %	(13.77) %
Alaska Purse Seine Fishery Buyback Loans	(3.24) %	4.24 %	0.00 %	0.00 %	1.00 %

The budget subsidy rates disclosed pertain only to the reporting period's cohorts. These rates cannot be applied to the new disbursements of direct loans during the reporting period to yield the subsidy expense. The subsidy expense for new disbursements of direct loans for the reporting period could result from disbursements of loans from both the reporting period's cohorts and prior fiscal-year(s) cohorts. The subsidy expense for the reporting period may also include modifications and reestimates.

Schedule for Reconciling Allowance for Subsidy Cost (Post-FY 1991 Direct Loans):

	FY 2013	FY 2012
Beginning Balance of the Allowance for Subsidy Cost	$ 75,567	$ 80,837
Add Subsidy Expense for Direct Loans Disbursed During the Reporting Years by Component:		
Interest Rate Differential Costs	3,890	9,222
Default Costs (Net of Recoveries)	(885)	(71)
Fees and Other Collections	99	229
Other Subsidy Costs	(980)	(3,235)
Total of the above Subsidy Expense Components	2,124	6,145
Adjustments:		
Loan Modifications	-	(131)
Fees Received	(96)	(305)
Subsidy Allowance Amortization	(4,262)	(7,901)
Other	34	-
Total of Adjustments	(4,324)	(8,337)
Ending Balance of the Allowance for Subsidy Cost Before Reestimates	73,367	78,645
Add or Subtract Subsidy Reestimates by Component:		
Technical/Default Reestimates	29	(3,078)
Ending Balance of the Allowance for Subsidy Cost	$ 73,396	$ 75,567

Defaulted Guaranteed Loans from Pre-FY 1992 Guarantees:

FY 2013

Loan Guarantee Program	Defaulted Guaranteed Loans Receivable, Gross	Interest Receivable	Allowance for Loan Losses	Value of Assets Related to Defaulted Guaranteed Loans Receivable, Net
FVOG Program	$ 7,318	$ 1	$ (7,316)	$ 3

FY 2012

Loan Guarantee Program	Defaulted Guaranteed Loans Receivable, Gross	Interest Receivable	Allowance for Loan Losses	Value of Assets Related to Defaulted Guaranteed Loans Receivable, Net
FVOG Program	$ 7,318	$ 1	$ (7,315)	$ 4

Defaulted Guaranteed Loans from Post-FY 1991 Guarantees:

FY 2013

Loan Guarantee Program	Defaulted Guaranteed Loans Receivable, Gross	Interest Receivable	Allowance for Subsidy Cost (Present Value)	Value of Assets Related to Defaulted Guaranteed Loans Receivable, Net
FVOG Program	$ 14,128	$ 1,254	$ (14,866)	$ 516

FY 2012

Loan Guarantee Program	Defaulted Guaranteed Loans Receivable, Gross	Interest Receivable	Allowance for Subsidy Cost (Present Value)	Value of Assets Related to Defaulted Guaranteed Loans Receivable, Net
FVOG Program	$ 14,128	$ 1,254	$ (14,864)	$ 518

Loan Guarantees:

Guaranteed Loans Outstanding:

Outstanding non-acquired guaranteed loans as of September 30, 2013 and 2012, which are not reflected in the financial statements, are as follows:

	FY 2013		FY 2012	
Loan Guarantee Program	Outstanding Principal of Guaranteed Loans, Face Value	Amount of Outstanding Principal Guaranteed	Outstanding Principal of Guaranteed Loans, Face Value	Amount of Outstanding Principal Guaranteed
FVOG Program	$ 1,195	$ 1,195	$ 1,613	$ 1,613

New Guaranteed Loans Disbursed:

There were no new guaranteed loans disbursed during FY 2013 and FY 2012.

Loan Guarantee Liabilities:

	FY 2013	FY 2012
Loan Guarantee Program	Loan Guarantee Liabilities for Post-FY 1991 Guarantees, Present Value	Loan Guarantee Liabilities for Post-FY 1991 Guarantees, Present Value
FVOG Program	$ 516	$ 518

Subsidy Expense for Loan Guarantees by Program and Component:

Subsidy Expense for New Loan Guarantees Disbursed:

As there were no new guaranteed loans disbursed during FY 2013 and FY 2012, there is not any related subsidy expense.

Modifications and Reestimates:

FY 2013	
Loan Guarantee Program	Total Modifications
FVOG Program	$ -

FY 2013		
Interest Rate Reestimates	Technical Reestimates	Total Reestimates
$ -	$ -	$ -

FY 2012	
Loan Guarantee Program	Total Modifications
FVOG Program	$ -

FY 2012		
Interest Rate Reestimates	Technical Reestimates	Total Reestimates
$ -	$ (1)	$ (1)

Total Loan Guarantee Subsidy Expense:

Loan Guarantee Program	FY 2013	FY 2012
FVOG Program	$ -	$ (1)

Subsidy Rates for Loan Guarantees by Program and Component:

Budget Subsidy Rates for Loan Guarantees for the Current Fiscal-year's Cohorts:

There were no new cohorts of guaranteed loans during FY 2013 and FY 2012.

Schedule for Reconciling Loan Guarantee Liabilities (Post-FY 1991 Loan Guarantees):

	FY 2013	FY 2012
Beginning Balance of Loan Guarantee Liabilities	$ 518	$ 563
Adjustments:		
Interest Accumulation on the Liabilities Balance	-	(45)
Other	(2)	-
Ending Balance of Loan Guarantee Liabilities	$ 516	$ 518

Administrative Expenses:

Administrative expenses in support of the Department's direct loan and loan guarantee programs consist of:

Direct Loan Program	FY 2013	FY 2012
Drought Loan Portfolio and Economic Development Revolving Fund	$ 256	$ 696
NOAA Direct Loan Programs	3,147	2,780
Total	$ 3,403	$ 3,476

Loan Guarantee Program	FY 2013	FY 2012
FVOG Program	$ 170	$ 141

NOTE 6. INVENTORY, MATERIALS, AND SUPPLIES, NET

Category	Cost Flow Assumption	FY 2013	FY 2012
Inventory			
Items Held for Current Sale			
NIST Standard Reference Materials	Average	$ 22,087	$ 21,612
Other	Various	305	923
Allowance for Excess, Obsolete, and Unserviceable Items		(60)	(93)
Total Inventory, Net		22,332	22,442
Materials and Supplies			
Items Held for Use			
NOAA's National Logistics Support Center	Weighted-average	51,507	46,700
Other	Various	5,168	4,902
Items Held for Repair			
NOAA's National Reconditioning Center	Weighted-average	39,761	41,576
Allowance for Excess, Obsolete, and Unserviceable Items		(19,161)	(10,642)
Total Materials and Supplies, Net		77,275	82,536
Total		$ 99,607	$ 104,978

NIST's Standard Reference Materials Program provides reference materials for quality assurance of measurements, while NOAA's Materials and Supplies are primarily repair parts for weather forecasting equipment.

NOTE 7. GENERAL PROPERTY, PLANT, AND EQUIPMENT, NET

FY 2013

Category	Useful Life (Years)	Cost	Accumulated Depreciation	Net Book Value
Land	N/A	$ 16,632	$ -	$ 16,632
Land Improvements	30-40	2,996	(1,563)	1,433
Structures, Facilities, and Leasehold Improvements	2-50	1,949,787	(670,153)	1,279,634
Satellites/Weather Systems Personal Property	3-20	5,999,648	(3,909,346)	2,090,302
Other Personal Property	2-30	2,876,375	(1,927,274)	949,101
Assets Under Capital Lease	3-40	23,237	(19,287)	3,950
Construction-in-progress	N/A	6,762,792	-	6,762,792
Total		$ 17,631,467	$ (6,527,623)	$ 11,103,844

The Department elected to change its method of accounting for the completion of satellites, as discussed in Note 1J, *General Property, Plant, and Equipment, Net*. As a result, the FY 2013 Net Position – Cumulative Results of Operations beginning balance (as of October 1, 2012) is reduced for depreciation expense of $75.9 million, on the *Changes in Accounting Principle* line on the FY 2013 *Consolidated Statement of Changes in Net Position*.

FY 2012

Category	Useful Life (Years)	Cost	Accumulated Depreciation	Net Book Value
Land	N/A	$ 16,733	$ -	$ 16,733
Land Improvements	30-40	2,996	(1,471)	1,525
Structures, Facilities, and Leasehold Improvements	2-50	1,778,876	(616,975)	1,161,901
Satellites/Weather Systems Personal Property	3-20	4,734,829	(3,973,204)	761,625
Other Personal Property	2-30	2,697,484	(1,772,375)	925,109
Assets Under Capital Lease	3-40	23,182	(19,203)	3,979
Construction-in-progress	N/A	7,129,640	-	7,129,640
Total		$ 16,383,740	$ (6,383,228)	$ 10,000,512

NOTE 8. OTHER ASSETS

	FY 2013	FY 2012
With the Public		
Advances and Prepayments	$ 37,534	$ 40,220
Note Receivable	1,517	1,567
Bibliographic Database, Net	5,728	6,114
Other	118	375
Total	$ 44,897	$ 48,276

As of September 30, 2013 and 2012, there is one Note Receivable with a maturity date of July 2024 and an interest rate of 7.0 percent. The balance includes accrued interest.

The bibliographic database relates to NTIS's scientific and technical information used to prepare products and services for sale. The database is stated at capitalized costs of $70.0 million and $67.8 million, less accumulated amortization of $64.3 million and $61.7 million, as of September 30, 2013 and 2012, respectively.

NOTE 9. NON-ENTITY ASSETS

The assets that are not available for use in the Department's operations are summarized below:

	FY 2013	FY 2012
Intragovernmental		
Fund Balance with Treasury	$ 121,319	$ 124,296
Accounts Receivable	7,222	10,496
Total Intragovernmental	128,541	134,792
With the Public		
Cash	1,145	1,133
Accounts Receivable, Net	331	490
Direct Loans and Loan Guarantees, Net	8,407	7,229
Other	1,674	-
Total	$ 140,098	$ 143,644

NOTE 10. DEBT TO TREASURY

FY 2013

Loan Program	Beginning Balance	Net Borrowings (Repayments)	Ending Balance
Direct Loan Program			
Fisheries Finance, Financing Account	$ 551,742	$ (27,177)	$ 524,565
Loan Guarantee Program			
FVOG Program	1	(1)	-
NTIA's Public Safety Trust Fund, and State and Local Implementation Fund	2,538	48,500	51,038
Total	$ 554,281	$ 21,322	$ 575,603

For the Direct Loan program, maturity dates range from September 2013 to September 2052, and interest rates range from 2.59 to 5.84 percent. For NTIA's Debt to Treasury, the maturity date is September 30, 2022, and the amounts borrowed are interest-free.

FY 2012

Loan Program	Beginning Balance	Net Borrowings (Repayments)	Ending Balance
Direct Loan Program			
Fisheries Finance, Financing Account	$ 539,302	$ 12,440	$ 551,742
Loan Guarantee Program			
FVOG Program	699	(698)	1
NTIA's Public Safety Trust Fund, and State and Local Implementation Fund	-	2,538	2,538
Total	$ 540,001	$ 14,280	$ 554,281

NOTE 11. OTHER LIABILITIES

	FY 2013			FY 2012
	Current Portion	Non-current Portion	Total	Total
Intragovernmental				
Accrued FECA Liability	$ 27,103	$ 8,402	$ 35,505	$ 36,197
Accrued Benefits	30,608	-	30,608	53,117
Custodial Activity	230	-	230	490
Downward Subsidy Reestimates Payable to Treasury	7,222	-	7,222	10,496
Other	940	-	940	2,112
Total	$ 66,103	$ 8,402	$ 74,505	$ 102,412
With the Public				
ITA Foreign Service Nationals' Voluntary Separation Pay	$ 2,783	$ 9,439	$ 12,222	$ 11,745
Contingent Liabilities (Note 16)	625	-	625	502
Employment-related	5,842	-	5,842	4,295
Other	45,411	-	45,411	41,190
Total	$ 54,661	$ 9,439	$ 64,100	$ 57,732

The Current Portion represents liabilities expected to be paid by September 30, 2014, while the Non-current Portion represents liabilities expected to be paid after September 30, 2014.

NOTE 12. FEDERAL EMPLOYEE BENEFITS

	FY 2013	FY 2012
Actuarial FECA Liability	$ 242,691	$ 228,211
NOAA Corps Retirement System Liability	612,200	577,900
NOAA Corps Post-retirement Health Benefits Liability	42,300	45,100
Total	$ 897,191	$ 851,211

Actuarial FECA Liability:

Actuarial FECA liability is calculated annually, as of September 30. For discounting projected annual future benefit payments to present value, the interest rate assumptions used by DOL were as follows:

	FY 2013	FY 2012
Year 1	2.73%	2.29%
Year 2 and Thereafter	3.13%	3.14%

The wage inflation factors (Cost of Living Allowance) and medical inflation factors (Consumer Price Index - Medical) applied to the calculation of projected future benefits, and also used to adjust the methodology's historical payments to current-year constant dollars, were as follows:

FY 2013		
Fiscal Year	Cost of Living Allowance	Consumer Price Index - Medical
2014	1.67 %	3.46 %
2015	1.80 %	3.82 %
2016	2.20 %	3.83 %
2017	2.20 %	3.82 %
2018	2.20 %	3.82 %

FY 2012		
Fiscal Year	Cost of Living Allowance	Consumer Price Index - Medical
2013	2.83 %	3.65 %
2014	2.03 %	3.66 %
2015	1.93 %	3.72 %
2016	2.00 %	3.73 %
2017	2.03 %	3.80 %

NOAA Corps Retirement System Liability:

This liability represents the unfunded actuarial present value of projected plan benefits. The actuarial calculation is performed annually, as of September 30. The September 30, 2013 and 2012 actuarial calculations used the following economic assumptions:

	FY 2013	FY 2012
Discount Rate	4.23%	4.43%
Annual Basic Pay Scale Increases	2.93%	2.96%
Annual Inflation	2.43%	2.46%

Schedule for Reconciling NOAA Corps Retirement System Liability:

A reconciliation of the NOAA Corps Retirement System Liability from the beginning balance to the ending balance, including the components of the related pension costs included in the *Consolidated Statements of Net Costs*, follows:

	FY 2013	FY 2012
Beginning Balance - NOAA Corps Retirement System Liability	$ 577,900	$ 524,100
Add Pension Costs:		
Normal Cost	11,900	10,600
Interest on the Unfunded Liability	23,900	24,300
Actuarial (Gains)/Losses, Net		
From Experience	3,300	3,700
From Discount Rate Assumption Change	17,100	24,100
From Long-term Assumption Changes		
Annual Inflation	(1,900)	4,600
Annual Basic Pay Scale Increases	(800)	(800)
Demographic	3,100	9,800
Other	900	-
Total Pension Costs	57,500	76,300
Subtract Benefit Payments	(23,200)	(22,500)
Ending Balance - NOAA Corps Retirement System Liability	$ 612,200	$ 577,900

NOAA Corps Post-retirement Health Benefits Liability:

This liability represents the unfunded actuarial present value of projected post-retirement plan benefits. The actuarial calculation is performed annually, as of September 30. The actuarial calculations used the following economic assumptions:

	FY 2013	FY 2012
Discount Rate	4.21%	4.42%
Ultimate Medical Trend Rate	5.35%	5.25%

Schedule for Reconciling NOAA Corps Post-retirement Health Benefits Liability:

A reconciliation of the NOAA Corps Post-retirement Health Benefits Liability from the beginning balance to the ending balance, including the components of the related post-retirement health benefits costs included in the *Consolidated Statements of Net Costs*, follows:

	FY 2013	FY 2012
Beginning Balance - NOAA Corps Post-retirement Health Benefits Liability	$ 45,100	$ 48,400
Add Health Benefits Costs:		
Normal Cost	1,400	1,400
Interest on the Unfunded Liability	1,800	2,000
Actuarial (Gains)/Losses, Net		
From Experience	1,200	700
From Discount Rate Assumption Change	600	1,200
From Long-term Assumption Changes		
Medical Claims Costs	(5,300)	(6,300)
Other	100	200
Total Health Benefits Costs	(200)	(800)
Subtract Benefit Payments	(2,600)	(2,500)
Ending Balance - NOAA Corps Post-retirement Health Benefits Liability	$ 42,300	$ 45,100

NOTE 13. ENVIRONMENTAL AND DISPOSAL LIABILITIES

	FY 2013	FY 2012
Asbestos-related Cleanup Costs	$ 95,832	$ -
Nuclear Reactor	56,232	55,036
Pribilof Islands	2,074	2,352
Other	2,535	2,557
Total	$ 156,673	$ 59,945

The Department has incurred asbestos-related cleanup costs related to the costs of removing, containing, and/or disposing of asbestos-containing materials from property, plant, and equipment, specifically from facilities owned by NIST and NOAA and from ships owned by NOAA. Effective FY 2013, the Department implemented Technical Bulletin 2006-1, *Recognition and Measurement of Asbestos-related Cleanup Costs*, which clarifies required recognition of liabilities and expenses for asbestos-related cleanup costs. Prior to this technical bulletin, most federal entities had recognized liabilities for the removal of asbestos that posed an immediate health threat (i.e., friable asbestos), but many federal entities had not prepared an estimate of cleanup costs for the future removal of asbestos that did not pose an immediate health threat (i.e., nonfriable asbestos). The Federal Accounting Standards Advisory Board determined that additional guidance was needed to clarify that federal entities need to estimate all asbestos-related cleanup costs, and not just those costs related to asbestos that require immediate cleanup. The FY 2013 beginning liability balance (as of October 1, 2012) for asbestos-related cleanup costs of $93.4 million is recorded as a Change in Accounting Principle on the FY 2013 *Consolidated Statement of Changes in Net Position*.

NOTE 14. LEASES

Capital Leases:

Assets under capital leases are as follows:

	FY 2013	FY 2012
Structures, Facilities, and Leasehold Improvements	$ 22,957	$ 22,902
Equipment	280	280
Less: Accumulated Depreciation	(19,287)	(19,203)
Net Assets Under Capital Leases	$ 3,950	$ 3,979

Capital Lease Liabilities are primarily related to NOAA. NOAA has real property capital leases covering both land and buildings. The majority of these leases are for weather forecasting offices, but the leases are also for radar system sites, river forecasting centers, and National Weather Service enforcement centers. NOAA's real property capital leases range from 10 to 40 years.

Capital Lease Liabilities:

Future payments due under capital leases are as follows:

FY 2013			
	General PP&E Category		
Fiscal Year	Real Property	Personal Property	Total
2014	$ 3,051	$ 317	$ 3,368
2015	1,886	293	2,179
2016	874	350	1,224
2017	808	-	808
2018	808	-	808
Thereafter	8,334	-	8,334
Total Future Lease Payments	15,761	960	16,721
Less: Imputed Interest	(7,277)	(25)	(7,302)
Less: Executory Costs	(2,398)	-	(2,398)
Net Capital Lease Liabilities	$ 6,086	$ 935	$ 7,021

FY 2012						
	General PP&E Category					
Fiscal Year	Real Property		Personal Property		Total	
2013	$	3,674	$	95	$	3,769
2014		2,985		-		2,985
2015		1,870		-		1,870
2016		874		-		874
2017		809		-		809
Thereafter		9,141		-		9,141
Total Future Lease Payments		19,353		95		19,448
Less: Imputed Interest		(7,932)		(6)		(7,938)
Less: Executory Costs		(3,127)		(6)		(3,133)
Net Capital Lease Liabilities	$	8,294	$	83	$	8,377

Operating Leases:

Most of the Department's facilities are rented from GSA, which generally charges rent that is intended to approximate commercial rental rates. For federally owned property rented from GSA, the Department generally does not execute an agreement with GSA; the Department, however, is normally required to give 120 to 180 days notice to vacate. For non-federally owned property rented from GSA, an occupancy agreement is generally executed, and the Department may normally cancel these agreements with 120 days notice.

The Department's 1) estimated real property rent payments to GSA for FY 2014 through FY 2018; and 2) future payments due under noncancellable operating leases (non-GSA real property) are as follows:

FY 2013				
	General PP&E Category			
Fiscal Year	GSA Real Property		Non-GSA Real Property	
2014	$	274,528	$	23,515
2015		278,500		21,462
2016		274,168		17,144
2017		276,935		11,332
2018		280,041		11,091
Thereafter		[1]		87,132
Total Future Lease Payments			$	171,676

[1] *Not estimated.*

NOTE 15. LIABILITIES NOT COVERED BY BUDGETARY RESOURCES

	FY 2013	FY 2012
Intragovernmental		
Accrued FECA Liability	$ 35,408	$ 36,097
Total Intragovernmental	35,408	36,097
Accrued Payroll	50,955	39,450
Accrued Annual Leave	272,350	270,955
Federal Employee Benefits	897,191	851,211
Environmental and Disposal Liabilities	156,673	59,945
Contingent Liabilities	625	502
Unearned Revenue	489,275	592,829
ITA Foreign Service Nationals' Voluntary Separation Pay	12,222	11,745
Other	100	3
Total	$ 1,914,799	$ 1,862,737

Due to USPTO's funding structure, budgetary resources do not cover a portion of its Unearned Revenue. The Unearned Revenue reported above is the portion of USPTO's Unearned Revenue that is considered not covered by budgetary resources. USPTO's Unearned Revenue is a liability for revenue received before the patent or trademark work has been completed. Budgetary resources derived from the current reporting period's revenue have been partially used to cover the current reporting period's costs associated with unearned revenue from a prior reporting period. In addition, the current patent fee structure sets low initial application fees that are followed by income from maintenance fees as a supplement in later years to cover the full cost of the patent examination and issuance processes. The combination of these funding circumstances requires USPTO to obtain additional budgetary resources to cover its liability for unearned revenue.

NOTE 16. COMMITMENTS AND CONTINGENCIES

Commitments:

The Department has entered into long-term contracts for the purchase, construction, and modernization of environmental satellites and weather measuring and monitoring systems. A summary of major long-term commitments as of September 30, 2013 is shown below.

Major Long-term Commitments:

FY 2013							
Description	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	Thereafter	Total
Geostationary Operational Environmental Satellites	$ 977,700	$ 874,700	$ 810,700	$ 731,300	$ 603,700	$ 2,825,900	$ 6,824,000
Convergence Satellites	916,000	958,600	943,600	921,100	892,700	2,997,200	7,629,200
Polar Operational Environmental Satellites	29,400	32,200	28,100	5,700	-	-	95,400
Ocean Surface Topography	37,000	25,700	7,500	7,300	7,300	7,200	92,000
Deep Space Climate Observatory	23,700	7,800	3,200	2,400	2,300	-	39,400
Weather Service	56,025	82,027	81,966	50,219	50,546	50,880	371,663
Total	$ 2,039,825	$ 1,981,027	$ 1,875,066	$ 1,718,019	$ 1,556,546	$ 5,881,180	$ 15,051,663

Legal Contingencies:

The Department is subject to potential liabilities in various administrative proceedings, legal actions, environmental suits, and claims brought against it. In the opinion of the Department's management and legal counsel, the ultimate resolution of these proceedings, actions, suits, and claims will not materially affect the financial position or net costs of the Department.

Probable Likelihood of an Adverse Outcome:

The Department is subject to potential liabilities where adverse outcomes are probable, and claims are approximately $625 thousand and $502 thousand as of September 30, 2013 and 2012, respectively. Accordingly, these contingent liabilities were included in Other Liabilities on the *Consolidated Balance Sheets* as of September 30, 2013 and 2012, respectively. For a majority of these claims, any amounts ultimately due will be paid out of Treasury's Judgment Fund. For the claims to be paid by Treasury's Judgment Fund, once the claims are settled or court judgments are assessed relative to the Department, the liability will be removed and an Imputed Financing Source From Cost Absorbed by Others will be recognized.

Reasonably Possible Likelihood of an Adverse Outcome:

The Department and other federal agencies are subject to potential liabilities for a variety of environmental cleanup costs, many of which are associated with the Second World War, at various sites within the U.S. Since some of the potential liabilities represent claims with no stated amount, the exact amount of total potential liabilities is unknown, but may exceed $235.5 million as of September 30, 2013. For these potential liabilities, it is reasonably possible that an adverse outcome will result. It is not possible, however, to speculate as to a range of loss. In the absence of a settlement agreement, decree, or judgment, there is neither an allocation of response costs between the U.S. government and other potentially responsible parties, nor is there an attribution of such costs to or among the federal agencies implicated in the claims. Although the Department has been implicated as a responsible party, the U.S. Department of Justice was unable to provide an amount for these potential liabilities that is attributable to the Department. Of these potential liabilities, all will be funded by Treasury's Judgment Fund, if any amounts are ultimately due.

The Department and other federal agencies are subject to other potential liabilities. Since some of the potential liabilities represent claims with no stated amount, the exact amount of total potential liabilities is unknown, but may exceed $95.3 million as of September 30, 2013. For these potential liabilities, it is reasonably possible that an adverse outcome will result. It is not possible, however, to speculate as to a range of loss. Of these potential liabilities, most will be funded by Treasury's Judgment Fund, if any amounts are ultimately due.

Guaranteed Loan Contingencies:

Fishing Vessels Obligation Guarantee Program: This loan guarantee program has outstanding non-acquired guaranteed loans (fully guaranteed by the Department) as of September 30, 2013 and 2012, with outstanding principal balances totaling $1.2 million and $1.6 million, respectively. A loan guarantee liability of $516 thousand and $518 thousand is recorded for the outstanding guarantees as of September 30, 2013 and 2012, respectively.

Restructuring the National Polar-orbiting Operational Environmental Satellite System (NPOESS) to the Joint Polar Satellite System (JPSS):

In 2010, the Executive Office of the President directed the restructure of the government's approach to meeting its polar-orbiting environmental data collection needs, to put the critical program on a more sustainable path towards success and announced NOAA and the Air Force will cease the joint procurement of NPOESS.

NOAA, with the National Aeronautics and Space Administration (NASA) as its acquisition agent, is responsible for JPSS, which will fly in the afternoon orbit. The U.S. Department of Defense is responsible for the early morning orbit, and will continue to provide observations in the midmorning. The agencies will continue to partner in those areas that have been successful in the past, such as sharing a common ground system. NOAA and NASA will continue to partner to ensure a successful way forward for the respective programs, while utilizing international partnerships to sustain and enhance weather and climate observation from space.

The restructuring effort primarily occurred in FY 2011. During this time, NOAA and the Air Force continued to work together to decide which program components will transfer to NOAA to become part of JPSS. During FY 2011, the following equipment and instruments were transferred to NOAA under the NASA/NOAA Memorandum of Understanding and NASA contracts: 1) ground systems equipment; 2) Ozone Mapping and Profiler Suite; 3) Cross-track Infrared Sounder; and 4) Visible Infrared Imaging Radiometer Suite Flight Model 2 for JPSS-1. Advanced Technology Microwave Sounder was transferred to NOAA. As a result of the restructuring efforts, NOAA recorded additional impairment costs totaling $98.3 million in FY 2012.

NOAA/NASA will develop the JPSS-1 spacecraft based on the design used for the Suomi National Polar-orbiting Partnership (S-NPP) satellite, and NOAA is planning a request for proposal to compete contract construction for the spacecraft for JPSS-2 in FY 2014. NOAA/NASA launched the S-NPP satellite on October 28, 2011.

In FY 2013, NOAA placed the Common Ground System into service, at a cost of $1.07 billion. The Common Ground System will continue to undergo significant system development in the future, which will result in asset improvements.

NOTE 17. CONSOLIDATED STATEMENTS OF NET COST

United States Department of Commerce Consolidating Statement of Net Cost
For the Year Ended September 30, 2013

	NOAA	NTIA	NIST	USPTO	ESA	Others	Departmental Management	Combining Total	Intra-Departmental Eliminations	Consolidating Total
Theme 1: Economic Growth										
Intragovernmental Gross Costs	$ -	$ 82,077	$ 128,948	$ 540,346	$ -	$ 270,225	$ 78,968	$ 1,100,564	$ (99,147)	$ 1,001,417
Gross Costs With the Public	-	990,514	882,595	2,000,081	-	772,969	27,233	4,673,392	-	4,673,392
Total Gross Costs	-	1,072,591	1,011,543	2,540,427	-	1,043,194	106,201	5,773,956	(99,147)	5,674,809
Intragovernmental Earned Revenue	-	(21,847)	(88,509)	(8,841)	-	(21,530)	(70,350)	$(211,077)	99,147	(111,930)
Earned Revenue From the Public	-	(46)	(59,174)	(2,711,131)	-	(14,365)	(4)	(2,784,720)	-	(2,784,720)
Total Earned Revenue	-	(21,893)	(147,683)	(2,719,972)	-	(35,895)	(70,354)	(2,995,797)	99,147	(2,896,650)
Net Program Costs	**-**	**1,050,698**	**863,860**	**(179,545)**	**-**	**1,007,299**	**35,847**	**2,778,159**	**-**	**2,778,159**
Theme 2: Science and Information										
Intragovernmental Gross Costs	443,802	7,895	-	-	386,840	7,354	78,968	924,859	(99,077)	825,782
Gross Costs With the Public	2,058,890	10,923	-	-	1,150,818	68,524	27,234	3,316,389	-	3,316,389
Total Gross Costs	2,502,692	18,818	-	-	1,537,658	75,878	106,202	4,241,248	(99,077)	4,142,171
Intragovernmental Earned Revenue	(114,026)	(13,919)	-	-	(323,196)	(64,576)	(70,350)	(586,067)	99,077	(486,990)
Earned Revenue From the Public	(11,139)	(868)	-	-	(12,878)	(10,633)	(4)	(35,522)	-	(35,522)
Total Earned Revenue	(125,165)	(14,787)	-	-	(336,074)	(75,209)	(70,354)	(621,589)	99,077	(522,512)
Net Program Costs	**2,377,527**	**4,031**	**-**	**-**	**1,201,584**	**669**	**35,848**	**3,619,659**	**-**	**3,619,659**
Theme 3: Environmental Stewardship										
Intragovernmental Gross Costs	335,498	-	-	-	-	-	78,982	414,480	(68,016)	346,464
Gross Costs With the Public	1,865,448	-	-	-	-	-	27,252	1,892,700	-	1,892,700
Total Gross Costs	2,200,946	-	-	-	-	-	106,234	2,307,180	(68,016)	2,239,164
Intragovernmental Earned Revenue	(78,357)	-	-	-	-	-	(70,371)	(148,728)	68,016	(80,712)
Earned Revenue From the Public	(69,231)	-	-	-	-	-	(4)	(69,235)	-	(69,235)
Total Earned Revenue	(147,588)	-	-	-	-	-	(70,375)	(217,963)	68,016	(149,947)
Net Program Costs	**2,053,358**	**-**	**-**	**-**	**-**	**-**	**35,859**	**2,089,217**	**-**	**2,089,217**
NET COST OF OPERATIONS	**$ 4,430,885**	**$ 1,054,729**	**$ 863,860**	**$ (179,545)**	**$ 1,201,584**	**$ 1,007,968**	**$ 107,554**	**$ 8,487,035**	**$ -**	**$ 8,487,035**

United States Department of Commerce Consolidating Statement of Net Cost
For the Year Ended September 30, 2012

	NOAA	USPTO	ESA	NIST	NTIA	Others	Departmental Management	Combining Total	Intra-Departmental Eliminations	Consolidating Total
Theme 1: Economic Growth										
Intragovernmental Gross Costs	$ -	$ 483,396	$ -	$ 125,745	$ 345,827	$ 272,589	$ 79,800	$ 1,307,357	$ (95,034)	$ 1,212,323
Gross Costs With the Public	-	1,837,551	-	972,610	1,674,127	807,458	26,966	5,318,712	-	5,318,712
Total Gross Costs	-	2,320,947	-	1,098,355	2,019,954	1,080,047	106,766	6,626,069	(95,034)	6,531,035
Intragovernmental Earned Revenue	-	(7,823)	-	(118,029)	(26,001)	(18,635)	(71,877)	$ (242,365)	95,034	(147,331)
Earned Revenue From the Public	-	(2,419,259)	-	(51,128)	(11)	(11,217)	(6)	(2,481,621)	-	(2,481,621)
Total Earned Revenue	-	(2,427,082)	-	(169,157)	(26,012)	(29,852)	(71,883)	(2,723,986)	95,034	(2,628,952)
Net Program Costs	**-**	**(106,135)**	**-**	**929,198**	**1,993,942**	**1,050,195**	**34,883**	**3,902,083**	**-**	**3,902,083**
Theme 2: Science and Information										
Intragovernmental Gross Costs	503,442	-	430,834	-	9,267	7,549	79,800	1,030,892	(87,433)	943,459
Gross Costs With the Public	1,971,193	-	1,142,989	-	13,120	58,505	26,966	3,212,773	-	3,212,773
Total Gross Costs	2,474,635	-	1,573,823	-	22,387	66,054	106,766	4,243,665	(87,433)	4,156,232
Intragovernmental Earned Revenue	(121,911)	-	(311,753)	-	(15,641)	(57,841)	(71,877)	(579,023)	87,433	(491,590)
Earned Revenue From the Public	(13,415)	-	(4,863)	-	(215)	(10,480)	(6)	(28,979)	-	(28,979)
Total Earned Revenue	(135,326)	-	(316,616)	-	(15,856)	(68,321)	(71,883)	(608,002)	87,433	(520,569)
Net Program Costs	**2,339,309**	**-**	**1,257,207**	**-**	**6,531**	**(2,267)**	**34,883**	**3,635,663**	**-**	**3,635,663**
Theme 3: Environmental Stewardship										
Intragovernmental Gross Costs	336,681	-	-	-	-	-	79,823	416,504	(89,071)	327,433
Gross Costs With the Public	1,976,631	-	-	-	-	-	26,974	2,003,605	-	2,003,605
Total Gross Costs	2,313,312	-	-	-	-	-	106,797	2,420,109	(89,071)	2,331,038
Intragovernmental Earned Revenue	(106,167)	-	-	-	-	-	(71,898)	(178,065)	89,071	(88,994)
Earned Revenue From the Public	(97,763)	-	-	-	-	-	(6)	(97,769)	-	(97,769)
Total Earned Revenue	(203,930)	-	-	-	-	-	(71,904)	(275,834)	89,071	(186,763)
Net Program Costs	**2,109,382**	**-**	**-**	**-**	**-**	**-**	**34,893**	**2,144,275**	**-**	**2,144,275**
NET COST OF OPERATIONS	**$ 4,448,691**	**$ (106,135)**	**$ 1,257,207**	**$ 929,198**	**$ 2,000,473**	**$ 1,047,928**	**$ 104,659**	**$ 9,682,021**	**$ -**	**$ 9,682,021**

Major Programs: The following tables illustrate major programs of the Department. "Other Programs" refers to the other programs within each theme. The "Others" column refers to the Department's reporting entities that are not listed. The Others column data and the Other Programs data are presented solely to reconcile these tables to the Combining Total columns on the *Consolidating Statements of Net Cost*.

United States Department of Commerce Combining Statement of Net Cost by Major Program
For the Year Ended September 30, 2013

PROGRAM COSTS	NOAA	NTIA	NIST	Census Bureau	USPTO	Others	Combining Total
Theme 1: Economic Growth							
Measurements and Standards Laboratories							
Gross Costs	$ -	$ -	$ 728,183	$ -	$ -	$ -	$ 728,183
Less: Earned Revenue	-	-	(62,933)	-	-	-	(62,933)
Net Program Costs	**-**	**-**	**665,250**	**-**	**-**	**-**	**665,250**
Broadband Technology Opportunities Program							
Gross Costs	-	973,612	-	-	-	-	973,612
Less: Earned Revenue	-	-	-	-	-	-	-
Net Program Costs	**-**	**973,612**	**-**	**-**	**-**	**-**	**973,612**
Patents							
Gross Costs	-	-	-	-	2,281,196	-	2,281,196
Less: Earned Revenue	-	-	-	-	(2,458,295)	-	(2,458,295)
Net Program Costs	**-**	**-**	**-**	**-**	**(177,099)**	**-**	**(177,099)**
Trademarks							
Gross Costs	-	-	-	-	213,147	-	213,147
Less: Earned Revenue	-	-	-	-	(261,677)		(261,677)
Net Program Costs	**-**	**-**	**-**	**-**	**(48,530)**	**-**	**(48,530)**
Other Programs							
Gross Costs	-	98,979	283,360	-	46,084	1,149,395	1,577,818
Less: Earned Revenue	-	(21,893)	(84,750)	-		(106,249)	(212,892)
Net Program Costs	**-**	**77,086**	**198,610**	**-**	**46,084**	**1,043,146**	**1,364,926**
Net Program Costs for Theme 1	**-**	**1,050,698**	**863,860**	**-**	**(179,545)**	**1,043,146**	**2,778,159**
Theme 2: Science and Information							
Decennial and Periodic Censuses							
Gross Costs	-	-	-	254,707	-	-	254,707
Less: Earned Revenue	-	-		-	-	-	-
Net Program Costs	**-**	**-**	**-**	**254,707**	**-**	**-**	**254,707**
Weather, Water, and Climate							
Gross Costs	1,345,237	-	-	-	-	-	1,345,237
Less: Earned Revenue	(65,093)	-	-	-	-	-	(65,093)
Net Program Costs	**1,280,144**	**-**	**-**	**-**	**-**	**-**	**1,280,144**
Other Programs							
Gross Costs	1,157,455	18,818	-	1,174,257	-	290,774	2,641,304
Less: Earned Revenue	(60,072)	(14,787)	-	(329,153)	-	(152,484)	(556,496)
Net Program Costs	**1,097,383**	**4,031**	**-**	**845,104**	**-**	**138,290**	**2,084,808**
Net Program Costs for Theme 2	**2,377,527**	**4,031**	**-**	**1,099,811**	**-**	**138,290**	**3,619,659**
Theme 3: Environmental Stewardship							
Sustainable Fisheries							
Gross Costs	1,222,506	-	-	-	-	-	1,222,506
Less: Earned Revenue	(112,206)	-	-	-	-	-	(112,206)
Net Program Costs	**1,110,300**	**-**	**-**	**-**	**-**	**-**	**1,110,300**
Other Programs							
Gross Costs	978,440	-	-	-	-	106,234	1,084,674
Less: Earned Revenue	(35,382)	-	-	-	-	(70,375)	(105,757)
Net Program Costs	**943,058**	**-**	**-**	**-**	**-**	**35,859**	**978,917**
Net Program Costs for Theme 3	**2,053,358**	**-**	**-**		**-**	**35,859**	**2,089,217**
NET COST OF OPERATIONS	**$ 4,430,885**	**$ 1,054,729**	**$ 863,860**	**$ 1,099,811**	**$ (179,545)**	**$ 1,217,295**	**$ 8,487,035**

United States Department of Commerce Combining Statement of Net Cost by Major Program
For the Year Ended September 30, 2012

PROGRAM COSTS	NOAA	Census Bureau	NIST	USPTO	Others	Combining Total
Theme 1: Economic Growth						
Measurements and Standards Laboratories						
Gross Costs	$ -	$ -	$ 811,695	$ -	$ -	$ 811,695
Less: Earned Revenue	-	-	(125,094)	-	-	(125,094)
Net Program Costs	**-**	**-**	**686,601**	**-**	**-**	**686,601**
Patents						
Gross Costs	-	-	-	2,079,357	-	2,079,357
Less: Earned Revenue	-	-	-	(2,180,532)	-	(2,180,532)
Net Program Costs	**-**	**-**	**-**	**(101,175)**	**-**	**(101,175)**
Trademarks						
Gross Costs	-	-	-	201,307	-	201,307
Less: Earned Revenue	-	-	-	(246,550)	-	(246,550)
Net Program Costs	**-**	**-**	**-**	**(45,243)**	**-**	**(45,243)**
Other Programs						
Gross Costs	-	-	286,660	40,283	3,206,767	3,533,710
Less: Earned Revenue	-	-	(44,063)	-	(127,747)	(171,810)
Net Program Costs	**-**	**-**	**242,597**	**40,283**	**3,079,020**	**3,361,900**
Net Program Costs for Theme 1	**-**	**-**	**929,198**	**(106,135)**	**3,079,020**	**3,902,083**
Theme 2: Science and Information						
Decennial and Periodic Censuses						
Gross Costs	-	325,354	-	-	-	325,354
Less: Earned Revenue	-	-	-	-	-	-
Net Program Costs	**-**	**325,354**	**-**	**-**	**-**	**325,354**
Weather, Water, and Climate						
Gross Costs	1,186,688	-	-	-	-	1,186,688
Less: Earned Revenue	(67,816)	-	-	-	-	(67,816)
Net Program Costs	**1,118,872**	**-**	**-**	**-**	**-**	**1,118,872**
Other Programs						
Gross Costs	1,287,947	1,134,931	-	-	308,745	2,731,623
Less: Earned Revenue	(67,510)	(311,497)	-	-	(161,179)	(540,186)
Net Program Costs	**1,220,437**	**823,434**	**-**	**-**	**147,566**	**2,191,437**
Net Program Costs for Theme 2	**2,339,309**	**1,148,788**	**-**	**-**	**147,566**	**3,635,663**
Theme 3: Environmental Stewardship						
Sustainable Fisheries						
Gross Costs	1,262,385	-	-	-	-	1,262,385
Less: Earned Revenue	(126,357)	-	-	-	-	(126,357)
Net Program Costs	**1,136,028**	**-**	**-**	**-**	**-**	**1,136,028**
Other Programs						
Gross Costs	1,050,927	-	-	-	106,797	1,157,724
Less: Earned Revenue	(77,573)	-	-	-	(71,904)	(149,477)
Net Program Costs	**973,354**	**-**	**-**	**-**	**34,893**	**1,008,247**
Net Program Costs for Theme 3	**2,109,382**	**-**	**-**	**-**	**34,893**	**2,144,275**
NET COST OF OPERATIONS	**$ 4,448,691**	**$ 1,148,788**	**$ 929,198**	**$ (106,135)**	**$ 3,261,479**	**$ 9,682,021**

NOTE 18. COMBINED STATEMENTS OF BUDGETARY RESOURCES

Budgetary Resources:

The amount of Budget Authority, *Appropriations*, on the *Combined Statements of Budgetary Resources* (SBR) reconciles to the amount of Budgetary Financing Sources, *Appropriations Received*, reported on the *Consolidated Statements of Changes in Net Position* (SCNP), as follows:

	FY 2013	FY 2012
Budget Authority, Appropriations (SBR)	$ 7,907,642	$ 8,035,812
Reconciling Items:		
Appropriations for Receipts Unavailable for Obligation on SBR; $0 on SCNP	(347)	4,302
Negative Appropriations for Permanent Reductions on SBR; $0 on SCNP as Classified as Rescissions/ Sequestrations of Appropriations on SCNP	560,334	5,450
Transfers In/Out, Net on SBR; $0 on SCNP as Classified as Transfers on SCNP	(155,674)	(124,628)
Appropriations for Temporary Reductions on SBR; $0 on SCNP	3,671	-
Appropriated Receipts for NOAA and DM/G&B on SBR; $0 on SCNP as Classified as Earned Revenue on Consolidated Statements of Net Cost	(21,751)	(36,678)
Budgetary Financing Sources, Appropriations Received (SCNP)	$ 8,293,875	$ 7,884,258

Total borrowing authority available for NTIA's Public Safety Trust Fund, and State and Local Implementation Fund amounted to $206.3 million and $0, while total borrowing authority available for NOAA's loan programs amounted to $138.9 million and $129.6 million, as of September 30, 2013 and 2012, respectively. The Borrowing Authority amounts reported in the SBR Budgetary Resources section represent only borrowing authority realized during the fiscal year being reported. See Note 1M, *Debt to Treasury*, for debt repayment requirements, financing sources for repayments, and other terms of borrowing authority used.

All of the Department's reporting entities have one or more permanent no-year appropriations to finance operations.

Permanent reductions to the Department's budgetary resources under Public Laws 113-6 and 113-2 amounted to $560.3 million for FY 2013, while permanent reductions for FY 2012 under Public Law 112-55 amounted to $23.6 million. These permanent reductions are included in the SBR Budgetary Resources section, and are also included on the Rescissions/Sequestrations lines of the SNCP when applicable.

Legal arrangements affecting the Department's use of Unobligated Balances of Budget Authority and/or Fund Balance with Treasury during FY 2013 and FY 2012 include the following:

- The Department's Deposit Funds, reported in Note 2, *Fund Balance with Treasury*, are not available to finance operating activities. These funds are also included in Note 2 on the line Non-budgetary (breakdown by status).

- The Department's Fund Balance with Treasury as of September 30, 2013 and 2012 includes $790.1 million of USPTO offsetting collections exceeding the current fiscal year and prior fiscal years' appropriations. USPTO may use these funds only as authorized by the U.S. Congress, and only as made available by the issuance of a Treasury warrant. These funds are included in Note 2 on the lines *General Funds* (breakdown by type), and *Temporarily Precluded From Obligation* (breakdown by status).
- The Omnibus Budget Reconciliation Act of 1990 established surcharges on certain statutory patent fees collected by USPTO. Subsequent legislation extended the surcharges through September 30, 1998. These surcharges were deposited into the Patent and Trademark Surcharge Fund, a Special Fund Receipt Account at Treasury. USPTO may use monies from this account only as authorized by Congress and made available by the issuance of a Treasury warrant. As of September 30, 2013 and 2012, $233.5 million is held in the Patent and Trademark Surcharge Fund. These funds are included in Note 2 on the lines *Patent and Trademark Surcharge Fund* - Special Funds section (breakdown by type), and *Non-budgetary* (breakdown by status).
- The Department's Fund Balance with Treasury as of September 30, 2013 includes $147.7 million of USPTO sequestered funds temporarily not available. These funds are included in Note 2 on the lines *General Funds* (breakdown by type), and *Temporarily Precluded from Obligation* (breakdown by status).
- The Department's Fund Balance with Treasury as of September 30, 2013 and 2012 includes unapportioned funds for the Digital Television and Transition Public Safety Fund of $8.80 billion and $8.75 billion, respectively. These funds are included in Note 2 on the lines *Digital Television and Transition Public Safety Fund* - Special Funds section (breakdown by type), and *Unobligated Balance - Unavailable* (breakdown by status).
- The Department's Fund Balance with Treasury as of September 30, 2012 includes $17.8 million of funds temporarily not available for the Coastal Zone Management Fund, which accounts for the Coastal Energy Impact Program direct loans. These funds are included in Note 2 on the lines *Revolving Funds* (breakdown by type), and *Temporarily Precluded From Obligation* (breakdown by status).
- For loan programs prior to the Federal Credit Reform Act of 1990 (pre-FY 1992 loans), most or all liquidating fund unobligated balances in excess of working capital needs are required to be transferred to Treasury as soon as practicable during the following fiscal year.
- For direct loan programs under the Federal Credit Reform Act of 1990 (post-FY 1991 loans) that have outstanding debt to Treasury, regulations require that most unobligated balances be returned to Treasury on September 30, or require that the borrowing authority be cancelled on September 30.
- For loan guarantee programs under the Federal Credit Reform Act of 1990 that have outstanding debt to Treasury, regulations require that unobligated balances in excess of the outstanding guaranteed loans' principal and interest be returned to Treasury on September 30.

Comparison to Budget of the U.S. Government: There are no material differences between the amounts reported in the FY 2012 and FY 2011 *Combined Statement of Budgetary Resources* and the actual FY 2012 and FY 2011 amounts reported in the FY 2014 and FY 2013 budget of the U.S. government, respectively. The President's Budget that will report actual amounts for FY 2013 has not yet been published.

Apportionment Categories of Obligations Incurred:

Category A apportionments distribute budgetary resources by fiscal quarters, whereas Category B apportionments typically distribute budgetary resources by activities, projects, objects, or a combination of these categories.

The amounts of Direct (i.e., derived from Appropriations) and Reimbursable (i.e., derived from Spending Authority From Offsetting Collections) Obligations Incurred by apportionment category are as follows:

	FY 2013		
	Direct	Reimbursable	Total
Category A	$ 2,661,918	$ 2,988,976	$ 5,650,894
Category B	5,582,690	939,840	6,522,530
Exempt from Apportionment	181,342	-	181,342
Total Obligations Incurred	$ 8,425,950	$ 3,928,816	$ 12,354,766

	FY 2012		
	Direct	Reimbursable	Total
Category A	$ 2,878,116	$ 2,818,764	$ 5,696,880
Category B	5,397,788	968,668	6,366,456
Exempt from Apportionment	174,761	-	174,761
Total Obligations Incurred	$ 8,450,665	$ 3,787,432	$ 12,238,097

Undelivered Orders: Undelivered orders were $5.73 billion and $7.35 billion as of September 30, 2013 and 2012, respectively.

Digital Television Transition and Public Safety Fund: NTIA's Digital Television Transition and Public Safety Fund (Fund) was created by the Digital Television Transition and Public Safety Act of 2005. The Fund received proceeds from the auction of licenses for recovered analog spectrum from discontinued analog television signals, and provides funding for several programs from these receipts; as of September 30, 2013, payments for the programs under the Fund may not exceed $2.82 billion. The Federal Communications Commission (FCC) completed the auction of licenses for recovered analog spectrum in March 2008. The auction resulted in proceeds of $18.96 billion, which were deposited to the Fund by FCC on June 30, 2008. In September 2009, the Fund transferred $7.36 billion to the General Fund of the Treasury as required by the Act. The Department understands that Congress' intent is for the Fund to further transfer funds beyond the needs of its programs to the General Fund of the Treasury. As of September 30, 2013, the Fund has a Net Position, Cumulative Results of Operations balance of $8.86 billion.

NOTE 19. CUSTODIAL NONEXCHANGE ACTIVITY

NOAA receives interest, penalties, and fines primarily related to its past due Accounts Receivable, while BIS receives civil monetary penalties from private entities that violate the Export Administration Act. These collections are required to be transferred to Treasury. For FY 2013, the Department has custodial nonexchange revenue of $6.5 million; custodial nonexchange revenue of $229 thousand was payable to Treasury as of September 30, 2013. For FY 2012, the Department had custodial nonexchange revenue of $8.8 million; custodial nonexchange revenue of $490 thousand was payable to Treasury as of September 30, 2012.

NOTE 20. FIDUCIARY ACTIVITIES

Schedule of Fiduciary Activities for the Year Ended September 30, 2013:

	FY 2013		
	Patent Cooperation Treaty	**Madrid Protocol**	**Total**
Fiduciary Net Assets, Beginning Balance	$ 12,620	$ 400	$ 13,020
Contributions	162,565	17,451	180,016
Disbursements to and on Behalf of Beneficiaries	(160,821)	(17,367)	(178,188)
Increase/(Decrease) in Fiduciary Net Assets	1,744	84	1,828
Fiduciary Net Assets, Ending Balance	$ 14,364	$ 484	$ 14,848

Fiduciary Net Assets as of September 30, 2013:

	FY 2013		
	Patent Cooperation Treaty	**Madrid Protocol**	**Total**
Fund Balance with Treasury	$ 14,364	$ 484	$ 14,848

Schedule of Fiduciary Activities for the Year Ended September 30, 2012:

	FY 2012		
	Patent Cooperation Treaty	**Madrid Protocol**	**Total**
Fiduciary Net Assets, Beginning Balance	$ 12,864	$ 338	$ 13,202
Contributions	153,716	14,361	168,077
Disbursements to and on Behalf of Beneficiaries	(153,960)	(14,299)	(168,259)
Increase/(Decrease) in Fiduciary Net Assets	(244)	62	(182)
Fiduciary Net Assets, Ending Balance	$ 12,620	$ 400	$ 13,020

Fiduciary Net Assets as of September 30, 2012:

	FY 2012		
	Patent Cooperation Treaty	**Madrid Protocol**	**Total**
Fund Balance with Treasury	$ 12,620	$ 400	$ 13,020

NOTE 21. FUNDS FROM DEDICATED COLLECTIONS

The following tables depict major funds from dedicated collections separately chosen based on their significant financial activity and importance to taxpayers. All other funds from dedicated collections not shown are aggregated as "Other Funds from Dedicated Collections."

United States Department of Commerce Consolidating Balance Sheet – Funds from Dedicated Collections As of September 30, 2013

	USPTO Funds from Dedicated Collections	NTIA Digital Television Transition and Public Safety Fund	Damage Assessment and Restoration Revolving Fund	Environmental Improvement and Restoration Fund	Other Funds from Dedicated Collections	Total Funds from Dedicated Collections
ASSETS						
Fund Balance with Treasury	$ 1,879,152	$ 8,828,569	$ 199,417	$ 28,677	$ 51,831	$ 10,987,646
Cash	4,309	-	-	-	-	4,309
Accounts Receivable, Net	177	-	1,496	-	196	1,869
General Property, Plant, and Equipment, Net	257,008	-	-	-	-	257,008
Other	9,658	31,143	35	34	1,093	41,963
TOTAL ASSETS	**$ 2,150,304**	**$ 8,859,712**	**$ 200,948**	**$ 28,711**	**$ 53,120**	**$ 11,292,795**
LIABILITIES						
Accounts Payable	$ 80,399	$ 2	$ 255	$ -	$ 3,224	$ 83,880
Debt To Treasury	-	-	-	-	51,038	51,038
Federal Employee Benefits	9,711	-	-	-	-	9,711
Other						
Accrued Payroll and Annual Leave	170,265	-	119	-	152	170,536
Accrued Grants	-	1,331	550	1,100	288	3,269
Unearned Revenue	931,548	-	-	-	-	931,548
Other Liabilities	9,144	-	39	-	28	9,211
TOTAL LIABILITIES	**$ 1,201,067**	**$ 1,333**	**$ 963**	**$ 1,100**	**$ 54,730**	**$ 1,259,193**
NET POSITION						
Unexpended Appropriations	$ -	$ -	$ -	$ -	$ -	$ -
Cumulative Results of Operations	949,237	8,858,379	199,985	27,611	(1,610)	10,033,602
TOTAL NET POSITION	**$ 949,237**	**$ 8,858,379**	**$ 199,985**	**$ 27,611**	**$ (1,610)**	**$ 10,033,602**
TOTAL LIABILITIES AND NET POSITION	**$ 2,150,304**	**$ 8,859,712**	**$ 200,948**	**$ 28,711**	**$ 53,120**	**$ 11,292,795**

United States Department of Commerce Consolidating Balance Sheet – Funds from Dedicated Collections As of September 30, 2012 (Restated)

	USPTO Funds from Dedicated Collections	NTIA Digital Television Transition and Public Safety Fund	Damage Assessment and Restoration Revolving Fund	Environmental Improvement and Restoration Fund	Other Funds from Dedicated Collections	Total Funds from Dedicated Collections
ASSETS						
Fund Balance with Treasury	$ 1,606,244	$ 8,842,490	$ 229,485	$ 36,197	$ 24,832	$ 10,739,248
Cash	3,330	-	-	-	-	3,330
Accounts Receivable, Net	751	-	1,468	-	182	2,401
General Property, Plant, and Equipment, Net	236,979	-	-	-	-	236,979
Other	13,106	74,523	1	42	-	87,672
TOTAL ASSETS	**$ 1,860,410**	**$ 8,917,013**	**$ 230,954**	**$ 36,239**	**$ 25,014**	**$ 11,069,630**
LIABILITIES						
Accounts Payable	$ 75,186	$ 1,346	$ 17,278	$ -	$ 155	$ 93,965
Debt To Treasury	-	-	-	-	2,538	2,538
Federal Employee and Veteran Benefits	8,209	-	-	-	-	8,209
Other						
Accrued Payroll and Annual Leave	200,395	10	379	-	-	200,784
Accrued Grants	-	7,093	586	1,172	244	9,095
Unearned Revenue	830,954	-	-	-	-	830,954
Other Liabilities	18,792	-	115	-	422	19,329
TOTAL LIABILITIES	**$ 1,133,536**	**$ 8,449**	**$ 18,358**	**$ 1,172**	**$ 3,359**	**$ 1,164,874**
NET POSITION						
Unexpended Appropriations	$ -	$ -	$ -	$ -	$ -	$ -
Cumulative Results of Operations	726,874	8,908,564	212,596	35,067	21,655	9,904,756
TOTAL NET POSITION	**$ 726,874**	**$ 8,908,564**	**$ 212,596**	**$ 35,067**	**$ 21,655**	**$ 9,904,756**
TOTAL LIABILITIES AND NET POSITION	**$ 1,860,410**	**$ 8,917,013**	**$ 230,954**	**$ 36,239**	**$ 25,014**	**$ 11,069,630**

United States Department of Commerce Consolidating Statement of Net Cost – Funds from Dedicated Collections For the Year Ended September 30, 2013

	USPTO Funds from Dedicated Collections	NTIA Digital Television Transition and Public Safety Fund	Damage Assessment and Restoration Revolving Fund	Environmental Improvement and Restoration Fund	Other Funds from Dedicated Collections	Total Funds from Dedicated Collections
Theme 1: Economic Growth						
Gross Costs	$ 2,540,427	$ 50,185	$ -	$ -	$ 19,529	$ 2,610,141
Less: Earned Revenue	(2,719,972)	-	-	-	-	(2,719,972)
Net Program Costs	**(179,545)**	**50,185**	**-**	**-**	**19,529**	**(109,831)**
Theme 2: Science and Information						
Gross Costs	-	-	-	-	-	-
Less: Earned Revenue	-	-	-	-	-	-
Net Program Costs	**-**	**-**	**-**	**-**	**-**	**-**
Theme 3: Environmental Stewardship						
Gross Costs	-	-	113,041	7,456	10,774	131,271
Less: Earned Revenue	-	-	-	-	-	-
Net Program Costs	**-**	**-**	**113,041**	**7,456**	**10,774**	**131,271**
NET COST OF OPERATIONS	**$ (179,545)**	**$ 50,185**	**$ 113,041**	**$ 7,456**	**$ 30,303**	**$ 21,440**

United States Department of Commerce Consolidating Statement of Net Cost – Funds from Dedicated Collections For the Year Ended September 30, 2012 (Restated)

	USPTO Funds from Dedicated Collections	NTIA Digital Television Transition and Public Safety Fund	Damage Assessment and Restoration Revolving Fund	Environmental Improvement and Restoration Fund	Other Funds from Dedicated Collections	Total Funds from Dedicated Collections
Theme 1: Economic Growth						
Gross Costs	$ 2,320,947	$ 327,399	$ -	$ -	$ 391	$ 2,648,737
Less: Earned Revenue	(2,427,082)	-	-	-	-	(2,427,082)
Net Program Costs	**(106,135)**	**327,399**	**-**	**-**	**391**	**221,655**
Theme 2: Science and Information						
Gross Costs	-	-	-	-	-	-
Less: Earned Revenue	-	-	-	-	-	-
Net Program Costs	**-**	**-**	**-**	**-**	**-**	**-**
Theme 3: Environmental Stewardship						
Gross Costs	-	-	127,756	9,746	9,526	147,028
Less: Earned Revenue	-	-	-	-	-	-
Net Program Costs	**-**	**-**	**127,756**	**9,746**	**9,526**	**147,028**
NET COST OF OPERATIONS	**$ (106,135)**	**$ 327,399**	**$ 127,756**	**$ 9,746**	**$ 9,917**	**$ 368,683**

United States Department of Commerce Consolidating Statement of Changes in Net Position – Funds from Dedicated Collections For the Year Ended September 30, 2013

	USPTO Funds from Dedicated Collections	NTIA Digital Television Transition and Public Safety Fund	Damage Assessment and Restoration Revolving Fund	Environmental Improvement and Restoration Fund	Other Funds from Dedicated Collections	Total Funds from Dedicated Collections
Cumulative Results of Operations:						
Beginning Balance	$ 726,874	$ 8,908,564	$ 212,596	$ 35,067	$ 21,655	$ 9,904,756
Budgetary Financing Sources:						
Non-exchange Revenue	-	-	94,780	-	6,688	101,468
Transfers In/(Out) Without Reimbursement, Net	(2,000)	-	5,650	-	-	3,650
Other Financing Sources (Non-exchange):						
Imputed Financing Sources from Cost Absorbed by Others	44,818	-	-	-	-	44,818
Other Financing Sources (Uses), Net	-	-	-	-	350	350
Total Financing Sources	**42,818**	**-**	**100,430**	**-**	**7,038**	**150,286**
Net Cost of Operations	**179,545**	**(50,185)**	**(113,041)**	**(7,456)**	**(30,303)**	**(21,440)**
Net Change	**222,363**	**(50,185)**	**(12,611)**	**(7,456)**	**(23,265)**	**128,846**
Cumulative Results of Operations - Ending Balance	**949,237**	**8,858,379**	**199,985**	**27,611**	**(1,610)**	**10,033,602**
NET POSITION	**$ 949,237**	**$ 8,858,379**	**$ 199,985**	**$ 27,611**	**$ (1,610)**	**$ 10,033,602**

United States Department of Commerce Consolidating Statement of Changes in Net Position – Funds from Dedicated Collections
For the Year Ended September 30, 2012 (Restated)

	USPTO Funds from Dedicated Collections	NTIA Digital Television Transition and Public Safety Fund	Damage Assessment and Restoration Revolving Fund	Environmental Improvement and Restoration Fund	Other Funds from Dedicated Collections	Total Funds from Dedicated Collections
Cumulative Results of Operations:						
Beginning Balance	$ 602,260	$ 9,235,963	$ 123,522	$ 35,076	$ 21,938	$ 10,018,759
Budgetary Financing Sources:						
Non-exchange Revenue	-	-	202,772	9,736	9,984	222,492
Transfers In/(Out) Without Reimbursement, Net	(1,000)	-	14,058	-	-	13,058
Rescissions/Sequestrations	-	-	-	-	(350)	(350)
Other Financing Sources (Non-exchange):						
Other Financing Sources/(Uses), Net	19,479	-	-	1	-	19,480
Total Financing Sources	**18,479**	**-**	**216,830**	**9,737**	**9,634**	**254,680**
Net Cost of Operations	**106,135**	**(327,399)**	**(127,756)**	**(9,746)**	**(9,917)**	**(368,683)**
Net Change	**124,614**	**(327,399)**	**89,074**	**(9)**	**(283)**	**(114,003)**
Cumulative Results of Operations - Ending Balance	**726,874**	**8,908,564**	**212,596**	**35,067**	**21,655**	**9,904,756**
NET POSITION	**$ 726,874**	**$ 8,908,564**	**$ 212,596**	**$ 35,067**	**$ 21,655**	**$ 9,904,756**

Below is a description of major Funds from Dedicated Collections shown in the above tables.

The ***USPTO Funds from Dedicated Collections*** consist of its Salaries and Expenses Fund, Patent and Trademark Fee Reserve Fund, and Patent and Trademark Surcharge Fund.

The Salaries and Expenses Fund contains monies used for the administering of the laws relevant to patents and trademarks and advising the Secretary of Commerce, the President of the United States, and the Administration on patent, trademark, and copyright protection, and trade-related aspects of intellectual property. This fund is used for USPTO's three core business activities – granting patents; registering trademarks; and intellectual property policy, protection, and enforcement – that promote the use of intellectual property rights as a means of achieving economic prosperity. These activities give innovators, businesses, and entrepreneurs the protection and encouragement they need to turn their creative ideas into tangible products, and also provide protection for their inventions and trademarks. USPTO may use monies from this account only as authorized by Congress.

The Patent and Trademark Fee Reserve Fund is a provision that requires USPTO to deposit all patent and trademark fees collected in excess of the annual appropriation amount into the fund. Funds made available may only be used for expenses of the office relating to the processing of patent applications and for other activities, services, and materials relating to patents and applicable administrative costs.

The Patent and Trademark Surcharge Fund, a Special Fund Receipt Account at Treasury, is discussed in Note 18, *Combined Statements of Budgetary Resources*. USPTO may use monies from this account only as authorized by Congress and made available by the issuance of a Treasury warrant. As of September 30, 2013 and 2012, $233.5 million is held in this fund.

The ***NTIA Digital Television Transition and Public Safety Fund*** makes digital television available to every home in America, improves communications between local, state, and federal agencies, allows smaller television stations to broadcast digital television, and improves how warnings are received when disasters occur. NTIA received funding from borrowings from the Bureau of Public Debt, and repaid the Bureau of Public Debt from the proceeds of the auction of recovered analog spectrum which was completed in March 2008. The proceeds from the auction provide funding for several programs, and has been and is expected to be further used to reduce the National Deficit. The law establishing this program can be found in the Deficit Reduction Act of 2005 (Public Law 109-171), Sections 3001-3014.

The ***Damage Assessment and Restoration Revolving Fund*** receives monies for the reimbursement of expenses related to oil or hazardous substance spill response activities, or natural resource damages assessment, restoration, rehabilitation, replacement, or acquisition activities conducted by NOAA. The recovered sums by a federal, state, indian, or foreign trustee for natural resource damages is retained by the trustee and is only used to reimburse or pay costs incurred by the trustee for the damaged natural resources. The law establishing the Damage Assessment and Restoration Revolving Fund can be found in 33 USC Section 2706.

The ***Environmental Improvement and Restoration Fund*** makes available interest that was earned in the Fund in the previous fiscal year. 80 percent of such amounts shall be made available to be equally divided among the Directors of the National Park Service, the United States Fish and Wildlife Service, the Bureau of Land Management, and the Chief of the Forest Service for high-priority deferred maintenance and repairs and modernization of facilities that directly enhance the experience of visitors, including natural, cultural, recreational, and historic resources protection projects in National Parks, National Wildlife Refuges, and the public lands, and for payment to the State of Louisiana and its lessees for oil and gas drainage in the West Delta field. 20 percent of such amounts shall be made available to the Secretary of Commerce for the purpose of carrying out marine research activities in the North Pacific. The law establishing the Environmental Improvement and Restoration Fund can be found at 43 USC Section 1474d.

NOTE 22. RECONCILIATION OF NET COST OF OPERATIONS TO BUDGET

The Reconciliation of Net Cost of Operations to Budget reconciles the Department's *Resources Used to Finance Activities* (first section), which consists of the budgetary basis of accounting Net Obligations plus the proprietary basis of accounting Other Resources, to the proprietary basis of accounting Net Cost of Operations. The second section, *Resources Used to Finance Items Not Part of Net Cost of Operations*, reverses out items included in the first section that are not included in Net Cost of Operations. The third section, *Components of Net Cost of Operations that Will Not Require or Generate Resources in the Current Period*, adds items included in Net Cost of Operations that are not included in the first section.

The third section's subsection, Components Requiring or Generating Resources in Future Periods, includes costs reported in the current period that are included in the Liabilities Not Covered by Budgetary Resources reported in Note 15. This subsection does not include costs reported in prior fiscal years that are also included in Liabilities Not Covered by Budgetary Resources.

The reconciliations of Net Cost of Operations to Budget for the years ended September 30, 2013 and 2012 are as follows:

	FY 2013	FY 2012
Resources Used to Finance Activities:		
Budgetary Resources Obligated:		
Obligations Incurred	$ 12,354,766	$ 12,238,097
Less: Spending Authority From Offsetting Collections and Actual Recoveries of Prior-years Unpaid Obligations	(4,531,305)	(4,607,196)
Obligations Net of Offsetting Collections and Actual Recoveries	7,823,461	7,630,901
Less: Distributed Offsetting (Receipts)/Outlays, Net	(46,853)	(62,667)
Net Obligations	7,776,608	7,568,234
Other Resources:		
Donations and Forfeitures of Property	856	579
Transfers In/(Out) Without Reimbursement, Net	(56,353)	182,220
Imputed Financing Sources From Cost Absorbed by Others	295,288	297,694
Other Financing Sources/(Uses), Net	(1,818)	(8,483)
Net Other Resources Used to Finance Activities	237,973	472,010
Total Resources Used to Finance Activities	**8,014,581**	**8,040,244**
Resources Used to Finance Items Not Part of Net Cost of Operations:		
Change in Budgetary Resources Obligated for Goods, Services, and Benefits Ordered but Not Yet Provided	1,619,746	3,088,147
Resources that Fund Expenses Recognized in Prior Periods	(1,819)	(5,718)
Budgetary Obligations for Downward Subsidy Reestimates Payable to Treasury	(21,447)	(6,375)
Budgetary Offsetting Collections and Receipts that Do Not Affect Net Cost of Operations:		
Distributed Offsetting (Receipts)/Outlays, Net (excludes Clearing Accounts' Gross Costs)	46,853	62,667
Credit Program Collections which Increase Loan Guarantee Liabilities or Allowance for Subsidy Cost	68,158	68,138
Budgetary Financing Sources/(Uses), Net	(113,241)	137,002
Resources that Finance the Acquisition of Assets	(2,032,544)	(2,231,293)
Other Resources or Adjustments to Net Obligated Resources that Do Not Affect Net Cost of Operations:		
Change in Unfilled Customer Orders	4,502	(15,472)
Donations and Forfeitures of Property	(856)	(579)
Transfers In/(Out) Without Reimbursement, Net	56,353	(182,220)
Other Financing Sources/(Uses), Net	1,818	8,483
Other	(5,027)	(3,409)
Total Resources Used to Finance Items Not Part of Net Cost of Operations	**(377,504)**	**919,371**
Total Resources Used to Finance Net Cost of Operations	**7,637,077**	**8,959,615**

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	FY 2013	FY 2012
Components of Net Cost of Operations that Will Not Require or Generate Resources in the Current Period:		
Components Requiring or Generating Resources in Future Periods:		
Increase in Accrued Annual Leave Liability	1,395	394
Increase in Federal Employee Benefits	45,980	42,729
Increase in Environmental and Disposal Liabilities	4,473	-
Increase (Decrease) in Contingent Liabilities	123	(2,900)
Reestimates of Credit Subsidy Expense	1,801	3,440
Other	13,810	5,545
Total Components of Net Cost of Operations that Will Require or Generate Resources in Future Periods	67,582	49,208
Components Not Requiring or Generating Resources:		
Depreciation and Amortization	736,100	551,210
NOAA Impairment of Construction-in-progress (Note 16)	-	98,260
NOAA Issuances of Materials and Supplies	12,729	21,581
Revaluation of Assets or Liabilities	24,186	20,728
Other	9,361	(18,581)
Total Components of Net Cost of Operations that Will Not Require or Generate Resources	782,376	673,198
Total Components of Net Cost of Operations that Will Not Require or Generate Resources in the Current Period	**849,958**	**722,406**
NET COST OF OPERATIONS	**$ 8,487,035**	**$ 9,682,021**

NOTE 23. STEWARDSHIP PROPERTY, PLANT, AND EQUIPMENT

This note provides information on certain resources entrusted to the Department and certain stewardship responsibilities assumed by the Department. The physical properties of Stewardship Property, Plant, and Equipment (Stewardship PP&E) resemble those of the General PP&E that is capitalized traditionally in the financial statements of federal entities. Due to the nature of these assets, however, valuation would be difficult and matching costs with specific periods would not be meaningful. Therefore, federal accounting standards require the disclosure of the nature and quantity of these assets. NOAA, NIST, and the Census Bureau are the only entities within the Department that have Stewardship PP&E. Additional information on Stewardship PP&E is presented in the Required Supplementary Information section.

Stewardship Marine Sanctuaries, Marine National Monuments, Conservation Area, and Habitat Focus Area:

Written policy statements or permit guidelines for the National Marine Sanctuaries and Marine National Monuments have been developed for the areas of acoustic impacts, artificial reefs, climate change, invasive species, and marine debris. The Office of Marine National Sanctuaries answers the most frequently asked questions related to alternative energy and oil and gas policy decisions for national marine sanctuaries.

NOAA maintains the following Stewardship PP&E, which are similar in nature to stewardship land:

National Marine Sanctuaries: In 1972, Congress passed the Marine Protection, Research, and Sanctuaries Act (Act) in response to a growing awareness of the intrinsic environmental and cultural value of coastal waters. The Act authorized the Secretary of Commerce to designate special nationally-significant areas of the marine environment as national marine sanctuaries. These protected waters provide a secure habitat for species close to extinction, and also protect historically significant shipwrecks and prehistoric artifacts. National marine sanctuaries are also used for recreation (e.g., boating, diving, and sport fishing), and support valuable commercial industries such as fishing and kelp harvesting. As of September 30, 2013, 13 National Marine

Sanctuaries, which include both coastal and offshore areas, have been designated, covering a total area of nearly 32,685 square miles. This number includes the incorporation of a large area of the Rose Atoll Marine National Monument, discussed below, into the National Marine Sanctuary of American Samoa. Each individual sanctuary site (Monterey Bay, the Florida Keys, the Olympic Coast, and Channel Island are the largest four) conducts research and monitoring activities to characterize existing resources and document changes.

Papahãnaumokuãkea Marine National Monument: The majority of all coral reef habitats located in U.S. waters surround the Northwestern Hawaiian Islands (NWHI). Papahãnaumokuãkea Marine National Monument was designated by Presidential Proclamation in 2006 and overlays several previously designated protected areas and forges a co-management regime for the entire area. The overlayed protected areas comprising the monument are the NWHI Coral Reef Ecosystem Reserve (from 3 to 50 miles in federal waters from the corridor of islands of the NWHI); the National Wildlife Refuges (the islands, atolls and some federal waters); and the State of Hawaii Refuge and lands and waters. The Monument is co-managed by NOAA and the Department of the Interior, in close coordination with the state of Hawaii.

Rose Atoll Marine National Monument: On January 6, 2009, President Bush designated the Rose Atoll Marine National Monument in American Samoa. The monument is the largest and most comprehensive contiguous protected area in the region that overlays the pre-existing Rose Atoll National Wildlife Refuge and a majority of the area of the recently expanded National Marine Sanctuary of American Samoa Muliava Unit. It also includes 20 acres of land and 1,600 acres of lagoon and extends 50 nautical miles seaward from the mean low water line of the atoll. It also includes one of the most pristine atolls in the world. The areas around the atoll support a dynamic reef ecosystem that is home to many land and marine species, many of which are threatened or endangered. The Department of the Interior has primary management responsibility of the atoll while NOAA has primary management responsibility for the marine areas of the monument seaward of mean low water, with respect to fishery-related activities regulated pursuant to the Magnuson-Stevens Fishery Conservation and Management Act (16 U.S.C. 1801 et seq.) and any other applicable authorities. An intergovernmental committee comprised of NOAA, Department of the Interior, and the American Samoa Government has been established to develop and coordinate management strategies. NOAA continues to progress with management planning and fisheries management strategies and published a final rule for non-commercial fishing in June 2013.

Marianas Trench Marine National Monument: On January 6, 2009, President Bush designated the Marianas Trench Marine National Monument. The Monument consists of approximately 96,000 square miles of submerged lands and waters of the Mariana Archipelago. It includes three units: the Islands Unit, the waters and submerged lands of the three northernmost Mariana Islands; the Volcanic Unit, the submerged lands within 1 nautical mile of 21 designated volcanic sites; and the Trench Unit, the submerged lands extending from the northern limit of the Exclusive Economic Zone of the United States in the Commonwealth of the Northern Mariana Islands (CNMI) to the southern limit of the Exclusive Economic Zone of the United States in the Territory of Guam. No waters are included in the Volcanic and Trench Units, and CNMI maintains all authority for managing the three islands within the Islands Unit (Farallon de Pajaros or Uracas, Maug, and Asuncion) above the mean low water line. The Department of the Interior, in consultation with NOAA, has management responsibility for the monument. With respect to fishery-regulated activities regulated pursuant to the Magnuson-Stevens Fishery Conservation and Management Act and any other applicable authorities, however, NOAA has primary management responsibility and when necessary consults with the Department of the Interior. The Marianas Trench Monument Advisory Council meets regularly to progress management planning and cooperative management of the monument. NOAA continues to progress with management planning and fisheries management strategies and published a final rule for non-commercial fishing in June 2013.

Pacific Remote Islands Marine National Monument: On January 6, 2009, President Bush designated the Pacific Remote Islands Marine National Monument. The Pacific Remote Islands area consists of Wake, Baker, Howland, and Jarvis Islands, Johnston Atoll, Kingman Reef, and Palmyra Atoll, which lie to the south and west of Hawaii. The Monument overlays the existing National

Wildlife Refuges and beyond, extending the marine protected area to 50 nautical miles from the center of each island or atoll. The Monument has endemic species, including corals, fish, shellfish, marine mammals, seabirds, water birds, land birds, insects, and vegetation not found elsewhere in the world.

The Department of the Interior has responsibility for management of the Monument in consultation with NOAA, including out to 12 nautical miles from the mean low water lines of Wake, Baker, Howland, and Jarvis Islands, Johnston Atoll, Kingman Reef and Palmyra Atoll, pursuant to applicable legal authorities. NOAA continues to progress with management planning and fisheries management strategies and published a final rule for non-commercial fishing in June 2013.

Aleutian Islands Habitat Conservation Area: On July 28, 2006, NOAA formally established the Aleutian Islands Habitat Conservation Area in Alaska, which covers nearly 370,000 square miles and may harbor among the highest diversity of deep-water corals in the world. The conservation area established a network of fishing closures in the Aleutian Islands and Gulf of Alaska, and protects habitat for deep-water corals and other sensitive features that are slow to recover once disturbed by fishing gear or other activities. Six small areas that include fragile coral gardens discovered by NOAA Fisheries Service scientists are closed to all bottom-contact fishing gear. This effort is part of a network of new marine protected areas in Alaskan waters designed to protect essential fish habitat and prevent any further damage of the area.

California's Russian River Watershed Habitat Focus Area: The Habitat Focus Area provides a framework for NOAA to think and act strategically across all programs to increase the effectiveness of our efforts to improve habitat conditions for fisheries, marine life, and coastal communities. To that end, NOAA is identifying places where its offices can effectively focus their resources to meet their habitat conservation mandates on a watershed scale.

Once the host of vibrant coho salmon and steelhead runs, the Russian River was a premiere recreational fishing destination. By 2000, coho salmon were virtually extinct from the river and the remaining habitats are badly degraded. Under the Endangered Species Act, California's coho salmon are now listed as endangered and steelhead are listed as threatened. Heavy demand for and competing uses of the river's water adds to the stress on fish. As a valuable resource for Sonoma and Mendocino County agriculture and viticulture, as well as domestic water supply, water extraction from the river and tributaries can leave fish stranded during periods of critical demand in the spring, summer, and early fall. Russian River Valley communities are also impacted by frequent flooding. Steep hills and numerous canyons make accurate rainfall predictions and flood forecasts difficult.

NOAA's expertise in flood and weather forecasting, integrated monitoring, habitat protection and restoration, stakeholder education, and coastal and ocean planning and management will be critical to addressing the issues that challenge this watershed.

NOAA's goals in the Russian River watershed include:

- Rebuilding endangered coho and threatened chinook and steelhead stocks to sustainable levels;
- Improving rainfall, flooding, and frost forecasts in the Russian River watershed;
- Increasing community resiliency to flood damage; and
- Improving planning and water management strategies.

Building on its efforts in the Russian River, NOAA will begin to select habitat focus areas in other coastal regions over the coming year, starting with Alaska and the Pacific Islands.

Heritage Assets:

Heritage assets are unique for their historical or natural significance, for their cultural, educational, or artistic importance, or for their significant architectural characteristics. The Department generally expects that these assets will be preserved indefinitely.

In cases where a heritage asset also has a practical and predominant use for general government operations, the asset is considered a multi-use heritage asset. The cost of a multi-use heritage asset is capitalized as General PP&E and is depreciated over the useful life of the asset.

NOAA has established policies for heritage assets to ensure the proper care and handling of these assets under its control or jurisdiction. The Deputy Under Secretary of NOAA established the Heritage Assets Working Committee to administer NOAA's stewardship policies and procedures. In carrying out these policies and procedures, the Working Committee:

- Maintains a nationwide inventory of heritage assets, ensuring that they are identified and recorded in the Personal Property Heritage Asset Accountability System;
- Establishes nationwide NOAA policies, procedures, and standards for the preservation, security, handling, storage, and display of NOAA heritage assets;
- Tracks and updates each loan of NOAA heritage assets, including assigning current values and inventory numbers, and reporting the current conditions of heritage assets;
- Determines the feasibility of new asset loans, such as meters, standard tide gauges, portraits, and books for exhibit loans; and
- Collects heritage assets and properties of historic, cultural, artistic, or educational significance to NOAA.

NOAA maintains the following Heritage Assets:

Galveston Laboratory: Galveston Laboratory provides scientific information on the management of commercial and recreational shellfish and finfish; conservation of coastal habitats; and protection of threatened and endangered marine species of the Gulf of Mexico. Galveston Laboratory is comprised of seven buildings that were originally part of Fort Crockett, Texas, an army coastal defense facility built shortly after 1900. These buildings are eligible for placement on the National Register. The laboratory is situated on the site of the Historic Fort Crockett, one block from the Gulf of Mexico on Galveston Island, Texas, and is the only federal fisheries laboratory west of the Mississippi River on the Gulf. A high quality seawater system delivers as much as 50,000 gallons daily and supplies large tanks, aquaria and raceways for experiments on estuarine and marine organisms making it the largest and most extensive federally operated sea water system in the southeastern United States. The lab occupies about 55,000 square feet of research and administrative space shared with Texas A&M University and the Texas Institute of Oceanography. It is equipped with two facilities for sea turtle research focused since 1978 on the endangered Kemp's Ridley and is the only federal facility in the United States dedicated to captive rearing of sea turtles. NOAA's sea turtle facility occupies the southwest corner of the campus and is co-located with Texas Marine Mammal Stranding Network. Due to its historic significance, exterior architectural features, and predominant use in government operations, Galveston Laboratory is considered a multi-use heritage asset.

National Marine Fisheries Service (NMFS) St. George Sealing Plant: On St. George Island, in the Pribilof Islands group, Alaska, is the only remaining northern fur seal pelt processing building in the world. In 1986, the building was listed on the National Register of Historic Properties, within the Seal Islands National Historic Landmark. The Pribilof Islands commercial fur seal harvest was an extremely profitable business for the U.S. government, and, by the early 1900s, had covered the purchase price of Alaska. The building is the largest on the island, and is comprised of four distinct work areas from the seal pelt processing area. In 1950, the original wood-framed pelt processing plant was destroyed in a fire and rebuilt in 1951 with concrete walls on remnants of the original foundation. Harsh weather and a lack of maintenance funding after the expiration of the Northern Fur Seal Convention in 1985 resulted in significant deterioration of the building by the early 1990s.

In November 1999, after numerous site surveys and assessments, the building's crumbling foundation was stabilized and the building's exterior was painted. This effort allowed for NOAA's continued, but limited, use of the building by NMFS's Alaska Region and Alaska Fisheries Science Center to achieve NOAA's mission on St. George Island. In addition, the U.S. Fish and Wildlife Service (USFWS) Alaska Maritime National Wildlife Refuge used the building as a bunkhouse until 2006, when NOAA's Safety Officer and the USFWS Safety Officer both determined the bunkhouse portion of the building lacked sufficient means of egress in the event of fire and deemed it to be unsafe for habitation. It was determined by USFWS that the cost of making the necessary modifications to the space was not fiscally justifiable. NOAA's Preserve America program funded an interpretive display project in the Seal Plant to promote public outreach and education for the modest tourism program on St. George.

NMFS Cottage M, St. George: The last remnants of the U.S. commercial harvest of northern fur seals can be found on St. George Island, in the Pribilof Islands group, Alaska. In 1986, Cottage M (locally known as Cottage C), was listed on the National Register of Historic Places within the Seal Islands National Historic Landmark. This building was constructed in the 1930s and was the residence of the island doctor and hospital through 1955, when the current clinic/hospital was built. Later, the construction of a health clinic on St. George Cottage M provided housing for government scientists and managers. In recent years, USFWS Alaska Maritime National Wildlife Refuge staff have also used the building. NMFS Cottage M is considered a multi-use heritage asset because of the critical housing for NOAA's research and management staff, along with USFWS staff.

NMFS St. Paul Old Clinic/Hospital: On St. Paul Island, in the Pribilof Islands group, Alaska, fewer historic structures remain than on St. George Island. In 1986, the clinic/hospital was listed on the National Register of Historic Places within the Seal Islands National Historic Landmark. The old clinic/hospital is the combination of three historic buildings (physician's house, 1929; dispensary, 1929; and hospital, 1934) connected in 1974 with an addition. The building was used as a clinic/hospital through 2006 under a Memorandum of Agreement between NMFS and the Department of Health, Education and Welfare, and later, the Indian Health Service/Bureau of Indian Affairs. Since August 2007, NMFS has maintained the facility. The facility is vacant and in significant need for repair before it can be utilized. During the winter of 2010, there was a freeze resulting in broken plumbing pipes and substantial flooding and icing throughout the building. All surface finishes on walls and most floors and most wall insulation have been removed. The electrical, heating, plumbing supply, waste drain, and fire sprinkling systems are non-functional. An engineering assessment has been completed which indicates that the north and south sections of the structure (built in 1929 and 1934) are in poor condition. The assessment recommended demolition vice repair of these sections due to the extensive amount of work required to bring these oldest portions of the structure to meet modern code compliance. The report recommended temporary shoring of the north and south sections to reduce the possibility of collapse until a decision is made with respect to the future renovation of the facility. Additional options are now under review regarding the future of the property. A cost-benefit evaluation of renovation of the facility to accommodate the future needs of St. Paul Island is on hold while these options are considered.

NMFS Aquarium: In Woods Hole, Massachusetts, this aquarium was established in 1875 by Spencer Baird, the originator of NMFS. In addition to being part of the first laboratory of today's NMFS, this aquarium is the oldest marine research display aquarium in the world. It is used to educate the public, raise public awareness of NMFS activities, and accommodate in-house research for the Northeast Fisheries Science Center. The aquarium houses 16 permanent exhibition tanks and approximately 12 freestanding aquaria and touch tanks holding more than 140 species of fish and invertebrates and, on occasion, sea turtles. The facility also has an exterior seal habitat that currently exhibits non-releasable harbor seals obtained through the NOAA marine mammal stranding network. The tanks range in size from 75 to 2,800 gallons. NMFS Aquarium is considered a multi-use heritage asset because it is also used for NOAA's scientific research, which is part of its mission.

Great Lakes Environmental Research Laboratory (GLERL)/Lake Michigan Field Station (LMFS): In Muskegon, Michigan, the GLERL main building, constructed in 1904 by the U.S. Life Saving Service, is eligible for National Register designation and has been recognized by state and local historical societies for its maritime significance. With the creation of the U.S. Coast Guard in 1915, the facility was transferred and served as a base for search and rescue operations for 75 years. In 2004, a renovation project was completed that restored the exterior to its original architecture and color scheme – a style that is considered rare. Today, GLERL carries out research and provides scientific products, expertise, and services required for effective management and protection of Great Lakes and coastal ecosystems. GLERL/LMFS includes three buildings and a research vessel dockage. The function of the field station is to provide a base of operations for GLERL's primary research vessel, which is presently the Research Vessel Laurentian, and to provide a focal point for GLERL's research on Lake Michigan. Due to its historic significance, exterior architectural features, and predominant use in government operations, GLERL/LMFS is considered a multi-use heritage asset.

Collection-type Heritage Assets:

NOAA:

NOAA's collection-type heritage assets are comprised primarily of books, journals, publications, photographs and motion pictures, manuscripts, records, nautical chart plates, and artifacts. Many of these heritage assets are maintained by the NOAA Central Library (Library). As evidenced by a search of international catalogs, 35 to 50 percent of the Library's collection is unique. Historically, 40 percent of the items catalogued are not found anywhere else. Many older books cannot be replaced. The works include 17th century works of Francis Bacon and Robert Boyle, 18th century works of Daniel Bernouilli, Daniel Defoe, and Pierre Bougher, and 19th and 20th century works of Benjamin Franklin and George Washington Carver. The Library has an extensive collection of historical Coast and Geodetic Survey materials (from 1807) and Weather Bureau materials (from the 1830s), including foreign and historical meteorological data, information on instruments, and metadata.

NOAA's collection-type heritage assets include items in the Thunder Bay Sanctuary Research Collection (Collection). In 2004, the Thunder Bay National Marine Sanctuary (jointly managed by NOAA and the State of Michigan to protect and interpret a nationally significant collection of shipwrecks and other maritime heritage resources) established an agreement with the Alpena County George N. Fletcher Public Library to jointly manage this Collection. Amassed over a period of more than 40 years by historian C. Patrick Labadie, the Collection includes information about such diverse subjects as Great Lakes ports and waterways, docks, cargoes, ships, shipbuilders, owners and fleets, machinery and rigging, notable maritime personalities, and shipwrecks. Special features of the Collection are extensive collections of 1) data cards listing most of the ships on the Great Lakes before year 1900, a roster of some 15,000 vessels complete with descriptive data and highlights of the ships' careers and their ultimate losses; and 2) ship photograph negatives of 19th and 20th century Great Lakes ships. Heritage assets also include copies of vessel ownership documents, contemporary ship photographs, books, and other items documenting the Great Lakes history.

NOAA's collection-type heritage assets also include items in the National Climatic Data Center Library. Heritage assets include 1) books, manuals, and slides; 2) thermometers, gauges, and radiosondes; and 3) laboratory equipment.

Historical artifacts are designated collection-type heritage assets if they help illustrate the social, educational, and cultural heritage of NOAA and its predecessor agencies (Coast and Geodetic Survey, U.S. Fish Commission, the Weather Bureau, the Institutes for Environmental Research, the Environmental Science Services Administration, etc.). These include, but are not limited to, bells, gyrocompasses, brass citations, flags, pennants, chronometers, ship seals, clocks, compasses, fittings, miscellaneous ship fragments, lithographic plates, barometers, rain gauges, and any items that represent the uniqueness of the mission of NOAA and its predecessor agencies.

NOAA's Logistics Office continually conducts inventories of its collection-type heritage assets. Many items that were once classified as an individual collection are now included in existing collections. Other items are now deemed as not meeting the heritage asset criteria.

NIST:

NIST currently maintains collection-type heritage assets under its Museum and History Program, which collects, conserves, and exhibits artifacts, such as scientific instruments, equipment, objects, and records of significance to NIST and predecessor agencies. This program provides institutional memory and demonstrates the contributions of NIST to the development of standards measurement, technology, and science. The Information Services Office (ISO) maintains the historical archives, rare book collection, and oversees the oral history program. The historical archives and rare book collection contain titles that are considered "classics" of historical scientific interest, books by prominent contemporary scientists, and books by NIST authors or about NIST work. Titles are recommended for inclusion by ISO staff and customers. Materials are not specifically purchased for the collection nor are funds specifically allocated for the collection. Photos and manuscripts include images of NIST staff, facilities, and artifacts that demonstrate NIST accomplishments.

NIST's Museum and History Program has policies in place for acquisitions and loans. Objects are either on display or in storage and are not used by visitors. Archives, including the historical book collection, are used according to established research library policies and procedures. When considering artifacts for accession, the following criteria are considered:

- Direct connection to NIST program activity;
- Direct connection to a NIST prominent person;
- Physical size; and
- Safety considerations.

Archive material is not loaned. Artifacts are rarely loaned, but can be loaned within established policies and procedures for educational purposes, scholarly research, and limited public exhibition to qualified institutions. The loan policy packet for these artifacts includes an introduction to the NIST Loan Program, Borrower Checklist, Artifact Loan Request, NIST Loan Policy, Insurance Requirements, Facilities Report, Outgoing Loan Agreement, Condition Report Form, and Outgoing Loan Process.

ISO preserves and promotes the history of NIST through a program that collects, organizes, and preserves records of enduring value and encourages and supports their use by researchers. The policies and procedures cover such topics as submitting reference inquiries, regulations for use of the archives collection, scope of archives collection, criteria for accepting archival material, providing physical and bibliographic access, preservation, and reviewing the collection.

Census Bureau:

Collection-type heritage assets maintained by the Census Bureau are items considered unique for their historical, cultural, educational, technological, methodological, or artistic importance. They help illustrate the social, educational, and cultural heritage of the Census Bureau. Some items because of their age or obvious historical significance are inherently historical artifacts. Some examples of these historical artifacts include:

1900 Hollerith Key Punch: Census Bureau clerks used the key punch during the 1900s to punch round holes into cards for tabulation by electric tabulating machines housed at the Census Bureau. The key punch increased the speed with which clerks could transfer data entered on census schedules to the punch cards used to tabulate census results.

Hollerith Tabulator (Dial): The Hollerith Tabulator dial was manufactured by the Tabulating Machine Company for the Census Bureau. The Hollerith Tabulator dial mechanically illustrated the data being read from punched paper cards entered into the tabulator. The holes punched in cards were sensed by pins or pointers making contact through the holes to a drum. The completion of an electric circuit through a hole advanced the counter on this dial representing data tabulated for a specific population, economic, or agriculture inquiry on the census schedule.

Gang Punch: The gang punch was manufactured by the Tabulating Machine Company for the Census Bureau. The gang punch was used for recording facts common to a number of punch cards, such as the month, day, year, etc. It is equipped with a number of moveable punches, which can easily be changed and set for any desired combination. Using the gang punch, clerks could punch a number of cards at once, thus speeding the transcription of data.

Pantograph: This item was manufactured by the Tabulating Machine Company for the Census Bureau. Census Bureau clerks used the pantograph, or keyboard punch, to transfer information on the census schedule to punch cards. To operate the pantograph, the clerk guided one end of the lever over a board showing the categories of information from the census (age, sex, place of birth, etc.) and depressed the lever at the appropriate position, punching a hole in the punch card. With the information found on the schedule translated into punch holes on cards, the data could then be read and the results tallied by tabulators designed to read the punch cards.

Census Bureau Enumerators Badge: The Census Bureau provided enumerators with badges during the 1900s and later censuses, and recipients were instructed to wear them when on duty. The 1900s instructions to enumerators noted that the badge offered additional evidence of the bearer's authority to ask the question required by law. Furthermore, enumerators were instructed to wear the badge attached to the vest under the coat, and to exhibit it only when it would aid the enumerator in obtaining the information. Upon completion of the census, the Census Bureau permitted enumerators to keep the badge as a souvenir of their service.

Data Stewardship Button: The data stewardship button served as a visible reminder to employees that the Census Bureau complies with all federal legal requirements affecting the collection, handling, and dissemination of personal and business information. In addition, the Census Bureau believes that individuals and businesses have fundamental rights to be treated fairly and ethically when asked to provide their personal information to the government for statistical purposes.

Steel Hand Bander: The steel hand bander is used to secure paper, boxes, and other goods to pallets, via ribbons of steel, for shipment. The Census Bureau has used similar banders since the early 20th century to secure boxes of questionnaires, publications, etc., for shipment to census offices throughout the United States, Puerto Rico, and the Island Areas.

Unisys Tape and Reel: It is assumed that Unisys Corporation manufactured this tape and reel in the 1980s. This tape technology, released in 1964, introduced what is now generally known as 9-track tape. The magnetic tape is ½ inch wide, with eight data tracks and one parity track for a total of nine parallel tracks. Data is stored as 8-bit characters, spanning the full width of the tape (including the parity bit). Various recording methods are used to place the data on tape, depending on the tape speed and data density, including PE (phase encoding), GCR (group code recording), and NRZI (non-return-to-zero, inverted).

Film Optical Sensing Device for Input to Computers (FOSDIC): This 1980s file cabinet-sized version of FOSDIC was manufactured by the Census Bureau for the 1990 census. During the 1950s, the Census Bureau and the National Bureau of Standards developed the FOSDIC system, which took census and survey questionnaires that had been photographed onto microfilm, read blackened dots opposite the appropriate answers, and transferred that data to magnetic tape. These tapes constituted the input for the Census Bureau's computers. One important result of this process was the elimination of most discrepancies in data records sent for processing. First used to process 1960 census results, FOSDIC played an integral part in the Census Bureau's data processing system into the mid-1990s.

Artwork and Gifts: The Census Bureau's artwork and gifts include items bequeathed to, given to, or commissioned by the agency, such as posters, paintings, sculptures, postage stamps, photographs, antiques, memorial plaques, cultural artifacts from other statistical agencies and countries, awards, time capsules, buttons and badges, and more.

The Census Bureau has developed a Project Charter for heritage assets which has developed policies and procedures for the acquisition and removal of Census Bureau's heritage assets. If a Census Bureau employee receives a gift from a foreign government's statistical agency or any other agency while on official government travel, the Census Bureau employee will deliver the item to a member of the Census Bureau's Heritage Assets Committee (Committee) for review upon his or her return to the Census Bureau, if the item is valued at more than $25. The Committee will decide if the item meets the criteria for a heritage asset based on the uniqueness, historical age, and/or if the item helps to illustrate the Census Bureau's historic contributions to the nation's growth. If the item is deemed a heritage asset, the applicable property management office will ensure the heritage asset is catalogued and stored in a safe, secure environment, allowing for appropriate preservation and conservation. All necessary actions will be taken to reduce deterioration of heritage assets due to environmental conditions, and to limit damage, loss, and misuse of heritage assets. The Committee meets on a regular basis to determine if any heritage assets should be removed from the approved list, or if a newly arrived item should be classified as a heritage asset. Once a determination has been made to no longer classify an item as a heritage asset, the Census Bureau will follow any applicable established policies and procedures for surplus property.

The following table summarizes the Department's Collection-type Heritage Assets activity and balances.

Collection-type Heritage Assets:

(In Actual Quantities)

Category	Description of Assets	Quantity of Items Held September 30, 2012	FY 2013 Additions	FY 2013 Withdrawals	Quantity of Items Held September 30, 2013
NOAA Central Library:					
Circulating Collection	Books, journals, and other publications	1	N/A	N/A	1
Rare Book Room Collection	Books and publications	1	N/A	N/A	1
Collection of Photographs and Motion Pictures	Photographs and motion pictures	1	N/A	N/A	1
Other	Artifacts, documents, and other items	56	-	-	56
National Ocean Service–Thunder Bay Sanctuary Research Collection	Data cards, photograph negatives, document copies, photographs, books, and other items	106,254	-	-	106,254
National Climatic Data Center Library	Artifacts, books, documents, and other items	325	-	100	225
NOAA Others	Artifacts, artwork, books, films, instruments, maps, and records	3,431	10	43	3,398
NIST Artifacts and Scientific Measures	National Bureau of Standards (NBS)/NIST scientific instruments, equipment, and objects	1,015	32	-	1,047
NIST Historical Books and Manuscripts	Books of historical scientific interest, books by prominent contemporary scientists, and books by NBS/NIST authors and manuscripts of NBS/NIST staff, facilities, and artifacts	61	-	-	61
Census Bureau Artwork and Gifts	Artifacts, artwork, books, films, instruments, and records	132	13	-	145
Census Bureau Collectable Assets	Publications, books, manuscripts, photographs, and maps	30	3	1	32
Total		**111,307**	**58**	**144**	**111,221**

N/A - Not applicable; this category is reported as one collection.

Additional information on the condition of the above Collection-type Heritage Assets is presented in the Required Supplementary Information section.

FINANCIAL SECTION

Consolidating Balance Sheet

United States Department of Commerce Consolidating Balance Sheet
As of September 30, 2013 *(In Thousands)*

	Consolidating Total	Intra-Departmental Eliminations	BIS	Census Bureau	DM/G&B	DM/S&E	DM/WCF	EDA	ELGP	ESA/BEA	Franchise Fund	HCHB	ITA	MBDA	NIST	NOAA	NTIA	NTIS	OIG	USPTO
ASSETS																				
Intragovernmental:																				
Fund Balance with Treasury	$ 18,002,497	$ -	$ 22,740	$ 611,823	$ 4,776	$ 23,024	$ 55,796	$ 1,089,559	$ 291	$ 15,338	$ 2,906	$ 22,531	$ 123,047	$ 18,915	$ 712,598	$ 3,571,670	$ 9,683,276	$ 30,182	$ 17,289	$ 1,996,736
Accounts Receivable	92,197	(16,648)	294	12,651	-	10,275	697	309	-	-	-	-	4,361	-	6,582	67,623	137	5,791	78	47
Advances and Prepayments	91,641	(68,415)	3,643	30,392	-	6,980	504	1,109	-	922	164	-	9,524	1,573	4,911	57,971	39,277	480	880	1,726
Total Intragovernmental	18,186,335	(85,063)	26,677	654,866	4,776	40,279	56,997	1,090,977	291	16,260	3,070	22,531	136,932	20,488	724,091	3,697,264	9,722,690	36,453	18,247	1,998,509
Cash	5,806	-	-	-	-	-	-	-	-	-	-	-	-	-	-	353	-	48	-	5,405
Accounts Receivable, Net	64,130	-	4,248	9,034	-	6	49	103	-	40	-	-	170	8	10,289	37,877	1,775	401	-	130
Direct Loans and Loan Guarantees, Net	533,692	-	-	-	-	-	-	9,068	-	-	-	-	-	-	-	524,624	-	-	-	-
Inventory, Materials, and Supplies, Net	99,607	-	-	91	-	-	2	157	-	-	-	-	-	-	27,164	72,107	-	86	-	-
General Property, Plant, and Equipment, Net	11,103,844	-	11	124,544	6,305	2,053	4,577	412	-	333	-	23,936	4,438	-	954,653	9,701,634	21,904	1,275	761	257,008
Other	44,897	-	1,188	81	4	2	-	-	-	-	-	-	1,494	-	898	27,332	-	5,965	1	7,932
TOTAL ASSETS	**$ 30,038,311**	**$ (85,063)**	**$ 32,124**	**$ 788,616**	**$ 11,085**	**$ 42,340**	**$ 61,625**	**$ 1,100,717**	**$ 291**	**$ 16,633**	**$ 3,070**	**$ 46,467**	**$ 143,034**	**$ 20,496**	**$ 1,717,095**	**$ 14,061,191**	**$ 9,746,369**	**$ 44,228**	**$ 19,009**	**$ 2,268,984**
LIABILITIES																				
Intragovernmental:																				
Accounts Payable	$ 150,275	$ (15,613)	$ 1,190	$ 11,528	$ -	$ 4,556	$ 1,042	$ 170	$ -	$1,233	$ -	$ -	$ 2,342	$ 136	$ 2,116	$ 121,196	$ 2,553	$ 8,930	$ 789	$ 8,107
Debt to Treasury	575,603	-	-	-	-	-	-	-	-	-	-	-	-	-	-	524,565	51,038	-	-	-
Other																				
Resources Payable to Treasury	11,267	-	-	-	-	-	-	9,747	-	-	-	-	-	-	-	1,520	-	-	-	-
Unearned Revenue	313,926	(68,415)	293	161,685	-	8,023	45,268	40,677	-	99	164	-	586	5	61,275	20,214	32,133	5,041	944	5,934
Other	74,505	(1,035)	1,051	22,619	-	1,985	1,765	281	-	877	-	9	4,046	546	5,913	25,917	891	167	329	9,144
Total Intragovernmental	1,125,576	(85,063)	2,534	195,832	-	14,564	48,075	50,875	-	2,209	164	9	6,974	687	69,304	693,412	86,615	14,138	2,062	23,185
Accounts Payable	363,540	-	991	48,318	(64)	288	6,106	579	-	1,245	-	114	6,376	365	12,731	205,162	3,181	3,431	2,425	72,292
Loan Guarantee Liabilities	516	-	-	-	-	-	-	-	-	-	-	-	-	-	-	516	-	-	-	-
Federal Employee Benefits	897,191	-	3,237	130,057	-	2,474	5,780	996	-	570	-	53	8,648	2,438	11,651	718,502	2,068	942	64	9,711
Environmental and Disposal Liabilities	156,673	-	-	-	-	-	-	-	-	-	-	-	-	-	124,277	32,396	-	-	-	-
Other																				
Accrued Payroll and Annual Leave	467,706	-	4,533	82,245	60	2,934	5,688	2,183	-	5,268	-	88	21,110	615	31,350	134,546	3,324	1,120	2,377	170,265
Accrued Grants	536,711	-	-	-	-	-	-	406,336	-	-	-	-	385	2,016	45,931	34,768	47,275	-	-	-
Capital Lease Liabilities	7,021	-	-	-	-	-	-	-	-	-	-	-	-	-	936	6,085	-	-	-	-
Unearned Revenue	1,147,196	-	5,682	2,531	-	-	-	164	-	-	-	-	15,433	-	45,071	29,364	327	4,330	-	1,044,294
Other	64,100	-	39	4,740	-	-	-	-	-	-	-	1	12,221	-	6,469	40,629	-	-	1	-
TOTAL LIABILITIES	**$ 4,766,230**	**$ (85,063)**	**$ 17,016**	**$ 463,723**	**$ (4)**	**$ 20,260**	**$ 65,649**	**$ 461,133**	**$ -**	**$ 9,292**	**$ 164**	**$ 265**	**$ 71,147**	**$ 6,121**	**$ 347,720**	**$ 1,895,380**	**$ 142,790**	**$ 23,961**	**$ 6,929**	**$ 1,319,747**
NET POSITION																				
Unexpended Appropriations																				
Unexpended Appropriations - Funds from Dedicated Collections	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Unexpended Appropriations - All Other Funds	5,340,879	-	21,993	269,943	-	24,473	-	641,878	291	11,816	-	22,371	105,192	17,678	478,863	2,990,087	748,303	-	7,991	-
Cumulative Results of Operations																				
Cumulative Results of Operations - Funds from Dedicated Collections	10,033,602	-	-	-	-	-	-	-	-	-	-	-	-	-	-	245,906	8,838,459	-	-	949,237
Cumulative Results of Operations - All Other Funds	9,897,600	-	(6,885)	54,950	11,089	(2,393)	(4,024)	(2,294)	-	(4,475)	2,906	23,831	(33,305)	(3,303)	890,512	8,929,818	16,817	20,267	4,089	-
Total Net Position - Funds from Dedicated Collections	**10,033,602**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**245,906**	**8,838,459**	**-**	**-**	**949,237**
Total Net Position - All Other Funds	**15,238,479**	**-**	**15,108**	**324,893**	**11,089**	**22,080**	**(4,024)**	**639,584**	**291**	**7,341**	**2,906**	**46,202**	**71,887**	**14,375**	**1,369,375**	**11,919,905**	**765,120**	**20,267**	**12,080**	**-**
TOTAL NET POSITION	**$ 25,272,081**	**$ -**	**$ 15,108**	**$ 324,893**	**$ 11,089**	**$ 22,080**	**$ (4,024)**	**$ 639,584**	**$ 291**	**$ 7,341**	**$ 2,906**	**$ 46,202**	**$ 71,887**	**$ 14,375**	**$ 1,369,375**	**$ 12,165,811**	**$ 9,603,579**	**$ 20,267**	**$ 12,080**	**$ 949,237**
TOTAL LIABILITIES AND NET POSITION	**$ 30,038,311**	**$ (85,063)**	**$ 32,124**	**$ 788,616**	**$ 11,085**	**$ 42,340**	**$ 61,625**	**$ 1,100,717**	**$ 291**	**$ 16,633**	**$ 3,070**	**$ 46,467**	**$ 143,034**	**$ 20,496**	**$ 1,717,095**	**$ 14,061,191**	**$ 9,746,369**	**$ 44,228**	**$ 19,009**	**$ 2,268,984**

See accompanying independent auditors' report.

FINANCIAL SECTION

Required Supplementary Information

(UNAUDITED)

Required Supplementary Information (Unaudited)

A Deferred Maintenance and Repairs

Deferred Maintenance and Repairs are maintenance and repairs that were not performed when they should have been, that were scheduled and not performed, or that were delayed for a future period. Maintenance and Repairs are activities directed towards keeping Property, Plant, and Equipment (PP&E) in acceptable operating condition. These activities include preventive maintenance, normal repairs, replacement of parts and structural components, and other activities needed to preserve the asset so that it can deliver acceptable performance and achieve its expected life. Maintenance and Repairs exclude activities aimed at expanding the capacity of an asset or otherwise upgrading it to serve needs different from or significantly greater than those originally intended. Critical maintenance is defined as those projects where the required maintenance and repairs will have a critical impact on the public access, functionality and mission support, health and safety, and life cycle cost of a facility if the maintenance or repairs is not performed. The significant portions of Departmental Deferred Maintenance and Repairs relate to PP&E of both the National Oceanic and Atmospheric Administration (NOAA) and the National Institute of Standards and Technology (NIST). These two entities represent 96 percent of the Department's General PP&E, Net balance as of September 30, 2013.

NOAA:

NOAA uses the Condition Assessment Survey (CAS) method to identify and quantify Deferred Maintenance and Repairs for assets meeting NOAA's $200 thousand capitalization threshold. The CAS method employs a periodic inspection of real property, heritage assets, ships, and other applicable assets to determine its current condition and to estimate costs to correct any deficiencies. Estimated costs reflect potential costs variance of +/- 10 percent.

The following shows NOAA's Deferred Maintenance and Repairs for projects with estimated costs greater than $50 thousand (Buildings and Structures; and Heritage Assets) and $25 thousand (Ships; and Other), as of September 30, 2013:

(In Thousands)

PP&E Category	Asset Condition	Estimated Cost to Return to Acceptable Condition		
Buildings and Structures	3	$ 65,286	to	$ 79,794
Heritage Assets	4, 3	11,756	to	14,369
Ships	2	24,545	to	29,999
Other	3	162	to	198
Total		**$ 101,749**	**to**	**$ 124,360**

The CAS method for all PP&E categories is based on a five-point scale, with 1 representing excellent condition; 2 – good condition; 3 – fair condition; 4 – poor condition; and 5 – very poor condition. NOAA has established a "facility condition code" to classify the conditions of Buildings and Structures. Each building or structure is assessed an individual "facility condition code." The average of the individual "facility condition codes" determines the CAS Asset Condition. The Deferred Maintenance and Repairs amounts reported represent non-critical maintenance and repairs to bring the Buildings and Structures to good condition. Buildings and Structures Deferred Maintenance and Repairs are comprised of projects submitted to the Capital Improvements Program. For Heritage Assets, the Deferred Maintenance and Repairs amounts reported represent non-critical maintenance to bring each class of Heritage Assets to an acceptable condition through cleaning, restoration, and preservation. NOAA has established a "range of current asset condition code" to classify the conditions of Ships. The average of the individual "range of current asset condition codes" determines the CAS Asset Condition.

NIST:

NIST also uses the CAS method to estimate Deferred Maintenance and Repairs. NIST values the condition of assets using a five-point scale, with 1 representing excellent condition; 2 – good condition; 3 – acceptable condition; 4 – poor condition; and 5 – very poor condition. Assets that are assessed at 4 or 5 require maintenance and repairs to increase their value to 3, or acceptable condition. The following shows NIST's Deferred Maintenance and Repairs as of September 30, 2013:

(In Thousands)

PP&E Category	Asset Condition	Estimated Cost to Return to Acceptable Condition		
Mechanical and Electrical Devices	5	$ 162,539	to	$ 179,649
Buildings (Internal Structures)	4	31,683	to	35,018
Buildings (External Structures)	4	10,036	to	11,092
Total		**$ 204,258**	**to**	**$ 225,759**

B Stewardship Marine Sanctuaries, Marine National Monuments, Conservation Area, and Habitat Focus Area

NOAA maintains the following sanctuaries, marine national monuments, and conservation area, which are similar in nature to stewardship land and which are more fully described in Note 23, *Stewardship Property, Plant, and Equipment*, of the Notes to the Financial Statements.

National Marine Sanctuaries: Marine sanctuaries provide protection for nationally significant natural areas, including species close to extinction, and protect historically significant shipwrecks and prehistoric artifacts. Each of the 13 sanctuaries, which may include habitats as diverse as near-shore coral reefs and open ocean, conducts research and monitoring activities to characterize existing resources and document changes. Resource status in the marine sanctuaries varies from good to poor, depending on resource type. Where conditions are compromised, they appear to reflect historical levels of use and development, and in some cases recent disturbances (e.g., diseases that have caused mass mortality of critically important species). The effects of recent disturbance may have been exacerbated by impaired environmental conditions in some areas. Human activities related to each of these threats are the focus of current management efforts, and favorable trends in resource quality appear to be the result of active management.

Papahānaumokuākea Marine National Monument: The majority of all coral reef habitats located in U.S. waters surround the Northwestern Hawaiian Islands (NWHI). The Papahānaumokuākea Marine National Monument, located off the coast of the NWHI, encompasses nearly 140,000 square miles of U.S. waters, including approximately 5,200 square miles of relatively undisturbed coral reef habitat that is home to more than 7,000 species. The condition of the Papahānaumokuākea Marine National Monument is good, but resources in the Monument are affected by an abundance of marine debris, and face emerging threats related to climate change (e.g., increasing temperature, acidification, and sea level).

Rose Atoll Marine National Monument: The atoll includes the Rose Atoll National Wildlife Refuge. It also includes 20 acres of land and 1,600 acres of lagoon and extends 50 nautical miles seaward from the mean low water line of the atoll. It is one of the most pristine atolls in the world. The areas around the atoll support a dynamic reef ecosystem that is home to many land and marine species, many of which are threatened or endangered. The condition of the Rose Atoll Marine National Monument is good, though it has apparently not recovered completely from the effects of a 1993 shipwreck and spill that altered community structure on a large portion of the reef.

Marianas Trench Marine National Monument: The Marianas Trench Marine National Monument consists of approximately 96,000 square miles of submerged lands and waters of the Mariana Archipelago. It includes three units: the Islands Unit, the waters and submerged lands of the three northernmost Mariana Islands; the Volcanic Unit, the submerged lands within 1 nautical mile of 21 designated volcanic sites; and the Trench Unit, the submerged lands extending from the northern limit of the Exclusive Economic Zone of the United States in the Commonwealth of the Northern Mariana Islands (CNMI) to the southern limit of the Exclusive Economic Zone of the United States in the Territory of Guam. The condition of the Marianas Trench Marine National Monument is good.

Pacific Remote Islands Marine National Monument: The Pacific Remote Islands area consists of Wake, Baker, Howland, and Jarvis Islands, Johnston Atoll, Kingman Reef, and Palmyra Atoll, which lie to the south and west of Hawaii. With the exception of Wake Island, these islands are administered as National Wildlife Refuges by the U.S. Fish and Wildlife Service of the Department of the Interior. They sustain many endemic species including corals, fish, shellfish, marine mammals, seabirds, water birds, land birds, insects, and vegetation not found elsewhere. The condition of the Pacific Remote Islands Marine National Monument is good.

Aleutian Islands Habitat Conservation Area: This conservation area in Alaska, which covers nearly 370,000 square miles, may harbor among the highest diversity of deep-water corals in the world, and protects habitat for deep water corals and other sensitive features that are slow to recover once disturbed by fishing gear or other activities. The condition of the Aleutian Islands Habitat Conservation Area is generally good, although some specific resources are threatened. For example, the conservation area contains six small areas of fragile coral gardens.

California's Russian River Watershed Habitat Focus Area: Once the host of vibrant coho salmon and steelhead runs, the Russian River was a premiere recreational fishing destination. By 2000, coho salmon were virtually extinct from the river, and the remaining habitats are badly degraded. Heavy demand for and competing uses of the river's water adds to the stress on fish. Russian River Valley communities are also impacted by frequent flooding. Steep hills and numerous canyons make accurate rainfall predictions and flood forecasts difficult. The condition of California's Russian River Watershed Habitat Focus Area is fair.

C Collection-type Heritage Assets

NOAA:

NOAA's collection-type heritage assets are comprised primarily of books, journals, publications, photographs and motion pictures, manuscripts, records, nautical chart plates, and artifacts. Many of these heritage assets are maintained by the NOAA Central Library (Library). As evidenced by a search of international catalogs, 35 to 50 percent of the Library's collection is unique. Historically, 40 percent of the items catalogued are not found anywhere else. The Library has an extensive collection of historical Coast and Geodetic Survey materials (from 1807) and Weather Bureau materials (from the 1830s), including foreign and historical meteorological data, information on instruments, and metadata.

NOAA's collection-type heritage assets include items in the Thunder Bay Sanctuary Research Collection, composed primarily of a) data cards listing most of the ships on the Great Lakes before 1900, a roster of some 15,000 vessels complete with descriptive data and highlights of the ships' careers and their ultimate losses; and b) ship photograph negatives of 19th and 20th century Great Lakes ships.

NOAA's collection-type heritage assets also include items in the National Climatic Data Center Library. Heritage assets include a) books, manuals, and slides; b) thermometers, gauges, and radiosondes; and c) laboratory equipment.

NOAA uses the Condition Assessment Survey (CAS) method to describe the condition of its assets. The CAS method is based on a five-point scale with 1 representing excellent condition; 2 – good condition; 3 – fair condition; 4 – poor condition; and 5 – very poor condition. Assets with the condition assessment level between 1 through 3 are defined as being suitable for public display. The books, journals, and other publications that make up the majority of the NOAA Central Library collection-type heritage assets are in 4 – poor condition, and 5 – very poor condition. The heritage assets of the Thunder Bay Sanctuary Research Collection are in 2 – good condition, and the heritage assets of the National Climatic Data Center Library are generally in 3 – fair condition.

NIST:

NIST currently maintains the Museum and History Program, which collects, conserves, and exhibits artifacts such as scientific instruments, equipment, objects and records of significance to NIST and the National Bureau of Standards (NBS). This program provides institutional memory and demonstrates the contributions of NIST to the development of standards, measurement, technology, and science. Conditions of these artifacts are listed in the Registrar's database and are generally fair.

NIST Information Services Office (ISO) maintains NIST Heritage Assets (artifacts), historical archives, a historical book collection, and oversees the oral history program. The book collection contains titles that are of historical scientific interest, rare titles, and books by NIST authors or about NIST work. Materials are not specifically purchased for the collection nor are funds specifically allocated for the collection. Conditions of the books are generally fair. The archives maintain photos of NIST staff, facilities, and artifacts that demonstrate NIST accomplishments. These images are in good condition.

Census Bureau: Heritage assets at the Census Bureau are items considered unique for their historical, cultural, educational, technological, methodological, or artistic importance. These assets help illustrate the social, educational, and cultural heritage of the Census Bureau. Some items, because of their age or obvious historical significance, are inherently historical artifacts. These historical artifacts include but are not limited to: Hollerith Key Punch, Hollerith Tabulator, Gang Punch, Pantograph, Census Bureau Enumerators Badge, Unisys Tape and Reel, Film Optical Sensing Device, Artwork and Gifts, and any items which represent the uniqueness of the mission of the Census Bureau. The heritage assets at the Census Bureau are classified as generally being in good condition.

D Schedule of Budgetary Resources by Major Budget Account

The following table illustrates the Department's FY 2013 budgetary resources by major budget account. The "Other Programs" column refers to the Department's reporting entities and their budget accounts that are not listed.

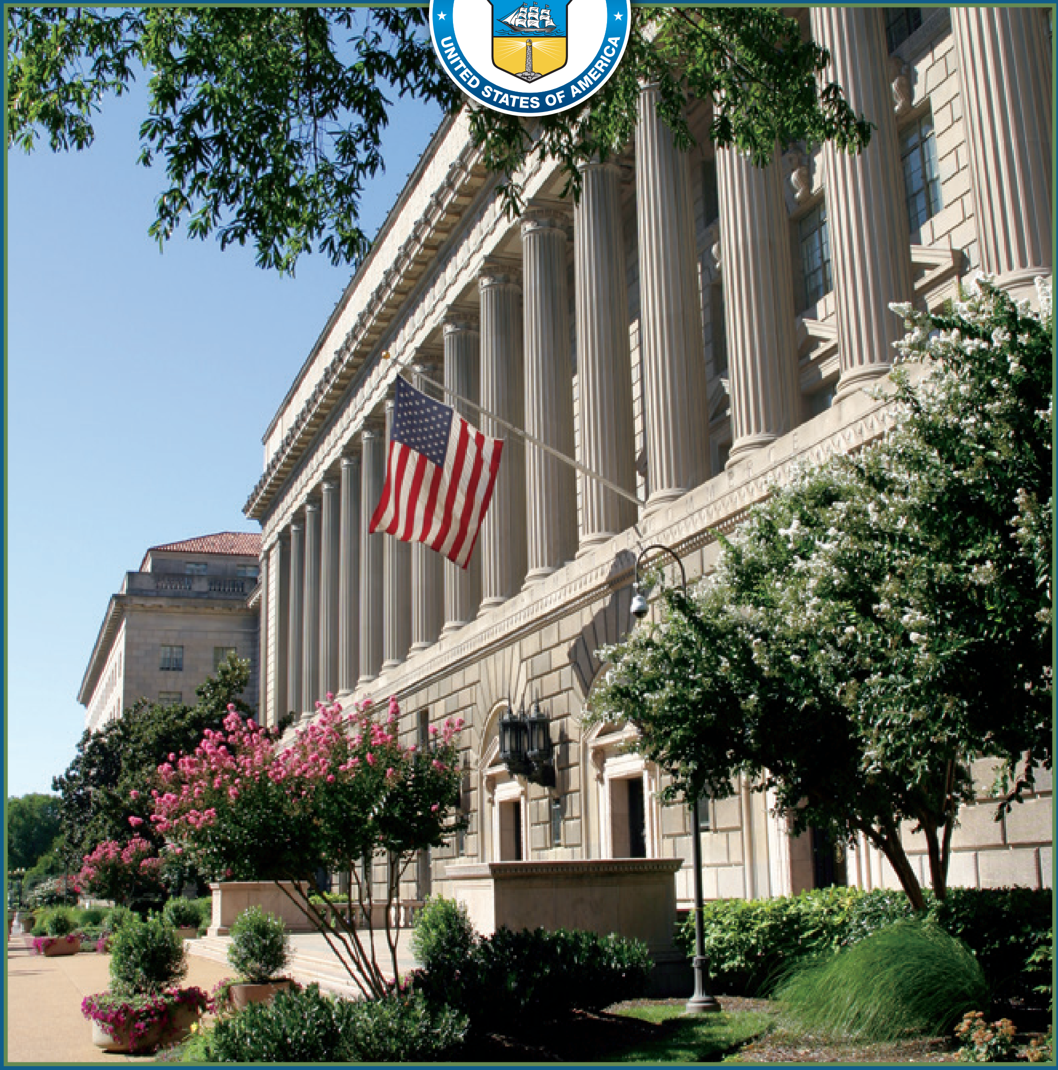
United States Department of Commerce Schedule of Budgetary Resources by Major Budget Account For the Year Ended September 30, 2013 *(In Thousands)*

	Combining Total	NOAA Operations, Research, and Facilities	USPTO Salaries and Expenses	NOAA Procurement, Acquisition, and Construction	NTIA Digital Television Transition and Public Safety Fund	ITA Operations and Administration	Census Bureau Periodic Censuses and Programs	EDA Grant Fund	NTIA Broadboand Technology Opportunities Program - ARRA	Other Programs
BUDGETARY RESOURCES:										
Unobligated Balance, Brought Forward, October 1	$ 10,352,399	$ 243,147	$ 237,873	$ 42,232	$ 8,764,234	$ 29,632	$ 132,024	$ 184,312	$ 2,976	$ 715,969
Adjustments to Unobligated Balance, Brought Forward	(157)	-	-	-	-	-	-	(157)	-	
Unobligated Balance, Brought Forward, October 1, as Adjusted	10,352,242	243,147	237,873	42,232	8,764,234	29,632	132,024	184,155	2,976	715,969
Actual Recoveries of Prior-years Unpaid Obligations	259,810	38,051	21,351	27,088	21,443	14,962	25,367	47,162	2,036	62,350
Actual Nonexpenditure Transfers of Unobligated Balance, Net	10,647	-	-	-	-	6,440	-	-	-	4,207
Borrowing Authority Withdrawn	(6,355)	-	-	-	-	-	-	-	-	(6,355)
Other Changes in Unobligated Balance, Net	(38,198)	(18,193)	-	(10,895)	-	(4,805)	(1,428)	-	-	(2,877)
Unobligated Balance From Prior-years Budget Authority, Net	**10,578,146**	**263,005**	**259,224**	**58,425**	**8,785,677**	**46,229**	**155,963**	**231,317**	**5,012**	**773,294**
Appropriations	7,907,642	3,237,440	-	1,903,988	4,300	439,862	620,728	182,017	-	1,519,307
Borrowing Authority	299,260	-	-	-	-	-	-	-	-	299,260
Spending Authority From Offsetting Collections	4,271,495	216,209	2,672,335	2,790	7,039	14,671	5,952	2,649	2,640	1,347,210
TOTAL BUDGETARY RESOURCES	**$ 23,056,543**	**$ 3,716,654**	**$ 2,931,559**	**$ 1,965,203**	**$ 8,797,016**	**$ 500,762**	**$ 782,643**	**$ 415,983**	**$ 7,652**	**$ 3,939,071**
STATUS OF BUDGETARY RESOURCES:										
Obligations Incurred	$ 12,354,766	$ 3,370,608	$ 2,489,268	$ 1,800,354	$ -	$ 475,054	$ 643,417	$ 360,319	$ -	$ 3,215,746
Unobligated Balance, End of Year										
Apportioned	1,499,168	268,474	442,291	138,923	-	14,170	3,087	48,571	-	583,652
Exempt From Apportionment	3,848	-	-	-	-	-	-	-	-	3,848
Unapportioned	9,198,761	77,572	-	25,926	8,797,016	11,538	136,139	7,093	7,652	135,825
Total Unobligated Balance, End of Year	**10,701,777**	**346,046**	**442,291**	**164,849**	**8,797,016**	**25,708**	**139,226**	**55,664**	**7,652**	**723,325**
TOTAL STATUS OF BUDGETARY RESOURCES	**$ 23,056,543**	**$ 3,716,654**	**$ 2,931,559**	**$ 1,965,203**	**$ 8,797,016**	**$ 500,762**	**$ 782,643**	**$ 415,983**	**$ 7,652**	**$ 3,939,071**
CHANGE IN UNPAID OBLIGATED BALANCE, NET:										
Unpaid Obligations:										
Unpaid Obligations, Brought Forward, October 1	$ 8,478,520	$ 1,947,905	$ 344,792	$ 1,208,910	$ 73,956	$ 91,352	$ 215,394	$ 1,099,997	$ 1,709,644	$ 1,786,570
Adjustments to Unpaid Obligations, Brought Forward	157	-	(1)	(1)	(1)	1	-	155	1	3
Obligations Incurred	12,354,766	3,370,608	2,489,268	1,800,354	-	475,054	643,417	360,319	-	3,215,746
Outlays, Gross	(13,778,017)	(3,431,922)	(2,547,148)	(1,947,571)	(20,960)	(465,008)	(685,617)	(396,131)	(962,052)	(3,321,608)
Actual Recoveries of Prior-years Unpaid Obligations	(259,810)	(38,051)	(21,351)	(27,088)	(21,443)	(14,962)	(25,367)	(47,162)	(2,036)	(62,350)
UNPAID OBLIGATIONS, END OF YEAR	**$ 6,795,616**	**$ 1,848,540**	**$ 265,560**	**$ 1,034,604**	**$ 31,552**	**$ 86,437**	**$ 147,827**	**$ 1,017,178**	**$ 745,557**	**$ 1,618,361**
Uncollected Customer Payments:										
Uncollected Customer Payments, Brought Forward, October 1	$ (608,824)	$ (453,844)	$ (35)	$ -	$ -	$ (17,125)	$ -	$ -	$ -	$ (137,820)
Adjustments to Uncollected Customer Payments, Brought Forward	-	-	(1)	-	-	-	-	-	-	1
Change in Uncollected Customer Payments	139,568	104,072	(11)	-	-	7,368	-	-	-	28,139
UNCOLLECTED CUSTOMER PAYMENTS, END OF YEAR	**$ (469,256)**	**$ (349,772)**	**$ (47)**	**$ -**	**$ -**	**$ (9,757)**	**$ -**	**$ -**	**$ -**	**$ (109,680)**
Unpaid Obligated Balance, Net, Brought Forward, October 1	**$ 7,869,696**	**$ 1,494,061**	**$ 344,757**	**$ 1,208,910**	**$ 73,956**	**$ 74,227**	**$ 215,394**	**$ 1,099,997**	**$ 1,709,644**	**$ 1,648,750**
Unpaid Obligated Balance, Net, End of Year	**$ 6,326,360**	**$ 1,498,768**	**$ 265,513**	**$ 1,034,604**	**$ 31,552**	**$ 76,680**	**$ 147,827**	**$ 1,017,178**	**$ 745,557**	**$ 1,508,681**
BUDGET AUTHORITY, NET:										
Budget Authority, Gross	$ 12,478,397	$ 3,453,649	$ 2,672,335	$ 1,906,778	$ 11,339	$ 454,533	$ 626,680	$ 184,666	$ 2,640	$ 3,165,777
Actual Offsetting Collections	(4,621,016)	(320,281)	(2,822,057)	(2,790)	(7,039)	(22,039)	(5,952)	(2,649)	(2,640)	(1,435,569)
Change in Uncollected Customer Payments	139,568	104,072	(11)	-	-	7,368	-	-	-	28,139
BUDGET AUTHORITY, NET	**$ 7,996,949**	**$ 3,237,440**	**$ (149,733)**	**$ 1,903,988**	**$ 4,300**	**$ 439,862**	**$ 620,728**	**$ 182,017**	**$ -**	**$ 1,758,347**
OUTLAYS, NET:										
Outlays, Gross	$ 13,778,017	$ 3,431,922	$ 2,547,148	$ 1,947,571	$ 20,960	$ 465,008	$ 685,617	$ 396,131	$ 962,052	$ 3,321,608
Actual Offsetting Collections	(4,621,016)	(320,281)	(2,822,057)	(2,790)	(7,039)	(22,039)	(5,952)	(2,649)	(2,640)	(1,435,569)
Outlays, Net	9,157,001	3,111,641	(274,909)	1,944,781	13,921	442,969	679,665	393,482	959,412	1,886,039
Distributed Offsetting (Receipts)/Outlays, Net	(46,853)	-	-	-	-	-	-	-	-	(46,853)
AGENCY OUTLAYS, NET	**$ 9,110,148**	**$ 3,111,641**	**$ (274,909)**	**$ 1,944,781**	**$ 13,921**	**$ 442,969**	**$ 679,665**	**$ 393,482**	**$ 959,412**	**$ 1,839,186**

FINANCIAL SECTION

Required Supplementary Stewardship Information

(UNAUDITED)



Required Supplementary Stewardship Information (Unaudited)

Stewardship Investments

Stewardship investments are substantial investments made by the federal government for the benefit of the nation, but are not physical assets owned by the federal government. Though treated as expenses when incurred to determine the Department's Net Cost of Operations, these items merit special treatment so that users of federal financial reports know the extent of investments that are made for the long-term benefit of the nation.

Investments in Non-federal Physical Property:

Non-federal physical property investments are expenses included in the Department's Net Cost of Operations for the purchase, construction, or major renovation of physical property owned by state and local governments. Based on a review of the Department's programs, the National Oceanic and Atmospheric Administration (NOAA) and the Economic Development Administration (EDA) have significant investments in non-federal physical property.

NOAA:

National Estuarine Research Reserves (NERR): The NERR system consists of 28 estuarine reserves protected by federal, state, and local partnerships that work to preserve and protect the nation's estuaries. The NERR system helps to fulfill NOAA's stewardship mission to sustain healthy coasts by improving the nation's understanding and stewardship of estuaries. Estuarine reserves are the areas where freshwater from rivers meet the ocean. These areas are known as bays, swamps, sloughs, and sounds. These important coastal habitats are used as spawning grounds and nurseries for the nation's commercial fish and shellfish. Estuaries filter much of the polluted runoff from rivers and streams that would otherwise contaminate oceans. The reserves were created with the passage of the Coastal Zone Management Act of 1972, and, as of September 30, 2013, encompassed approximately 1.4 million acres of estuarine waters, wetlands, and uplands. The most recent reserve, Lake Superior, WI, was designated on October 26, 2010. NERRs are state-operated and managed in cooperation with NOAA. NOAA's investments in non-federal physical property are for the acquisition of lands and development or construction of facilities, auxiliary structures, and public access routes for any NERR site.

Coastal and Estuarine Land Conservation Program: This program was established under the Commerce, Justice, and State Appropriations Act of 2002, "for the purpose of protecting important coastal and estuarine areas that have significant conservation, recreation, ecological, historical, or aesthetic values, or that are threatened by conversion from their natural or recreational state to other uses." The investments in non-federal physical property include matching grants awarded to state and local governments for land acquisition in coastal and estuarine areas. Since FY 2002, matching grants have been directed to 210 such projects.

Coastal Zone Management Fund: The Coastal Zone Management Program is authorized by the Coastal Zone Management Act of 1972, and administered at the federal level by NOAA's Office of Ocean and Coastal Resource Management. The investments in non-federal physical property include incidental expenses of land acquisition, and low-cost construction on behalf of various state and local governments, for the purpose of preservation or restoration of coastal resources and habitats. NOAA's financing supports various coastal states in their redevelopment of deteriorating and urbanized waterfronts and ports, as well as providing for public access to beaches and coastal areas. The state and local governments receive funding for these investments through NOAA grant expenditures, and these grant expenditures also include funding for purposes other than the investments in non-federal physical property. There is currently not in place a mechanism for the state and local governments to determine and report to NOAA the amount of monies they expend for the investments in non-federal physical property. The Department, accordingly, cannot report the amount of investments in non-federal physical property for the Coastal Zone Management Fund.

NOAA's investments in non-federal physical property for FY 2009 through FY 2013 were as follows:

(In Millions)

Program	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013	Total
National Estuarine Research Reserves	$ 11.7	$ 14.7	$ 5.5	$ 3.9	$ 2.4	$ 38.2
Coastal and Estuarine Land Conservation Program	21.6	32.4	6.9	8.8	5.7	75.4
Total	**$ 33.3**	**$ 47.1**	**$ 12.4**	**$ 12.7**	**$ 8.1**	**$ 113.6**

EDA:

Public Works: The Public Works program promotes long-term economic development in distressed areas by providing investments for vital public infrastructure and development facilities. These critical investments enable communities to attract new, or support existing, businesses that will generate new jobs and income for unemployed and underemployed residents. Among the types of projects funded are water, sewer, fiber optics, access roads, and facilities such as industrial and business parks, business incubator and skill training facilities, and port improvements.

Economic Adjustment Assistance: The Economic and Adjustment Assistance program provides flexible investments for communities facing sudden or severe economic distress to diversify and stabilize their economies. Factors that seriously threaten the economic survival of communities include plant closures, military base closures or realignments, defense laboratory or contractor downsizings, natural resource depletion, out-migration, under-employment, and the impacts of foreign trade.

Global Climate Change Mitigation Incentive Fund (GCCMIF): The GCCMIF program was established to strengthen the linkage between economic development and environmental quality. The purpose and mission of the GCCMIF program is to finance projects that foster economic development by advancing the green economy in distressed communities. The GCCMIF program is the development and use of products and services that contribute to economic growth and alleviate economic distress by respecting and revitalizing the environment. The GCCMIF program supports projects that create jobs through, and increase private capital investment in, efforts to limit the nation's dependence on fossil fuels, enhance energy efficiency, curb greenhouse gas emissions, and protect natural systems.

Disaster Recovery: EDA supports the repair of infrastructure and economic development-related facilities damaged by floods and other natural disasters. Funding for Disaster Recovery is generally through supplemental appropriations from Congress for recovery efforts to save, sustain, and preserve private enterprise and job creation in economically distressed communities.

EDA's investments in non-federal physical property for FY 2009 through FY 2013 were as follows:

(In Millions)

Program	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013	Total
Public Works	$ 139.9	$ 175.8	$ 224.4	$ 160.7	$ 120.5	$ 821.3
Economic and Defense Adjustments	68.6	61.4	47.6	49.5	66.8	293.9
Global Climate Change Mitigation Incentive Fund	0.2	5.5	6.8	12.8	14.9	40.2
Disaster Recovery	6.3	32.4	85.1	111.0	146.2	381.0
Total	**$ 215.0**	**$ 275.1**	**$ 363.9**	**$ 334.0**	**$ 348.4**	**$ 1,536.4**

The above investments require matching funds by state and local governments of 20 to 50 percent.

Investments in Human Capital:

Human capital investments are expenses, included in the Department's Net Cost of Operations, for education and training programs that are intended to increase or maintain national economic productive capacity and produce outputs and outcomes that provide evidence of the constant or increasing national productive capacity. These investments exclude education and training expenses for federal civilian and military personnel. Based on a review of the Department's programs, the most significant dollar investments in human capital are by NOAA.

NOAA:

National Sea Grant College Program: Sea Grant is a nationwide network, administered through NOAA, of 32 university-based programs that work with coastal communities. With the adoption in 1966 of the National Sea Grant College Act, Congress established an academic/industry/government partnership that would enhance the nation's education, economy, and environment into the 21st century. The program supports activities designed to increase public awareness of coastal, ocean, and Great Lakes issues, to provide information to improve management decisions in coastal, ocean, and Great Lakes policy, and to train graduate students in marine and Great Lakes science. The Knauss Fellowship Program offers qualified masters and doctoral students the opportunity to spend a year working on marine and Great Lakes policy issues with the Executive and Legislative branches of the federal government. The program currently has 43 fellowships awarded: 12 fellowships funded by the National Sea Grant College Program, and 31 fellowships funded by other NOAA offices and other federal agencies. There is also a Graduate Fellowship Program for Ph.D. candidates in the specialized areas of population dynamics and marine resource economics. The Graduate Fellowship Program currently has 17 fellowships awarded. Participants in this program can receive up to three years of funding.

National Estuarine Research Reserve Program: This program supports activities designed to increase public awareness of estuary issues, provide information to improve management decisions in estuarine areas, and train graduate students in estuarine science. The National Estuarine Research Reserve System's Graduate Research Fellowship (GRF) Program offers qualified masters and doctoral students the opportunity to address scientific questions of local, regional, and national significance. The result is high-quality research focused on improving coastal management issues. All GRF projects must be conducted in a National Estuarine Research Reserve and enhance the scientific understanding of the reserve's ecosystem. In FY 2013, 14 fellowships were awarded.

Educational Partnership Program: NOAA's **Educational Partnership Program (EPP)** with **Minority-serving Institutions (MSI)** provides financial assistance through competitive processes to minority-serving institutions that support research and training of students in NOAA-related sciences. The program's goal is to increase the number of trained and graduated students from underrepresented communities in science and technology directly related to NOAA's mission. EPP/MSI also seeks to increase collaborative research efforts between NOAA scientists and researchers at minority-serving academic institutions. Financial assistance is provided through four competitive program components: the Cooperative Science Centers, the Environmental Entrepreneurship Program, the Graduate Sciences Program, and the Undergraduate Scholarship Program.

NOAA provides funding to eligible MSIs on a competitive basis to educate, train, and graduate students in NOAA sciences, particularly atmospheric, oceanic, environmental, living marine resources, remote sensing, and scientific environmental technology. The Cooperative Science Centers' goals are to:

- Train and graduate students, particularly from underrepresented communities, in NOAA mission sciences;
- Develop expertise in a NOAA scientific area;
  - Strengthen and build capacity in a NOAA scientific and management area; and
  - Build research experience in a NOAA scientific and management area.
- Increase graduation rates of students from underrepresented communities in NOAA mission sciences;
- Impact NOAA workforce statistics by increasing representation from underrepresented communities in NOAA mission sciences; and
- Leverage NOAA funds to build the education and research capacity at MSIs.

In FY 2013, the Cooperative Science Centers awarded 89 degrees to students, and continued to support 265 students in post-secondary NOAA mission-relevant science, technology, resource management, and policy degree programs.

The Environmental Entrepreneurship Program (EEP) provides funding to eligible minority-serving institutions on a competitive basis to engage students to pursue advanced academic study and entrepreneurship opportunities in the NOAA-related sciences. EEP supports student training and experiential learning opportunities for the purpose of stimulating job creation and business development, and revitalizing local communities. EEP's objective is to increase the number of students at MSIs proficient in environmental business enterprises.

The Graduate Sciences Program (GSP) is aimed primarily at increasing opportunities for students in NOAA mission fields to pursue research and educational training in atmospheric, environmental, remote sensing, and oceanic sciences at MSIs when possible. GSP offers between two years (master's candidates) to four years (doctoral students) of NOAA-related research and training opportunities. GSP provides college graduates entry-level employment and hands-on research and work experience at NOAA. NOAA did not advertise for student applications in 2013, as it is unable to continue GSA in the same manner that it has operated recently due to federal government-wide changes being directed by the U.S. Office of Personnel Management. NOAA plans, however, to advertise a redesigned graduate program in the near future.

The Undergraduate Scholarship Program is designed to increase the number of students who undertake course work and graduate with degrees in the targeted areas integral to NOAA's mission. Appointments are for two years, and are made to students who have recently declared or are about to declare a major in atmospheric, oceanic, or environmental science. The students participate in research, training, and development activities at NOAA offices and facilities during two summer internships. In FY 2013, 11 students were selected for the program.

Ernest F. Hollings Undergraduate Scholarship Program: This program was established in 2005 to 1) increase undergraduate training in oceanic and atmospheric science, research, technology, and education, and foster multidisciplinary training opportunities; 2) increase public understanding and support for stewardship of the ocean and atmosphere and improve environmental literacy; 3) recruit and prepare students for public service careers with NOAA and other agencies at the federal, state, and local levels of government; and 4) recruit and prepare students for careers as teachers and educators in oceanic and atmospheric science and to improve scientific and environmental education in the U.S. Students live and attend universities across the U.S. They are majoring in the following science, technology, engineering, and mathematics fields: Mathematics; Meteorology; Engineering; Biology; Chemistry; Climatology; Computer Science; Earth Sciences; Economics; Science Teachers; Physical Sciences; and Science Policy. In FY 2013, the program added 128 students.

Southeast Fisheries Science Center's Recruiting Training Research Program: This is a joint program between NOAA's National Marine Fisheries Service (NMFS) and the University of Florida. The program had resided at Virginia Tech before moving to the University of Florida in December 2011. The objectives of the program are the following: 1) to recruit top undergraduate and graduate students into the field of fisheries population dynamics and careers with NMFS; 2) to train graduate students; and 3) to conduct population dynamics and stock assessment research in support of the NMFS mission. The program also offers graduate courses and workshops in computer programming, simulation modeling, and fish population dynamics. In FY 2013, 17 outstanding undergraduate students from across the country participated in a week-long undergraduate workshop. In June of 2013, 8 outstanding graduate students participated in a two-week summer program. Because of the workshop and summer program, 4 new students began SEFSC-related research in the fall of 2013.

Northeast Fisheries Science Center (NEFSC) Partnership Education Program (PEP): The NEFSC of NOAA's National Marine Fisheries Service leads a consortium of six science institutions in Woods Hole, MA., offering a ten-week summer program that combines undergraduate course work with research in marine and environmental science. Launched in 2009, PEP is an ongoing diversity program designed to recruit talent from minority groups that are under-represented in marine and environmental sciences. PEP recruitment targets college students with priority given to entering juniors and seniors majoring in the natural sciences who have had some course work in marine and/or environmental science. The program includes a credit course taught in Woods Hole by research scientists from Woods Hole science institutions, student research projects, and presentation of research results in a one-day seminar. Participants receive financial support for tuition, travel, and room and board, as well as a stipend. In FY 2013, 15 students participated in the ten-week summer program.

Northeast Fisheries Science Center Bradford E. Brown Student Internship Program: The NEFSC has named its student intern program after Dr. Bradford Brown, a retired NOAA Fisheries Service scientist who was a leader in recruiting young people into fishery science. The program is open to active undergraduate and graduate students. Research topics include population biology and dynamics, resource assessment and environmental surveys, taxonomy, physical and biological oceanography, social sciences, data management, larval fish/plankton ecology, large marine ecosystems, aquaculture, biotechnology, remote sensing, protected species, and apex predators. Summer positions are offered throughout NEFSC laboratories, which are located in Woods Hole, MA; Narragansett, RI; Milford, CT; Highlands, NJ; Washington, DC; and Orono, ME. In FY 2013, the program was not supported due to sequestration.

Woods Hole Science Aquarium (WHSA) High School Intern Program: WHSA offers three summer programs for students who have completed grades 10, 11, or 12. The programs are run by WHSA staff, and are projects of the NEFSC of NOAA's National Marine Fisheries Service and the Marine Biological Laboratory. Interns selected for the five-week program work in the aquarium, help lead public collecting walks, and participate in the Careers in Marine Science seminars. The one and two-week Careers in Marine Science seminars consist of short presentations by marine scientists, activities, and field trips that introduce students to marine-related careers. All students learn basic animal husbandry and aquarist skills, visit the local Woods Hole research institutions, meet with working scientists in a variety of fields, and visit area aquariums, zoos, and waterfronts. In FY 2013, 17 students participated in the program.

Pacific Islands Fisheries Science Center (PIFSC) Student Intern Program (PSIP): PSIP offers qualified college students professional work experience and formal training opportunities tailored to meet their educational and professional goals and interests. PSIP is a paid, summer-long (8-12 weeks) program that combines on-the-job training, formal training, one-to-one mentoring, and developmental assignments at PIFSC. Internship opportunities are established in specific PIFSC projects. Program components include:

- Performance Plans to establish goals and timelines for the intern's work assignments (established in meetings between intern and mentor);
- Periodic meetings between intern and mentor to check on progress (includes a mid-point review and final review);
- Inclusion of intern in PIFSC staff activities (division meetings, all-hands meetings, training, and other activities);
- Program wrap up: Interns and mentors hold a final meeting to review final products and discuss the internship experience; and
- Evaluations: Interns and mentors complete a program evaluation to provide feedback that will help PIFSC improve the structure of the internship program.

In addition to the individual and group mentoring by PIFSC staff, PSIP interns are encouraged to synergize with each other and with other undergraduate and graduate interns at PIFSC. In FY 2013, PIFSC hosted 6 undergraduate summer interns: 1 each in the Fisheries Research and Monitoring Division, Ecosystems and Oceanography Division, Coral Reef Ecosystem Division, and Human Dimensions Program; and 2 in the Protected Species Division.

The following table summarizes NOAA's investments in human capital for FY 2009 through FY 2013:

(In Millions)

Program	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013	Total
National Sea Grant College Program	$ 0.7	$ 0.9	$ 0.8	$ 0.7	$ 0.7	$ 3.8
National Estuarine Research Reserve Program	1.0	1.3	1.5	1.5	1.4	6.7
Educational Partnership Program	15.0	14.3	14.3	12.5	13.0	69.1
Ernest F. Hollings Undergraduate Scholarship Program	3.6	4.6	4.5	4.9	5.0	22.6
Southeast Fisheries Science Center's Recruiting Training Research Program	0.4	0.5	0.5	0.5	0.5	2.4
Northeast Fisheries Science Center Partnership Education Program	-	-	0.2	0.2	0.2	0.6
Northeast Fisheries Science Center Bradford E. Brown Student Internship Program	N/A	N/A	0.2	0.2	-	0.4
Total	**$ 20.7**	**$ 21.6**	**$ 22.0**	**$ 20.5**	**$ 20.8**	**$ 105.6**

N/A = Not Applicable

The following table further summarizes NOAA's human capital investments for FY 2009 to FY 2013 by performance outcome:

(In Millions)

Performance Outcome	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013
Protect, Restore, and Manage the Use of Coastal and Ocean Resources	$ 20.7	$ 21.6	N/A	N/A	N/A
Increase Scientific Knowledge and Provide Information to Stakeholders to Support Economic Growth and to Improve Innovation, Technology, and Public Safety	N/A	N/A	$ 22.0	$ 20.5	$ 20.4

N/A = Not Applicable

Investments in Research and Development (R&D):

Investments in R&D are expenses that are included in the Department's Net Cost of Operations. The investments are divided into three categories: 1) basic research, the systematic study to gain knowledge or understanding of the fundamental aspects of phenomena and of observable facts without specific applications toward processes or products in mind; 2) applied research, the systematic study to gain knowledge or understanding necessary for determining the means by which a recognized and specific need may be met; and 3) development, the systematic use of the knowledge and understanding gained from research for the production of useful materials, devices, systems, or methods, including the design and development of prototypes and processes. The investments are made with the expectation of maintaining or increasing national economic productive capacity, or yielding other future economic or societal benefits. Based on a review of the Department's programs, the only significant investments in R&D are by NIST and NOAA.

NIST:

NIST Laboratories Program:

For more than 100 years, NIST has maintained the national standards of measurement, a role that the U.S. Constitution assigns to the federal government. Today, NIST Laboratories address increasingly complex measurement challenges. For example, NIST develops measurements focusing on the very small (e.g., nanotechnology devices) and the very large (e.g., skyscrapers), the physical—methods for characterizing strands of DNA for forensic testing and the virtual—methods for testing electronic health record systems, and tests the performance of walk-through metal detectors.

- NIST Laboratories work at the frontiers of measurement science to ensure that the U.S. system of measurements is firmly grounded on a sound scientific and technical foundation. NIST promotes the use of measurements based on the international system of units (SI). The measurement science research at NIST is useful to all science and engineering disciplines.

- NIST Laboratories work to assure that the U.S. realization of the basic and derived measurement units is consistent with the realization in other nations. NIST Laboratories engage in a number of international activities to support trade and global science, and to promote the international acceptance of U.S. measurement standards.

- NIST Laboratories provide industry and academia with unique user facilities that support innovation in materials science, nanotechnology, and other emerging technology areas through the NIST Center for Neutron Research, which provides world class neutron measurement capabilities to the U.S. research community, and the NIST Center for Nanoscale Science and Technology, which supports nanotechnology development from discovery to production.

- NIST Laboratories also support the development of standards and specifications that define technical and performance requirements for goods and services. These standards—also known as documentary standards—are often developed collaboratively with the private sector through an open, consensus-based process. NIST scientists and engineers lend their expertise to these efforts in order to promote standards that are based on sound science, and to ensure that the standards are supported by effective measurements and testing methods for conformity. In addition, NIST is designated under the National Technology Transfer Advancement Act as the coordinator for all federal agencies using documentary standards that are developed by private-sector consensus bodies to carry out their policy objectives.

Technology Innovation Program (TIP):

NIST's FY 2013 appropriations did not provide funding for TIP, and the program is currently undergoing a closeout planned from FY 2012 through FY 2015. NIST proposes to use unobligated balances (carryover funding), and funding from recoveries of prior-years unpaid obligations, to close out the program and to perform NIST's fiduciary responsibilities.

Advanced Manufacturing Technology Consortia (AMTech) Program:

In FY 2013, Congress provided funding for the AMTech Program. The purpose of this program is to establish new, and strengthen existing, industry-led, technology consortia which will identify and prioritize research projects supporting long-term industrial research needs. The AMTech Program funding will enable consortia to develop advanced technologies to address major technological and related barriers that inhibit the growth of advanced manufacturing in the U.S. and the global competitiveness of U.S. companies. In 2011, NIST's Visiting Committee on Advanced Technology issued a report that endorsed the AMTech Program as "a model public-private partnership for supporting technological innovation and facilitating its deployment to support advanced manufacturing." There were not any significant R&D investments for the AMTech Program in FY 2013.

The following table summarizes NIST's R&D investments for FY 2009 through FY 2013 by R&D Category:

(In Millions)

	NIST Laboratories					Technology Innovation Program					Total				
R&D Category	**FY 2009**	**FY 2010**	**FY 2011**	**FY 2012**	**FY 2013**	**FY 2009**	**FY 2010**	**FY 2011**	**FY 2012**	**FY 2013**	**FY 2009**	**FY 2010**	**FY 2011**	**FY 2012**	**FY 2013**
Basic Research	$ 144.9	$ 162.0	$ 185.3	$ 198.9	$ 206.4	$ -	$ -	$ -	$ -	$ -	$ 144.9	$ 162.0	$ 185.3	$ 198.9	$ 206.4
Applied Research	378.5	395.9	377.8	379.1	382.5	25.0	26.2	22.1	19.7	10.6	403.5	422.1	399.9	398.8	393.1
Development	15.4	15.3	19.4	12.7	14.7	25.1	26.2	22.1	19.7	10.6	40.5	41.5	41.5	32.4	25.3
Total	**$ 538.8**	**$ 573.2**	**$ 582.5**	**$ 590.7**	**$ 603.6**	**$ 50.1**	**$ 52.4**	**$ 44.2**	**$ 39.4**	**$ 21.2**	**$ 588.9**	**$ 625.6**	**$ 626.7**	**$ 630.1**	**$ 624.8**

The following tables further summarize NIST's R&D investments for FY 2009 through FY 2013 by performance outcome.

(In Millions)

FY 2013				
Performance Outcome	**Basic Research**	**Applied Research**	**Development**	**Total**
NIST Laboratories: Provide Measurement Tools and Standards to Strengthen Manufacturing, Enable Innovation, and Increase Efficiency	$ 206.4	$ 382.5	$ 14.7	$ 603.6
Technology Innovation Program: Stimulate High-growth Business Formation and Entrepreneurship through Investing in High-risk, High-reward Technologies and by Removing Impediments to Accelerate Technology Commercialization	-	10.6	10.6	21.2
Total	**$ 206.4**	**$ 393.1**	**$ 25.3**	**$ 624.8**

(In Millions)

FY 2012				
Performance Outcome	**Basic Research**	**Applied Research**	**Development**	**Total**
NIST Laboratories: Provide Measurement Tools and Standards to Strengthen Manufacturing, Enable Innovation, and Increase Efficiency	$ 198.9	$ 379.1	$ 12.7	$ 590.7
Technology Innovation Program: Stimulate High-growth Business Formation and Entrepreneurship through Investing in High-risk, High-reward Technologies and by Removing Impediments to Accelerate Technology Commercialization	-	19.7	19.7	39.4
Total	**$ 198.9**	**$ 398.8**	**$ 32.4**	**$ 630.1**

(In Millions)

FY 2011				
Performance Outcome	**Basic Research**	**Applied Research**	**Development**	**Total**
NIST Laboratories: Provide Measurement Tools and Standards to Strengthen Manufacturing, Enable Innovation, and Increase Efficiency	$ 185.3	$ 377.8	$ 19.4	$ 582.5
Technology Innovation Program: Stimulate High-growth Business Formation and Entrepreneurship through Investing in High-risk, High-reward Technologies and by Removing Impediments to Accelerate Technology Commercialization	-	22.1	22.1	44.2
Total	**$ 185.3**	**$ 399.9**	**$ 41.5**	**$ 626.7**

(In Millions)

FY 2010				
Performance Outcome	**Basic Research**	**Applied Research**	**Development**	**Total**
NIST Laboratories: Promote Innovation, Facilitate Trade, and Ensure Public Safety and Security by Strengthening the Nation's Measurements and Standards Infrastructure	$ 162.0	$ 395.9	$ 15.3	$ 573.2
Technology Innovation Program: Promote U.S. Competitiveness by Directing Federal Investment and R&D into Areas of Critical National Need that Support, Promote and Accelerate High-risk, High-reward Research in the United States	-	26.2	26.2	52.4
Total	**$ 162.0**	**$ 422.1**	**$ 41.5**	**$ 625.6**

(In Millions)

FY 2009				
Performance Outcome	**Basic Research**	**Applied Research**	**Development**	**Total**
NIST Laboratories: Promote Innovation, Facilitate Trade, and Ensure Public Safety and Security by Strengthening the Nation's Measurements and Standards Infrastructure	$ 144.9	$ 378.5	$ 15.4	$ 538.8
Technology Innovation Program: Promote U.S. Competitiveness by Directing Federal Investment and R&D into Areas of Critical National Need that Support, Promote, and Accelerate High-risk, High-reward Research in the United States	-	25.0	25.1	50.1
Total	**$ 144.9**	**$ 403.5**	**$ 40.5**	**$ 588.9**

NOAA:

NOAA conducts a substantial program of environmental R&D in support of its mission, much of which is performed to improve the United States' understanding of and ability to predict environmental phenomena. The scope of research includes:

- Improving predictions and warnings associated with the weather, on timescales ranging from minutes to weeks;
- Improving predictions of climate, on timescales ranging from months to centuries; and
- Improving understanding of natural relationships to better predict and manage renewable marine resources and coastal and ocean ecosystems.

NOAA also conducts research that is intended to provide a solid scientific basis for environmental policy-making in government. Examples of this research include determining the stratospheric ozone-depleting potential of proposed substitutes for chlorofluorocarbons (CFCs), and identifying the causes of the episodic high rural ozone levels that significantly damage crops and forests.

NOAA conducts most R&D in-house; however, contractors to NOAA undertake most systems R&D. External R&D work supported by NOAA includes that undertaken through federal-academic partnerships such as the National Sea Grant College Program, the Cooperative Institutes of the Environmental Research Laboratories, the Climate and Global Change Program, and the Coastal Ocean Program.

A brief description of the major R&D programs of NOAA follows:

Environmental and Climate: The Office of Oceanic and Atmospheric Research is NOAA's primary research and development office. This office conducts research in three major areas: climate research; weather and air quality research; and ocean, coastal, and Great Lakes research. NOAA's research laboratories, Climate Program Office, and research partners conduct a wide range of research into complex climate systems, including the exploration and investigation of ocean habitats and resources. NOAA's research organizations conduct applied research on the upper and lower atmosphere as well as the space environment.

Fisheries: NMFS is responsible for the conservation and management of living marine resources and their habitat within the Nation's Exclusive Economic Zone. NMFS manages these resources through science-based conservation and management to ensure their continuation as functioning components of productive ecosystems, while also affording economic opportunities and enhancing the quality of life for the American public. Fishery stocks and protected species are surveyed; catch, bycatch, incidental take, economic and social data are collected, and research is conducted to better understand the variables affecting the abundance and variety of marine fishes and protected species, their habitat, and the benefits they provide to society. Protection of endangered species, restoration of coastal and estuarine fishery habitats, and enforcement of fishery regulations are primary NOAA activities. The research and management of living marine resources is conducted in partnership with states, tribes, universities, other countries, international organizations, and a broad range of stakeholders who benefit from the use and existence of living marine resources and their habitat.

Marine Operations and Maintenance and Aircraft Services: These efforts support NOAA's programs requiring operating days and flight hours to collect data at sea and in the air. NOAA's Marine and Aviation Operations manage a wide variety of specialized aircraft and ships to complete NOAA's environmental and scientific missions. The aircraft collect the environmental and geographic data essential to NOAA hurricane and other weather and atmospheric research, conduct aerial surveys for hydrologic research to help predict flooding potential from snowmelt, and provide support to NOAA's fishery research and marine mammal assessment programs. NOAA's ship fleet provides oceanographic and atmospheric research and fisheries research vessels to support NOAA's strategic plan elements and mission.

Weather Service: The National Weather Service conducts applied research and development, building upon research conducted by NOAA laboratories and the academic community. Applied meteorological and hydrological research is integral to providing more timely and accurate weather, water, and climate services to the public.

Other Programs: As a national lead for coastal stewardship, National Ocean Service promotes a wide range of research activities to create the strong science foundation required to advance the sustainable use of precious coastal systems. Understanding of the coastal environment is enhanced through coastal ocean activities that support science and resource management programs. The National Environmental Satellite Data and Information Service, through its Office of Research and Applications, conducts atmospheric, climatological, and oceanic research into the use of satellite data for monitoring environmental characteristics and their changes. It also provides guidance for the development and evolution of spacecraft and sensors to meet future needs.

NOAA's R&D investments by program for FY 2009 through FY 2013 were as follows:

(In Millions)

Program	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013	Total
Environmental and Climate	$ 337.0	$ 344.1	$ 395.3	$ 392.8	$ 326.3	$ 1,795.5
Fisheries	55.7	59.9	65.7	64.9	51.2	297.4
Marine Operations and Maintenance and Aircraft Services	38.4	34.3	34.3	33.3	32.4	172.7
Weather Service	58.4	53.9	54.7	36.4	28.6	232.0
Others	103.8	102.0	98.0	90.6	74.8	469.2
Total	**$ 593.3**	**$ 594.2**	**$ 648.0**	**$ 618.0**	**$ 513.3**	**$ 2,966.8**

The following table summarizes NOAA's R&D investments for FY 2009 through FY 2013 by R&D category:

(In Millions)

R&D Category	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013	Total
Applied Research	$ 491.3	$ 452.4	$ 439.6	$ 426.5	$ 356.9	$ 2,166.7
Development	102.0	141.8	208.4	191.5	156.4	800.1
Total	**$ 593.3**	**$ 594.2**	**$ 648.0**	**$ 618.0**	**$ 513.3**	**$ 2,966.8**

The following tables further summarize NOAA's R&D investments from FY 2013 back to FY 2009 by performance outcome:

(In Millions)

FY 2013			
Performance Outcome	**Applied Research**	**Development**	**Total**
Increase Scientific Knowledge and Provide Information to Stakeholders to Support Economic Growth and to Improve Innovation, Technology, and Public Safety	$ 125.0	$ 7.1	$ 132.1
Enable Informed Decision-making through an Expanded Understanding of the U.S. Economy, Society, and Environment by Providing Timely, Relevant, Trusted, and Accurate Data, Standards, and Services	42.5	12.8	55.3
Improve Weather, Water, and Climate Reporting and Forecasting	7.6	21.0	28.6
Support Climate Adaptation and Mitigation	85.9	107.0	192.9
Develop Sustainable and Resilient Fisheries, Habitats, and Species	46.3	5.0	51.3
Support Coastal Communities that are Environmentally and Economically Sustainable	49.6	3.5	53.1
Total	**$ 356.9**	**$ 156.4**	**$ 513.3**

(In Millions)

FY 2012			
Performance Outcome	**Applied Research**	**Development**	**Total**
Increase Scientific Knowledge and Provide Information to Stakeholders to Support Economic Growth and to Improve Innovation, Technology, and Public Safety	$ 148.1	$ 9.9	$ 158.0
Enable Informed Decision-making through an Expanded Understanding of the U.S. Economy, Society, and Environment by Providing Timely, Relevant, Trusted, and Accurate Data, Standards, and Services	45.2	12.6	57.8
Improve Weather, Water, and Climate Reporting and Forecasting	8.9	27.5	36.4
Support Climate Adaptation and Mitigation	104.4	127.5	231.9
Develop Sustainable and Resilient Fisheries, Habitats, and Species	56.1	8.8	64.9
Support Coastal Communities that are Environmentally and Economically Sustainable	63.8	5.2	69.0
Total	**$ 426.5**	**$ 191.5**	**$ 618.0**

(In Millions)

FY 2011			
Performance Outcome	**Applied Research**	**Development**	**Total**
Increase Scientific Knowledge and Provide Information to Stakeholders to Support Economic Growth and to Improve Innovation, Technology, and Public Safety	$ 149.5	$ 9.3	$ 158.8
Enable Informed Decision-making through an Expanded Understanding of the U.S. Economy, Society, and Environment by Providing Timely, Relevant, Trusted, and Accurate Data, Standards, and Services	48.0	12.6	60.6
Improve Weather, Water, and Climate Reporting and Forecasting	17.8	36.9	54.7
Support Climate Adaptation and Mitigation	101.2	141.4	242.6
Develop Sustainable and Resilient Fisheries, Habitats, and Species	59.1	6.7	65.8
Support Coastal Communities that are Environmentally and Economically Sustainable	64.0	1.5	65.5
Total	**$ 439.6**	**$ 208.4**	**$ 648.0**

(In Millions)

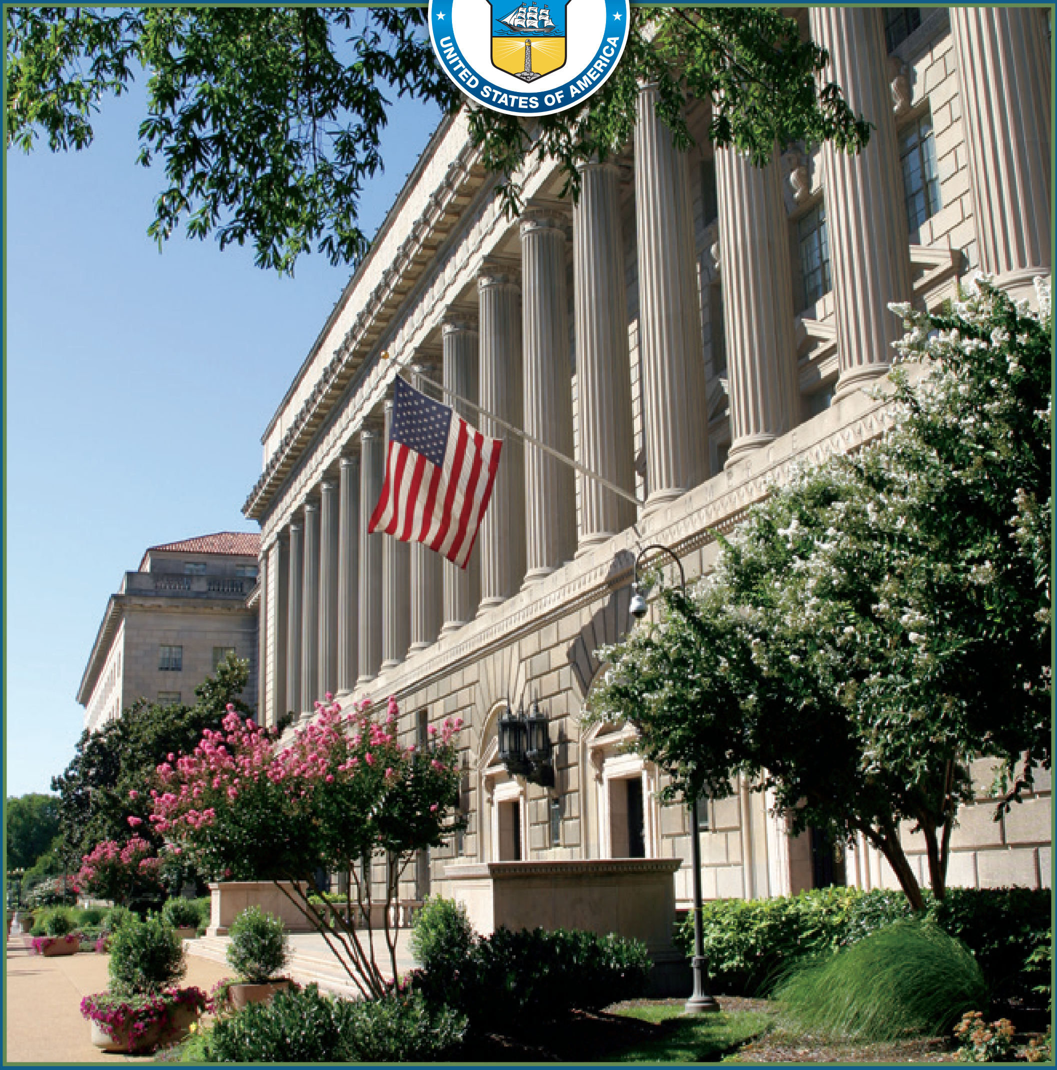
FY 2010			
Performance Outcome	**Applied Research**	**Development**	**Total**
Protect, Restore, and Manage the Use of Coastal and Ocean Resources	$ 218.4	$ 6.8	$ 225.2
Advance Understanding of Climate Variability and Change	125.1	84.0	209.1
Provide Accurate and Timely Weather and Water Information	108.0	48.4	156.4
Support Safe, Efficient, and Environmentally Sound Commercial Navigation	0.9	2.6	3.5
Total	**$ 452.4**	**$ 141.8**	**$ 594.2**

(In Millions)

FY 2009			
Performance Outcome	**Applied Research**	**Development**	**Total**
Protect, Restore, and Manage the Use of Coastal and Ocean Resources	$ 211.5	$ 8.1	$ 219.6
Advance Understanding of Climate Variability and Change	140.4	60.5	200.9
Provide Accurate and Timely Weather and Water Information	138.9	32.7	171.6
Support Safe, Efficient, and Environmentally Sound Commercial Navigation	0.5	0.7	1.2
Total	**$ 491.3**	**$ 102.0**	**$ 593.3**

FINANCIAL SECTION

OTHER INFORMATION
(UNAUDITED)



The Schedule of Spending by Major Budget Account presents an overview of how and where the Department is spending (i.e., obligating) money for the fiscal year, including amounts agreed to be spent during the fiscal year, how the money was spent, and who did the money go to. The *Total Amounts Agreed to be Spent* lines represent obligations incurred during the fiscal year.

United States Department of Commerce Schedule of Spending by Major Budget Account For the Year Ended September 30, 2013 *(In Thousands)*

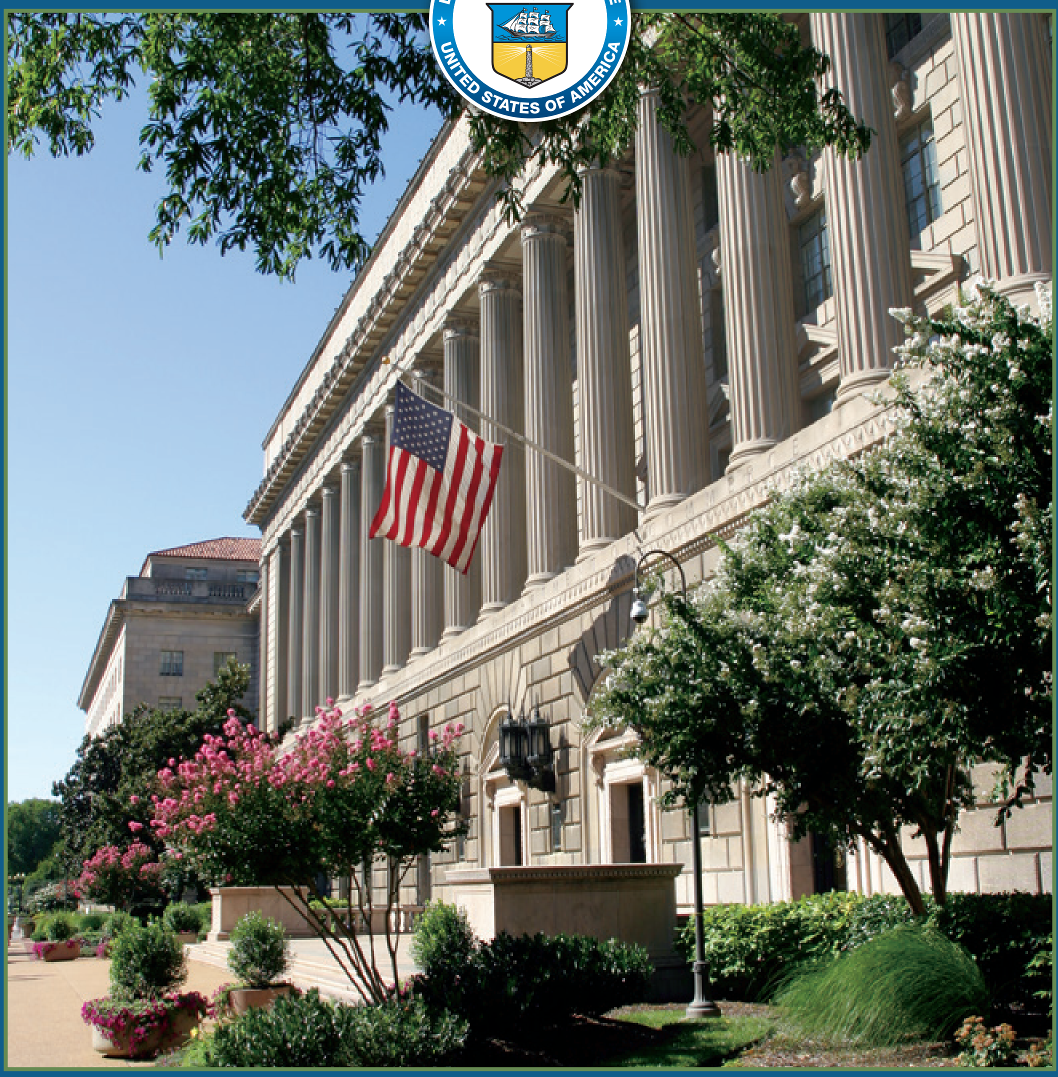
	Combining Total	NOAA Operations, Research, and Facilities	USPTO Salaries and Expenses	NOAA Procurement, Acquisition, and Construction	NTIA Digital Television Transition and Public Safety Fund	ITA Operations and Administration	Census Bureau Periodic Censuses and Programs	EDA Grant Fund	NTIA Broadband Technology Opportunities Program - ARRA	Other Programs
WHAT MONEY IS AVAILABLE TO SPEND?										
Total Resources	$ 23,056,543	$ 3,716,654	$ 2,931,559	$ 1,965,203	$ 8,797,016	$ 500,762	$ 782,643	$ 415,983	$ 7,652	$ 3,939,071
Less: Amounts Available but Not Agreed to be Spent	(1,503,016)	(268,474)	(442,291)	(138,923)	-	(14,170)	(3,087)	(48,571)	-	(587,500)
Less: Amounts Not Available to be Spent	(9,198,761)	(77,572)	-	(25,926)	(8,797,016)	(11,538)	(136,139)	(7,093)	(7,652)	(135,825)
TOTAL AMOUNTS AGREED TO BE SPENT	**$ 12,354,766**	**$ 3,370,608**	**$ 2,489,268**	**$ 1,800,354**	**$ -**	**$ 475,054**	**$ 643,417**	**$ 360,319**	**$ -**	**$ 3,215,746**
HOW WAS THE MONEY SPENT?										
Contracts	$ 5,144,541	$ 1,067,122	$ 726,537	$ 1,715,261	$ 5	$ 114,483	$ 110,633	$ -	$ -	$ 1,410,500
Grants	1,316,348	623,466	-	33,945	-	2,177	-	360,319	-	296,441
Loans and Guarantees	63,551	-	-	-	-	-	-	-	-	63,551
Non-financial Assistance Direct Payments	5,300,695	1,679,371	1,761,128	50,204	(2)	281,074	234,560	-	-	1,294,360
Other	529,631	649	1,603	944	(3)	77,320	298,224	-	-	150,894
TOTAL AMOUNTS AGREED TO BE SPENT	**$ 12,354,766**	**$ 3,370,608**	**$ 2,489,268**	**$ 1,800,354**	**$ -**	**$ 475,054**	**$ 643,417**	**$ 360,319**	**$ -**	**$ 3,215,746**
WHO DID THE MONEY GO TO?										
Federal Government	$ 3,587,932	$ 599,599	$ 193,313	$ 1,341,903	$ (4)	$ 59,745	$ 332,370	$ -	$ -	$ 1,061,006
Non-federal	8,766,834	2,771,009	2,295,955	458,451	4	415,309	311,047	360,319	-	2,154,740
TOTAL AMOUNTS AGREED TO BE SPENT	**$ 12,354,766**	**$ 3,370,608**	**$ 2,489,268**	**$ 1,800,354**	**$ -**	**$ 475,054**	**$ 643,417**	**$ 360,319**	**$ -**	**$ 3,215,746**

United States Department of Commerce Schedule of Spending by Major Budget Account
For the Year Ended September 30, 2012 *(In Thousands)*

	Combining Total	NOAA Operations, Research, and Facilities	USPTO Salaries and Expenses	NOAA Procurement, Acquisition, and Construction	NTIA Digital Television Transition and Public Safety Fund	ITA Operations and Administration	Census Bureau Periodic Censuses and Programs	EDA Grant Fund	NTIA Broadband Technology Opportunities Program - ARRA	Other Programs
WHAT MONEY IS AVAILABLE TO SPEND?										
Total Resources	$ 22,590,496	$ 3,639,588	$ 2,612,628	$ 1,830,285	$ 8,782,695	$ 516,628	$ 830,647	$ 481,345	$ 2,976	$ 3,893,704
Less: Amounts Available but Not Agreed to be Spent	(1,294,023)	(176,593)	(237,873)	(23,226)	(19,038)	(19,888)	(13,456)	(178,237)	-	(625,712)
Less: Amounts Not Available to be Spent	(9,058,376)	(66,554)	-	(19,006)	(8,745,196)	(9,744)	(118,568)	(6,075)	(2,976)	(90,257)
TOTAL AMOUNTS AGREED TO BE SPENT	**$ 12,238,097**	**$ 3,396,441**	**$ 2,374,755**	**$ 1,788,053**	**$ 18,461**	**$ 486,996**	**$ 698,623**	**$ 297,033**	**$ -**	**$ 3,177,735**
HOW WAS THE MONEY SPENT?										
Payroll	$ 4,735,747	$ 1,556,546	$ 1,598,013	$ 50,122	$ 322	$ 264,441	$ 227,698	$ -	$ -	$ 1,038,605
Rent, Communications, and Utilities	548,590	212,849	119,925	9,240	41	19,763	19,337	-	-	167,435
Travel	138,287	51,217	3,209	2,266	15	18,152	17,436	-	-	45,992
Supplies	217,413	117,599	38,406	11,646	-	2,456	1,361	-	-	45,945
Equipment	474,568	38,041	105,069	252,151	-	6,050	9,681	-	-	63,576
Land, Buildings, and Structures	31,059	4,419	2,038	681	-	-	-	-	-	23,921
Contracts	4,674,706	909,632	362,229	1,358,562	200,826	78,625	143,857	-	(44)	1,621,019
Grants	3,033,356	731,628	-	54,314	17,355	1,662	-	370,247	1,588,798	269,352
Loans	103,273	-	-	-	-	-	-	-	-	103,273
Other	797,795	20,526	103,373	1,851	1,210	77,588	349,313	-	-	243,934
Total Spending	**14,754,794**	**3,642,457**	**2,332,262**	**1,740,833**	**219,769**	**468,737**	**768,683**	**370,247**	**1,588,754**	**3,623,052**
Amounts Remaining to be Spent/(Amounts Spent Related to Prior Years' Resources), Net	(2,516,697)	(246,016)	42,493	47,220	(201,308)	18,259	(70,060)	(73,214)	(1,588,754)	(445,317)
TOTAL AMOUNTS AGREED TO BE SPENT	**$ 12,238,097**	**$ 3,396,441**	**$ 2,374,755**	**$ 1,788,053**	**$ 18,461**	**$ 486,996**	**$ 698,623**	**$ 297,033**	**$ -**	**$ 3,177,735**
WHO DID THE MONEY GO TO?										
Federal Government	$ 3,791,625	$ 613,745	$ 198,850	$ 1,260,248	$ 728	$ 79,377	$ 360,304	$ -	$ -	$ 1,278,373
Non-federal	8,446,472	2,782,696	2,175,905	527,805	17,733	407,619	338,319	297,033	-	1,899,362
TOTAL AMOUNTS AGREED TO BE SPENT	**$ 12,238,097**	**$ 3,396,441**	**$ 2,374,755**	**$ 1,788,053**	**$ 18,461**	**$ 486,996**	**$ 698,623**	**$ 297,033**	**$ -**	**$ 3,177,735**
HOW WAS THE MONEY ISSUED?										
Contracts	$ 5,458,134	$ 1,203,642	$ 760,431	$ 1,693,842	$ 570	$ 116,795	$ 131,250	$ -	$ -	$ 1,551,604
Grants	1,187,218	591,328	-	42,075	16,346	2,556	-	297,033	-	237,880
Loans and Guarantees	65,497	-	-	-	-	-	-	-	-	65,497
Non-financial Assistance Direct Payments	4,919,799	1,603,805	1,613,088	52,021	337	287,263	241,915	-	-	1,121,370
Other	607,449	(2,334)	1,236	115	1,208	80,382	325,458	-	-	201,384
TOTAL AMOUNTS AGREED TO BE SPENT	**$ 12,238,097**	**$ 3,396,441**	**$ 2,374,755**	**$ 1,788,053**	**$ 18,461**	**$ 486,996**	**$ 698,623**	**$ 297,033**	**$ -**	**$ 3,177,735**

F I N A N C I A L   S E C T I O N

Independent Auditors' Report



UNITED STATES DEPARTMENT OF COMMERCE
The Inspector General
Washington, D.C. 20230

December 16, 2013

MEMORANDUM FOR: The Honorable Penny Pritzker
Secretary of Commerce

FROM: Todd J. Zinser

SUBJECT: FY 2013 Consolidated Financial Statements
Final Report No. OIG-14-007-A

I am pleased to provide you with the attached audit report, which presents an unmodified opinion on the Department of Commerce's fiscal year 2013 consolidated financial statements. KPMG LLP, an independent public accounting firm, performed the audit in accordance with U.S. generally accepted government auditing standards and Office of Management and Budget Bulletin 14-02, *Audit Requirements for Federal Financial Statements*.

In its audit of the Department, KPMG

- determined that the financial statements were fairly presented in all material respects and in conformity with U.S. generally accepted accounting principles;
- identified two significant deficiencies in internal control over financial reporting related to accounting for NOAA's property and controls over information technology access, configuration management, and segregation of duties;
- reported that potential Antideficiency Act compliance matters at NOAA, the Census Bureau, and the Department are under review; and
- identified no instances in which the Department's financial management systems did not substantially comply with the requirements of the Federal Financial Management Improvement Act of 1996.

My office oversaw the audit performance. We reviewed KPMG's report and related documentation and made inquiries of its representatives. Our review disclosed no instances where KPMG did not comply, in all material respects, with U.S. generally accepted government auditing standards. However, our review, as differentiated from an audit in accordance with these standards, was not intended to enable us to express, and we do not express, any opinion on the Department's consolidated financial statements, conclusions about the effectiveness of internal control, or conclusions on compliance with laws, regulations, contracts, and grant agreements. KPMG is solely responsible for the attached audit report, dated December 16, 2013, and the conclusions expressed in it.

In accordance with Department Administrative Order 213-5, please provide an action plan within 60 calendar days of the date of this memorandum addressing the significant deficiency in the accounting for NOAA's property. The plan should outline the actions that NOAA plans to take to address each recommendation. The significant deficiency related to information technology controls will be addressed in a separate action plan.

If you wish to discuss the contents of this report, please call me at (202) 482-4661, or Ann C. Eilers, Principal Assistant Inspector General for Audit and Evaluation, at (202) 482-2754.

We appreciate the cooperation and courtesies the Department extended to both KPMG and my staff during the audit.

Attachment

KPMG LLP
Suite 12000
1801 K Street, NW
Washington, DC 20006

Independent Auditors' Report

Inspector General, U.S. Department of Commerce and
Secretary, U.S. Department of Commerce:

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of the U.S. Department of Commerce (Department), which comprise the balance sheets as of September 30, 2013 and 2012, and the related consolidated statements of net cost, changes in net position, and combined statements of budgetary resources for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 14-02, *Audit Requirements for Federal Financial Statements*. Those standards and OMB Bulletin No. 14-02 require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

KPMG

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December 16, 2013
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We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion on the Financial Statements

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the U.S. Department of Commerce as of September 30, 2013 and 2012, and its net costs, changes in net position, and budgetary resources for the years then ended, in accordance with U.S. generally accepted accounting principles.

Emphasis of Matters

As discussed in Note 1.C to the consolidated financial statements, in 2013 the Department adopted Statement of Federal Financial Accounting Standards No. 43, *Funds from Dedicated Collections: Amending Statement of Federal Financial Accounting Standards No. 27, Identifying and Reporting Earmarked Funds.* The 2012 consolidated financial statements have been restated for the retrospective application of the new accounting guidance. Our opinion is not modified with respect to this matter.

As discussed in Note 13 to the consolidated financial statements, in 2013 the Department adopted *Technical Bulletin 2006-1, Recognition and Measurement of Asbestos-related Cleanup Costs*. Our opinion is not modified with respect to this matter.

As discussed in Note 7 to the consolidated financial statements, in 2013 the Department has elected to change its method of accounting for the completion of satellites. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles require that the information in the Management's Discussion and Analysis, (including the Financial Management and Analysis section), Required Supplementary Information, and Required Supplementary Stewardship Information sections be presented to supplement the basic consolidated financial statements. Such information, although not a part of the basic consolidated financial statements, is required by the Federal Accounting Standards Advisory Board who considers it to be an essential part of financial reporting for placing the basic consolidated financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information

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for consistency with management's responses to our inquiries, the basic consolidated financial statements, and other knowledge we obtained during our audits of the basic consolidated financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary and Other Information

Our audits were conducted for the purpose of forming an opinion on the basic consolidated financial statements as a whole. The September 30, 2013 consolidating balance sheet on page 115, the information in the Appendices, the information on pages 18 and 31 through 44, and the Other Information section are presented for purposes of additional analysis and is not a required part of the basic consolidated financial statements.

The September 30, 2013 consolidating balance sheet is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic consolidated financial statements. The September 30, 2013 consolidating balance sheet has been subjected to the auditing procedures applied in the audit of the basic consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic consolidated financial statements or to the basic consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the September 30, 2013 consolidating balance sheet is fairly stated in all material respects in relation to the basic consolidated financial statements as a whole.

The information in the Appendices, the information on pages 18 and 31 through 44, and the Other Information has not been subjected to the auditing procedures applied in the audits of the basic consolidated financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

Internal Control Over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered the Department's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Department's internal control. Accordingly, we do not express an opinion on the effectiveness of the Department's internal control. We did not test all internal controls relevant to operating objectives as broadly defined by the *Federal Managers' Financial Integrity Act of 1982*.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, we did identify certain deficiencies in internal control, described below and in more detail in Exhibit I, that we consider to be significant deficiencies.

- **Accounting for the National Oceanic and Atmospheric Administration (NOAA) property needs improvement**. NOAA made improvements in its satellite accounting during fiscal year 2013 including the formation of a Satellite Accounting Review Board to identify and deliberate on complex accounting issues regarding satellites. Despite those improvements, we identified control deficiencies related to accounting for property other than satellites, such as unclear policies, timeliness issues, and enforcement issues. In addition, we identified areas for improvement related to the consistent application of accounting standards for accounting for satellites. Because of these matters, NOAA needs to continue making improvements to effectively account for its property, including satellites.

- **Information technology (IT) access, configuration management and segregation of duties controls need improvement.** During fiscal year 2013, while we noted some progress towards remediating prior year control deficiencies, we identified control deficiencies relating to systems access, configuration management, and segregation of duties that require management's attention. Despite the progress made by the Department, the Department needs to make improvements in its general IT controls to fully ensure that financial data processed on the Department's systems has integrity, is securely maintained, and is available only to authorized users.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Department's consolidated financial statements are free from material misstatement, we performed tests of the Department's compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts, and certain provisions of other laws and regulations specified in OMB Bulletin No. 14-02. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* or OMB Bulletin No. 14-02, and which are, described below.

- **Other Matters**: During fiscal year 2013, the Department informed us of potential *Antideficiency Act* compliance matters that are currently being reviewed for the following: NOAA - relating to the potential incorrect use of budgetary funding sources to support its programs; U.S. Census Bureau - relating to the timing of potential obligations for an interagency agreement in advance of receiving appropriations; and the Department level – relating to accepting terms of agreement on purchases made through the internet. Because these reviews are not complete, the ultimate outcome of these matters is not presently known.

We also performed tests of the Department's compliance with certain provisions referred to in Section 803(a) of the *Federal Financial Management Improvement Act of 1996* (FFMIA). Providing an opinion on compliance with FFMIA was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests of FFMIA disclosed no instances in which the Department's financial management systems did not substantially comply with the (1) Federal financial management systems requirements, (2) applicable Federal accounting standards, and (3) the United States Government Standard General Ledger at the transaction level.

The Department's Responses to the Findings

The Department's responses to the findings identified in our audit are described in Exhibit I. The Department's responses were not subjected to the auditing procedures applied in the audit of the consolidated financial statements and, accordingly, we express no opinion on the responses.

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Purpose of the Other Reporting Required by Government Auditing Standards

The purpose of the communication described in the Other Reporting Required by *Government Auditing Standards* section is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the Department's internal control or compliance. Accordingly, this communication is not suitable for any other purpose.

KPMG LLP

December 16, 2013

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Exhibit I – Significant Deficiencies

A. Accounting for the National Oceanic and Atmospheric Administration (NOAA)'s Property Needs Improvement

The Department has a substantial investment in general property, plant, and equipment (PP&E). The National Oceanic and Atmospheric Administration (NOAA) accounts for 87 percent of the Department's net PP&E of $11.1 billion as of September 30, 2013. During fiscal year 2013, we noted several matters at NOAA that highlighted the need for continued improvement in accounting for property, which are discussed below. Collectively, these matters are considered to be a significant deficiency in internal control over financial reporting.

Accounting for Property Other than Satellites. During our fiscal year 2013 audit, we identified issues at NOAA relating to (1) lack of clarity of the PP&E policies with regards to indirect cost allocation methodologies and describing the source documentation necessary to support various construction work in process (CWIP) transactions; (2) lack of clarity of PP&E procedures to account for personal property assets that have been permanently removed from service but not disposed; (3) failure by NOAA offices to consistently coordinate and resolve outstanding PP&E related accounting matters on a timely basis; (4) lack of appropriate training regarding accounting for general PP&E; and (5) failure to enforce completion of personal property inventories and certification of the Unreconciled Property Report (UPR) at certain locations.

Many of the accounting activities for real and personal property are decentralized at the line office level, and the NOAA Office of the Chief Financial Officer (OCFO) is reliant on those line offices as well as the NOAA Office of the Chief Administrative Officer (OCAO), which is responsible for property management, to provide it with information regarding property acquisitions and disposals. NOAA has recognized the difficulties in accounting for its property and has implemented certain corrective actions in prior years. However, more improvements and additional oversight and training are needed to strengthen controls over the Department's significant property investment.

Accounting for Satellites. As of September 30, 2013, NOAA reported a balance of $6.5 billion in satellite CWIP and a balance of completed satellites and ground systems with a net book value of $1.6 billion. Accounting for satellites is highly complex; each satellite series/program is accounted for separately; each series/program has several instruments; and the construction spans many years, and involves significant contracts and arrangements with contractors and other government agencies. During our fiscal year 2013 audit, we identified the following issues relating to the accounting for satellites:

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Exhibit I – Significant Deficiencies, Continued

- **Application of accounting standards for accounting for satellites needs improvement.** During fiscal year 2013, NOAA increased the review of accounting matters for satellites. Despite such efforts, we noted the following instances of misapplication of generally accepted accounting principles.

  - The Suomi–National Polar-Orbiting Partnership (S-NPP), which is a satellite carrying certain NOAA weather instruments, serves as a bridge between NOAA's current polar-orbiting operational environmental system of satellites and the planned Joint Polar Satellite System (JPSS) satellites. Four of NOAA's instruments aboard the S-NPP will support the National Weather Service (NWS) data collection and research. The remaining instrument aboard the S-NPP belongs to the National Aeronautics and Space Administration (NASA).

    NOAA generally views satellites as operational when all NOAA's instruments associated with satellites are declared operational; however, in certain cases, effective for fiscal year 2013, NOAA will declare certain instruments operational because the instruments are not interdependent. On September 24, 2013, the NWS informed the NOAA National Environmental Satellite, Data, and Information Service (NESDIS) that three weather instruments are operational, and the remaining weather instrument, the Ozone Mapping Profiler Suite (OMPS), was expected to be operational by October 31, 2013 (fiscal year 2014).

    The NOAA Office of the Chief Financial Officer incorrectly reclassified the entire balance of $939 million for the four S-NPP instruments from CWIP to completed PP&E (specifically for satellites personal property category) effective September 30, 2013, although only three weather instruments were declared operational. Based on discussions with NOAA about this matter, NOAA indicated that it had intentionally made the adjustment from CWIP to completed PP&E because NOAA believed it was a subsequent event that should be disclosed to the readers of the U.S. Department of Commerce consolidated financial statements (that is, NOAA believed it was applying the concept of substance over form when NOAA made the adjustment). However, we noted that generally accepted accounting principles, with regards to the treatment of subsequent events, were not followed because NOAA should not have reclassified the $125 million of costs associated with the instrument that was not operational as of September 30, 2013.

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Exhibit I – Significant Deficiencies, Continued

As of result of our observations, NOAA reversed the reclassification of $125 million for OMPS to return that amount to CWIP.

- NOAA capitalized all invoiced costs from NASA for the Joint Polar Satellite System (JPSS) program, including line items, such as "Education and Public Outreach." Effective October 1, 2013, NOAA's policy was changed to capitalize any costs reported by NASA that are associated with the JPSS program because 1) NASA is the vendor and 2) NOAA indicated that program offices within NESDIS need to be treated differently and all costs incurred by NASA, as an agent to NESDIS under the NASA Acquisition Management contract, represents direct and indirect costs that can be capitalized. However, this practice is inconsistent with generally accepted accounting principles regarding the accounting for costs incurred to bring the PP&E to a form and location suitable for its intended use. We believe that the NASA invoices should be reviewed to determine that only capitalizable costs are recorded to the CWIP account. While the impact of this treatment in any particular year may be inconsequential, the cumulative effect for a program that has incurred costs of approximately $586 million to date and is expected to incur significant costs in the future, could result in inappropriately capitalized costs that is more than inconsequential as of a point in time if this policy continues and is not monitored.

- **Review of all supporting documentation over NASA intra-governmental payments needs improvement.** As part of NOAA's corrective action plans taken during fiscal year 2013, NOAA coordinated with NASA to receive documentation supporting each Intra-governmental Payment and Collection (IPAC) payment. NOAA continued to work with NASA to receive supporting documentation for IPAC payments – particularly, those charges from the prime contractors. However, we noted that for 29 of the 31 NASA IPAC payments tested, NOAA management was unable to review the supporting documentation for all of the charges included in the IPAC payment because NOAA did not receive the supporting documentation from NASA. In addition, for NASA IPAC payments related to the construction of the Jason-3 and Deep Space Climate Observatory (DSCOVR) satellite programs, NOAA was unable to review certain documents because NOAA did not receive additional detailed reports/information from NASA. For the 29 IPAC payments tested, $182.6 million of non-prime contractor costs were not reviewed prior to our inquiry. We estimated that an additional $54 million may not have been reviewed at a sufficient level of detail for the non-prime contractor costs.

  NOAA management indicated that for non-prime contract costs in which NOAA does not receive detailed charge reports/information, they rely on NASA's review and authorization

Exhibit I – Significant Deficiencies, Continued

of these charges. However, NASA does not evaluate the accounting treatment for NOAA for such costs, including whether these costs should be capitalized or expensed.

In light of the magnitude of the costs associated with satellites, the review of IPAC payments associated with the satellite program is important for proper recording of project costs as either CWIP or expense. NASA IPAC payments typically include some cost that should be recorded as an expense.

Recommendations

We recommend that NOAA:

Relating to Accounting for Property Other than Satellites:

- Continue to perform and complete a comprehensive review of all property accounting policies, to ensure clarity of procedures and compliance with generally accepted accounting principles.
- Ensure greater coordination between the OCFO and OCAO regarding oversight of the line offices to resolve open issues and clarify policies and procedures.
- Continue training on property policies and procedures for appropriate personnel.
- Notify and hold accountable the line offices when the UPR and personal property inventory certifications are not received or not completed properly to ensure compliance with NOAA's policies and procedures.
- Perform periodic reviews of impairment adjustments to determine whether the amounts recorded are accurate.

Relating to Accounting for Satellites:

- Implement training for personnel, as applicable, regarding researching generally accepted accounting principles for proper treatment of non-routine events.
- Revise the CWIP policies to specify which satellite program costs should be capitalized and to incorporate a written framework for determining whether to capitalize satellites costs based on the operational date for each instrument or as a single unit to ensure consistency in application.
- Strengthen the review process over contracts, purchase orders, invoices, and IPAC bills, as they pertain to their satellite programs, to determine which costs are incurred to bring the PP&E to a form and location suitable for its intended use, and which costs are incurred for operation, maintenance, and sustainment of a PP&E asset that has already been placed into service.

Exhibit I – Significant Deficiencies, Continued

- Continue to work with NASA to obtain cost data and supporting documentation to support IPAC charges.
- Assess the potential accounting treatment of charges for cost date that cannot be obtained, to determine which costs should be capitalized or expensed or work with NASA to make such assessments.

Management's Response

The Department concurs. We will develop corrective action plans and ensure timely implementation to address KPMG's recommendations.

Exhibit I – Significant Deficiencies, Continued

B. Information Technology Access, Configuration Management and Segregation of Duties Controls Need Improvement

Information security is recognized as a top management challenge for the Department. For several years, the Department's Office of Inspector General, and departmental self-assessments have identified weaknesses in the Department's general information technology (IT) controls. While we observed improvements in the Department's general IT controls related to financial systems, we identified new and repeat deficiencies during fiscal year 2013 that require management's attention.

The general IT controls that we consider to be, collectively, a significant deficiency under standards issued by the American Institute of Certified Public Accountants and *Government Auditing Standards*, and our related findings, are as follows:

- **Access controls.** In close concert with an organization's entity-wide information security program, access controls for general support systems and applications should provide reasonable assurance that computer resources such as data files, application programs, and computer-related facilities and equipment are protected against unauthorized modification, disclosure, or loss. Access controls are facilitated by an organization's entity-wide security program. Such controls include physical controls, such as keeping computers in locked rooms to limit physical access, and logical controls, such as security software programs designed to prevent or detect unauthorized access to data. Similar to security management, inadequate access controls diminish the reliability and integrity of computerized data and increase the risk of destruction or inappropriate disclosure of information.

  The objectives of limiting access are to ensure that users have only the access needed to perform their duties; that access to sensitive resources, such as security software programs, is limited to few individuals; and that employees are restricted from performing incompatible functions or duties beyond their responsibility. This is reiterated by Federal guidelines. For example, the OMB Circular A-130 and supporting National Institute of Standards and Technology publications provide guidance related to the maintenance of technical access controls. In addition, the Department's *IT Security Program Policy* contains requirements for operating Department IT devices in a secure manner.

  We noted that access controls should be improved at four bureaus/centers, primarily in the areas of: (1) managing user accounts to appropriately disable and recertify network,

Exhibit I – Significant Deficiencies, Continued

financial system, database and operating system accounts, (2) improving logical controls over financial application and database access, (3) strengthening password controls, (4) improving data center recertification procedures, (5) ensuring compliance with audit log review requirements, (6) enforcing multi-factor authentication, (7) preventing the use of shared database accounts and passwords, and (8) improving incident response reporting. We recognize that the Department and its bureaus have certain compensating controls in place to help reduce the risk of the identified weaknesses, and we considered those compensating controls as part of our overall consolidated financial statement audit.

- **Configuration management.** Configuration management involves the identification and management of security features for all hardware, software, and firmware components of an information system at a given point and systematically controls configuration changes throughout the system's life cycle. Configuration settings and the related configuration management is a key component of many IT systems to ensure that hardware, software and firmware programs, and program modifications are properly authorized, tested, and approved, and that access to and distribution of programs is carefully controlled. Configuration settings may affect the design, implementation and/or operating effectiveness of application controls and may be subject to change control procedures to maintain the integrity of the application controls. Without proper controls, there is a risk that security features could be inadvertently or deliberately omitted or turned off, or that processing irregularities or malicious code could be introduced into the IT environment.

  We noted that configuration management controls should be improved at four bureaus/centers, primarily in the areas of: (1) restricting access of a certain code to authorized individuals, (2) monitoring the unauthorized modification of that code, (3) addressing patch and configuration management vulnerabilities, (4) ensuring vulnerability scans are performed in accordance with Department policy, and (5) system baseline configurations are documented. We recognize that the Department and its bureaus have certain compensating controls in place to help reduce the risk of the identified weaknesses, and we considered those compensating controls as part of our overall consolidated financial statement audit.

- **Segregation of Duties.** A subset of internal control objectives is the safeguarding of assets, which includes controls over segregation of duties to minimize opportunities for individuals to be in a position to both perpetrate and conceal errors or fraud in the normal course of operations. Responsibilities for authorizing transactions, recording

Exhibit I – Significant Deficiencies, Continued

transactions, and maintaining custody of assets should be assigned to different individuals. Key areas of concern from an IT perspective involve duties among major operating and programming activities, including duties performed by users, application programmers, and data center staff. Policies outlining individual responsibilities should be documented, communicated, and enforced. Proper segregation of duties requires effective supervision and review by management, as well as formal operating procedures.

We noted that segregation of duties controls should be improved at three bureaus/centers, primarily in the areas of: (1) appropriately segregating duties within the production environments, (2) monitoring and controlling database activity, and (3) restricting the ability to process financial transactions to appropriate personnel. We recognize that the Department and its bureaus identified certain compensating controls in place to help reduce the risk of the identified weaknesses, and we considered those compensating controls as part of our overall consolidated financial statement audit.

Recommendations

We provided the Department specific recommendations to improve its general IT control related to financial systems in a separate limited distribution general IT controls report, issued as part of the fiscal year 2013 consolidated financial statement audit. The Department should monitor bureau actions to ensure effective implementation of our recommendations and to ensure continued compliance with the *Federal Financial Management Improvement Act of 1996*.

Management's Response

The Department concurs. We will develop corrective action plans and ensure timely implementation of the recommendations presented in the separate limited distribution IT general controls report.

Appendices

FY 2013 MANAGEMENT CHALLENGES AND ACTIONS TAKEN

Top Management Challenges Facing the Department

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

Challenge 1: Stimulate economic growth in key Industries, increase exports, and enhance stewardship of marine fisheries.

OIG Statement

The Department engaged in multiple government-wide initiatives to implement the President's priorities. Successful implementation of these initiatives could have a profound impact on the nation's economy; however, it required focused attention by senior management, close coordination with the private sector and other federal agencies, and sustained congressional support.

Bureau Responses

NIST has improved its support for advanced manufacturing through a portfolio of programs that spans the spectrum from cutting-edge research to services provided directly to manufacturers. The Hollings Manufacturing Extension Partnership (MEP) is supporting practices that increase competitiveness. The Baldrige Performance Excellence Program promotes excellence in organizational performance. The Advanced Manufacturing National Program Office (AMNPO) will strengthen strategic coordination among Federal agencies. The Advanced Manufacturing Technology Consortia (AMTech) program will provide funding to tackle long-term R&D challenges shared by industry.

USPTO continues to make significant progress in reducing the patent backlog. The agency has decreased the patent backlog to approximately 591,000 by the end of July 2013, a 20 percent reduction from FY2010. USPTO successfully implemented the Leahy-Smith America Invents Act, and extensively trained examiners about the new regulations. By the end of FY2013, the USPTO will increase the number of Administrative Patent Judges (APJs) by 15 percent.

ITA's key functions efficiently support U.S. businesses and their workers, while advancing the President's goals set forth in the National Export Initiative (NEI). To support the NEI, ITA's U.S. and Foreign Commercial Service (US&FCS) unit began repositioning resources to high-priority markets and continued to make progress toward the President's goal of doubling exports by the end of 2014. The Import Administration (IA) unit takes prompt and aggressive action against unfair foreign trade practices and foreign trade barriers by enforcing U.S. trade laws and trade agreements.

NOAA continues to make progress fulfilling the actions addressing the recommendations contained in the Office of the Inspector General's January 2013 Report, "NOAA Needs to Continue Streamlining the Rulemaking Process and Improve Transparency and Consistency in Fisheries Management," including reviewing and revising policy guidance on financial disclosures; providing annual briefings to Fisheries Management Council (FMC) members on financial interest and conflict of interest; reviewing and revising guidance to clarify criteria and requirements for review of financial disclosure submissions; reviewing and revising guidance for identifying and addressing conflicts of interest; reviewing experiences with the operational guidelines and develop new guidelines; developing regional operating agreements between each Region and FMC; conducting training on NOAA Guidelines for Compiling an Agency Administrative Record; and communicating records policy and procedures to NMFS employees, FMC members, and Council staff.

Challenge 2: Increase oversight of resources entrusted by the public and invest for long-term benefits.

OIG Statement

In an era of constrained budgets, there was a greater risk that management would take shortcuts, loosen internal controls, and deemphasize oversight in order to devote resources to other requirements. Concerns over conference spending and unauthorized reprogramming of funds highlighted the need for more effective oversight. Also, several planned modernization efforts, including redesign of the 2020 decennial census, provided significant long-term benefits but required increased management attention.

Bureau Responses

The Department has completed many key actions to address the concerns specifically related to the National Weather Service (NWS) Reprogramming. Reviews of Summary Level Transfer (SLT) use within the Department, review of bureau budget allocation methods, review of the Department's budget formulation processes including financial managers' ability to raise concerns about budget issues, development of training on core appropriations law concepts, and a review of the reporting structure of all bureaus to ensure that unit level CFO's and finance staff are adequately supervised. NOAA has focused a tremendous amount of resources across every Line and Staff Office to ensure the corrective actions prescribed in the decision memorandums for the Deputy Secretary of Commerce and the NOAA Administrator are implemented timely and effectively. The effort was further amplified based on specific findings from the Consolidated Annual Financial Audit for NOAA's budget execution processes. While this significant workload has stretched the limits of NOAA's financial community, it has not been at the expense of management or staff attention to critical mission priorities. Simultaneous to implementing significant new internal control activities up, down and across the enterprise, NOAA senior leadership and senior financial managers have been guiding the agency through significant budgetary uncertainty with notable mission accomplishments. For example, the National Weather Service upgraded its supercomputers so they are now more than twice as fast in processing sophisticated computer models to provide more accurate forecasts further out in time.

DOC in concurrence with OMB, engaged with the Department of Transportation Enterprise Services Center (DOTESC) to adopt their shared service solution for core financials, acquisition, and property systems (personal, real and fleet) including an all-encompassing data warehouse. Under the Federal Shared Service Provider (FSSP) solution, DOC will adopt the FSSP's existing business and administrative application standard processes.

The Census Bureau is implementing new planning, budgeting, research, and testing processes for the 2020 Census. These efforts support innovations under development that will hold the cost of the 2020 Census to 2010 levels while producing high quality data. The robust program management and systems engineering and integration infrastructure will provide the foundation for an effectively managed program. The American Community Survey (ACS) efforts continue to further the research goals of the 2020 Program.

Challenge 3: Strengthen security and investments in information technology.

OIG Statement

Cyber attacks on bureau systems confirmed the urgent need to fix the Department's persistent security weaknesses. We supported senior management's actions to strengthen the departmental Chief Information Officer's governance, and continue to assess their effectiveness.

Bureau Responses

The Office of the Chief Information Officer (OCIO) has the following strategic initiatives: (1) IT Security Policy; (2) Department-Level Audit Management; (3) Work Force Improvements; (4) Enterprise Security and Incident Response. In June 2012, the Acting Secretary issued the "Department IT Portfolio Management Strategy," This new *IT Portfolio Management* strategy is an important step. The Department's IT review board, led by the CIO and Chief Financial Officer (CFO), reviews major IT investments for status updates and requests for additional spending authority and conducts TechStat reviews, which focus on putting troubled investments back on track.

Challenge 4: Implement framework for acquisition project management and improve contracts oversight.

OIG Statement

The Department issued an Acquisition Project Management Framework/Guidebook in response to a special study mandated by former Secretary Locke. The guidance provided more-comprehensive coverage of acquisition life-cycle activities and, if implemented consistently, should help mitigate risks of cost overruns and schedule delays. Incorporating the new framework into the Department's acquisition policy and exercising relentless departmental oversight was and still is critical to the implementation's success.

Bureau Responses

The Office of Acquisition Management (OAM) successfully completed Department-wide policy for acquisition project management with the Deputy Secretary's signing of the Policy on Commerce Acquisition Project Management. The Department's Business Applications Solutions (BAS) project will consolidate the major IT business systems to integrate legacy and off-the-shelf systems for finance and accounting, contracting writing and procurement management (also termed acquisition), grants management, and associated data warehousing.

The Department has ensured that all Project/Project Managers, Contracting Officers and Contracting Officer Representatives have the requisite education, training, and experience for Federal Acquisition Certification (FAC). Employees throughout the Department completed several training courses such as: Appropriations Law Training, Contracting Officer's Representative Course, Using the Department of Commerce Purchase Card.

The Department has created the Suspension and Debarment Coordinator function and implemented a case referral process to ensure that processes and procedures are followed in a timely manner.

Challenge 5: Reduce risks of cost overruns, schedule delays, and coverage gaps for NOAA's satellite programs.

OIG Statement

Satellite programs remained the largest investment in the Department, comprising nearly 20 percent of the Commerce budget. Preventing significant cost overruns and minimizing the impact of potential satellite coverage gaps continued to require top-level management attention.

Bureau Responses

NOAA and the National Environmental Satellite, Data, and Information Service (NESDIS) take seriously the responsibility to provide strong program management and close oversight over the development and acquisition of the next-generation of weather satellites. The Joint Polar Satellite System (JPSS) Program hosts several regular meetings to ensure that stakeholders are up to date on the status of the program and aware of any changes to JPSS capabilities or timelines. Several activities are now being conducted to ensure communication with the stakeholders: the Low-Earth Orbiting Requirements Working Group (LORWG); the JPSS Coordination Group; and the Environmental Satellite Users Group (ESUG). JPSS reports quarterly at a summary level to DOC, OMB, and Congress to provide overall progress, performance, issues and risks.

In response to Independent Review Team recommendations, a NOAA/NASA senior management team developed joint-agency recommendation resulting in two changes: The NOAA JPSS Director has responsibility and authority to direct all elements of the JPSS program and will work directly with NASA's Joint Agency Satellite Division to direct coordination of the efforts between NOAA and NASA. The Systems Engineering team is an integrated NOAA-NASA team under a single JPSS Program Chief Systems Engineer.

Changes are documented in the memorandum from NOAA DUS-O and NASA AA, dated October 22, 2012, directing immediate changes. The updated JPSS Management Control Plan (MCP), signed in July 2013, codifies these changes. As of August 2013, all NESDIS leadership positions have been filled with permanent civil servants, and the JPSS Director has been in place for almost 2 years. JPSS has also filled two key leadership positions with permanent staff, a Technical Director and a Chief Systems Engineer.

NOAA's plan to mitigate the effects of a possible gap includes a number of aspects. To support this planning, NOAA enlisted Riverside Technology to provide objective, independent, and detailed analyses of alternatives to mitigate the degradation of National Weather Service (NWS) products and services in the event of a gap in afternoon polar-orbiting satellite data.

The GOES-R Series Program has and will continue to develop and present trade-off approaches to mitigate launch delays as a program management practice. It is difficult at this stage of development to generate a comprehensive set of trade-off approaches that don't affect the launch schedule. The GOES-R Series Program has passed the point at which substantial budget reductions can be accommodated without impacting schedule, or major schedule changes can be made without impacting the budget.

FY 2014 MANAGEMENT CHALLENGES

UNITED STATES DEPARTMENT OF COMMERCE
The Inspector General
Washington, D.C. 20230

November 25, 2013

INFORMATION MEMORANDUM FOR THE SECRETARY

FROM: Todd J. Zinser

SUBJECT: Top Management Challenges Facing the Department of Commerce in Fiscal Year 2014

Enclosed is our report on the Department of Commerce's top management challenges for fiscal year (FY) 2014. Departmental programs were substantially affected by continued fiscal tightening and sequestration. The five top management challenges we reported last year remain the most critical issues facing the Department; however, we have realigned our discussion:

- ***Strengthen Commerce Infrastructure to Support the Nation's Economic Growth.*** Several bureaus, which hold pivotal roles in providing the infrastructure for economic growth, face a variety of challenges. The International Trade Administration plays a leading role as one of 16 executive departments and federal agencies charged, along with the nation, with supporting the National Export Initiative's goal to double 2009 U.S. export levels by the end of 2014. The Bureau of Industry and Security (BIS) has the task of administering and enforcing controls of dual-use exports, which are expected to increase significantly as a result of the current Export Control Reform Initiative. Beginning in October 2013, new rules will transfer many items from the U.S. Munitions List to the Commerce Control List and BIS jurisdiction. The U.S. Patent and Trademark Office must implement remaining provisions of the 2011 America Invents Act—and faces several difficulties in reducing backlogs of applications, requests, and appeals. Due to limited remaining spectrum capacity, the National Telecommunications and Information Administration (NTIA) must open up more commercial wireless broadband spectrum and oversee development of a broadband network for public safety.

- ***Strengthen Oversight of National Oceanic and Atmospheric Administration (NOAA) Programs to Mitigate Potential Satellite Coverage Gaps, Address Control Weaknesses in Accounting for Satellites, and Enhance Fisheries Management.*** Environmental satellites are essential to providing weather forecasting data used to track severe storms and predict climate. However, cost overruns and schedule slippage may delay the replacement of two of NOAA's most vital satellite systems—which, at more than 20 percent of the Department's 2014 budget request, are its largest investments. Separately, during FY 2012, an independent accounting firm noted several control weaknesses in NOAA's accounting for satellites, which must be addressed to ensure integrity, accountability, and transparency. In addition, NOAA must respond to challenges to its fisheries oversight. Commercial and recreational fishing have a value of more than $5 billion and support more than 1 million jobs. However, NOAA must balance the interests of the fishing community with conservation concerns.

- ***Continue Enhancing Cybersecurity and Management of Information Technology Investments.*** Our review of events surrounding the Economic Development Administration's (EDA's) cyber incident, which stemmed from a perceived December 2011 massive malware infection, found that critical incident response decisions were based on inaccurate information—and that deficiencies in the Department's incident response program impeded EDA's incident response. The Department has several enterprise cybersecurity initiatives underway to address mandates from the Office of Management and Budget (OMB). Timely implementation of these initiatives is crucial to the Department's cybersecurity program. While OMB increased the authority of federal CIOs to manage major IT investments,[1] the Department CIO's responsibility to oversee certain satellite IT investments has been diminished. Overall, cost growth and schedule delays of the Department's investment activity exceed the federal government average. More than one-fifth of the Department's high-risk IT investments are 30 percent or more behind schedule.

- ***Exercise Strong Project Management Controls Over 2020 Census Planning to Contain Costs.*** By mid-decade, the Census Bureau must analyze 2020 decennial design alternatives and make timely design decisions based on the results of its research and testing phase. After conducting

[1] *See* OMB, December 9, 2010. *25 Point Implementation Plan to Reform Federal Information Technology Management*. Washington, DC: OMB, 28. *See also* OMB, August 8, 2011. *Chief Information Officer Authorities*, M-11-29. Washington, DC: OMB.

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several reviews of the Bureau's approach and progress toward the planning and development of the 2020 decennial design, we noted significant schedule slippage in key research and testing programs. If continued, missed deadlines might result in a design similar to last decade's design, which included a massive, costly end-of-decade field operation. In addition, the Bureau must resolve human capital issues related to maintaining a workforce with requisite skills and capabilities. Further, it must complete timely research for making evidence-based design decisions, as well as implement a stable, agile field-testing strategy.

- ***Continue to Foster a Culture of Management Accountability to Ensure Responsible Spending.*** As the government experiences an extended period of tightened budgets, it is imperative to foster a culture of management accountability. OIG operates a complaint hotline for employees and the public to submit information about alleged wrongdoing, misconduct, or mismanagement. OIG's determination to audit, investigate, or provide the complaint information to Departmental or bureau management for appropriate action helps to instill a culture of ethical conduct and ensure that spending is appropriate, complies with laws and regulations, and promotes investments with long-term benefits. The Department must continue to adequately address complaints of mismanagement of federal resources. In addition, the lack of centralized financial reporting capability impedes the Department's ability to oversee and manage Department-wide financial activities. While the Department has developed plans to replace legacy systems, significant financial reporting challenges remain. Other priorities include stricter oversight of the Department's annual acquisition of approximately $2.4 billion in goods and services and the need for appropriately qualified staff to oversee these acquisitions. Finally, an additional challenge is to strengthen bureaus' oversight of Departmental programs that award grants or cooperative agreements due to the potential for misuse of federal funds by award recipients and to maintain professionally certified grant managers.

We remain committed to keeping the Department's decision-makers informed of problems identified through our audits and investigations, so that timely corrective actions can be taken. A copy of this report and the Department's response to it (which appears as an appendix) will be included in the Department's *Performance and Accountability Report*, as required by law.[2]

[2] 31 U.S.C. § 3516(d).

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We appreciate the cooperation received from the Department, and we look forward to working with you and the Secretarial Officers in the coming months. If you have any questions concerning this report, please contact me at (202) 482-4661.

cc: Patrick D. Gallagher, Acting Deputy Secretary of Commerce
Justin Antonipillai, Acting General Counsel
Simon Szykman, Chief Information Officer
Ellen Herbst, Chief Financial Officer and Assistant Secretary for Administration
Bruce Andrews, Chief of Staff to the Secretary
Operating Unit Heads
Operating Unit Audit Liaisons

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U.S. DEPARTMENT OF COMMERCE OFFICE OF INSPECTOR GENERAL

Contents

Challenge 1:

Strengthen Commerce Infrastructure to Support the Nation's Economic Growth

As reflected in the President's FY 2014 proposed budget, the Department is a key player in the federal government's efforts to stimulate economic growth and job creation. Several bureaus, which hold pivotal roles in providing the infrastructure for economic growth, face a variety of challenges.

The International Trade Administration (ITA)—along with 15 other federal government departments and agencies, as well as the nation—is not on track to meet the National Export Initiative's goal of doubling U.S. export levels within 5 years, while the Bureau of Industry and Security (BIS) is planning for the increased licensing and enforcement workload resulting from the Export Control Reform Initiative. The U.S. Patent and Trademark Office (USPTO), in its mission to foster innovation through high-quality patent and trademark examination, must implement several remaining provisions of the 2011 America Invents Act and faces several difficulties in reducing backlogs associated with initial patent applications, requests for continued examination, and appeals. Due to the increase in spectrum demand and the limitations of available spectrum capacity, the National Telecommunications and Information Administration (NTIA) must increase spectrum access for commercial wireless broadband use—via sharing between federal and commercial users or sale of spectrum for commercial use—while protecting federal missions and overseeing development of a broadband network for public safety. In addition to these major initiatives, the Department's National Institute of Standards and Technology (NIST) will face the challenge of implementing the National Network for Manufacturing Innovation,[1] if Congress authorizes this program to innovate and expand advanced manufacturing technologies and processes to bring manufacturing jobs back to the United States.

We have identified two key areas for management attention:

- Promoting U.S. exports while protecting national security interests
- Enhancing economic growth through intellectual property and wireless initiatives

Promoting U.S. Exports While Protecting National Security Interests

Promotion and regulation of U.S. exports are two critical missions of the Department. For FY 2014, the Department has requested $632 million to support agencies that provide export promotion and regulation. ITA's U.S. and Foreign Commercial Service provides a broad range of services and counseling to U.S. exporters while other ITA business units—such as Market Access and Compliance, Import Administration, and Manufacturing and Services—enforce trade agreements and protect domestic industries such as manufacturing and textiles. BIS provides export licensing and enforcement programs to ensure that trade in dual-use exports[2] is

[1] This $1 billion Presidential proposal brings together industry, colleges and universities, and all levels of government to support small- and medium-sized enterprises and start-ups in advanced manufacturing, workforce development, and the transfer of promising new processes and technologies to the marketplace.

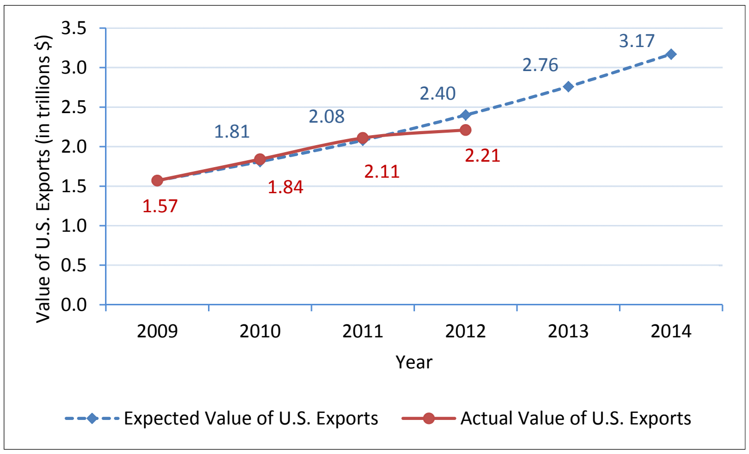
[2] *Dual-use* refers to exports that have both civilian and military applications.

consistent with national security interests. In FY 2014, ITA and BIS will undertake major activities that have potential long-term impact on the U.S. economy.

Implementing the National Export Initiative Under a New Organizational Structure

ITA plays a leading role as one of 16 executive departments and federal agencies that support the National Export Initiative (NEI), which was formalized by executive order in March 2010. The NEI aims to double 2009 U.S. export levels by the end of 2014—from $1.57 trillion to $3.14 trillion[3]—and, in turn, help grow the nation's $16.6 trillion economy.[4] In 2012, the value of U.S. exports grew to a high of $2.2 trillion, representing 13.9 percent of gross domestic product. In the second quarter of 2013, U.S. exports equaled $564 billion, a quarterly record (see figure 1). However, as shown in figure 1, actual export growth has recently fallen below the expected rate of export growth needed to double U.S. exports by the end of 2014. This will require ITA, along with other federal agencies, to intensify their efforts to promote U.S. exports to meet the NEI's goal.

Figure 1. Export Growth—Expected Versus Actual (in Current Dollars)



Source: OIG analysis of Census Bureau export data

To support many of its priorities,[5] the NEI called for enhanced collaboration among federal trade agencies and strategic partnerships with state, local, and other trade organizations. In our

[3] *See* Export Promotion Cabinet, September 2010. *Report to the President on the National Export Initiative: The Export Promotion Cabinet's Plan for Doubling Exports in Five Years*. Washington, DC: Trade Promotion Coordinating Committee, 1.

[4] DOC Bureau of Economic Analysis. *National Income and Product Accounts Tables: Table 1.1.5 Gross Domestic Product* [Online]. http://www.bea.gov/iTable/iTable.cfm?ReqID=9&step=1#reqid=9&step=1&isuri=1 (revised July 31, 2013). Dollar amounts in this section are in current dollars.

[5] The eight NEI priorities are (1) exports by small and medium-sized enterprises, (2) federal export assistance, (3) trade missions, (4) commercial advocacy, (5) increasing export credit, (6) macroeconomic rebalancing, (7) reducing barriers to trade, and (8) export promotion of services.

2012 review of the U.S. Export Assistance Centers we noted that, while protections of client data inhibited information sharing and guidance on collaboration was limited, fostering partnerships with other federal agencies such as the Small Business Administration and the Export–Import Bank can enhance service to exporters.[6] In FY 2014, ITA will be challenged to improve and build on the coordination and partnership efforts developed to date.

ITA's challenge is to sustain the momentum to increase exports to try to meet the goal of the NEI—and it must do so while, at the same time, managing an internal reorganization. Effective October 1, 2013, the Department consolidated ITA's four existing business units into three to eliminate overlapping functions and streamline operations. ITA states that the functional realignment will consolidate regional expertise, strengthen industry expertise and strategic partnerships, and consolidate trade agreement compliance and trade law enforcement.

Addressing Export Control Reform Changes Through Enhanced Licensing and Enforcement Activities

The task of administering and enforcing dual-use export controls falls on the Bureau of Industry and Security. In FY 2012, BIS processed more than 23,000 license applications for exports valued at more than $200 billion.[7] Future trade in controlled dual-use exports is expected to increase significantly as a result of the current Export Control Reform Initiative. Launched by the Administration in 2010, the initiative aims to streamline the country's export control system and facilitate U.S. export of high-tech goods while protecting U.S. national security interests. In the initiative's first phase, BIS worked with federal partners to reconcile and revise export control policies and regulations. Currently, the bureau is also collaborating with its federal partners to revise the lists of controlled dual-use items (Commerce Control List) and munitions (U.S. Munitions List), which will result in increased trade for less-sensitive munitions. These less-sensitive munitions will transfer from the U.S. Munitions List to the Commerce Control List and BIS jurisdiction, while the Department of State maintains jurisdiction over more sensitive munitions.

Beginning October 15, 2013, new rules will transfer the first of many items from the U.S. Munitions List to the Commerce Control List in a process expected to continue throughout FY 2014.[8] To address the increase of licensable items under its jurisdiction, BIS has requested additional resources in its FY 2014 budget for its licensing and enforcement units. To complete its mission, BIS' challenge is to coordinate with its federal partners, such as the Departments of Defense and State, to revise federal export control regulations to effectively implement export control reform. Such external collaboration can be difficult and time consuming. While BIS is planning and managing its new munitions licensing responsibilities, its current export regulations must continue to be administered and enforced. Finally, BIS will be challenged to enhance its existing outreach and enforcement activities delivered through exporter counseling,

[6] U.S. Department of Commerce Office of Inspector General, November 30, 2012. *U.S. Export Assistance Centers (USEACs) Could Improve Their Delivery of Client Services and Cost Recovery Efforts*, OIG-13-010-I. Washington, DC: DOC OIG.

[7] Fergusson, I.F., and Kerr, P.K. April 19, 2013. *The U.S. Export Control System and the President's Reform Initiative*, R41916. Washington, DC: Congressional Research Service, 3.

[8] Bureau of Industry and Security, April 16, 2013, Revisions to the Export Administration Regulations: Initial Implementation of Export Control Reform, *Federal Register* 78, no. 73: 22660.

teleconferences, and seminars to educate its stakeholders (primarily first-time dual-use exporters) about the detailed changes to the export regulations. Outreach and preventive enforcement will be critical to ensuring that all dual-use exporters understand and follow the revised regulations and avoid unintentional violations.

Enhancing Economic Growth Through Intellectual Property and Wireless Initiatives

Reducing Patent Application Backlogs and Improving Processing Times While Maintaining Quality

USPTO, as the authority for reviewing and adjudicating all patent and trademark applications, must continue to focus on the challenge of reducing the time applicants wait before their patent applications or appeals are reviewed. The agency has stated that the passage and implementation of the America Invents Act (AIA), enacted on September 16, 2011, would allow the agency to process applications faster, reduce the patent backlog, increase patent quality through expedited patent challenges, and improve examiner recruitment and retention.

The AIA included fundamental revisions to patent laws and USPTO practices, such as moving to a "first inventor to file" patent process to align the U.S. system with others worldwide, granting the agency authority to set and retain fees to ensure it has sufficient resources for its operations, and establishing satellite offices. As of August 20, 2013—in the nearly 2 years since the AIA's enactment—USPTO has successfully implemented on time 28 of the 35 provisions they were responsible for; 5 are not yet due, and 2 are overdue.

As USPTO completes its implementation of the remaining AIA provisions, the agency's recent efforts to address its application and appeal backlogs and related pendency issues have yielded mixed results. Both the backlog and pendency for patent applications decreased in FY 2013 (see figure 2a). Between October 2009 and September 2013, the patent backlog decreased from approximately 720,000 unexamined new applications to approximately 585,000. The patent appeals backlog—which we reported on in our 2012 audit[9]—has stabilized and, as of May 2013, stood at approximately 26,000, still more than twice the size of the backlog in October 2010. However, USPTO's backlog for requests for continued examination (RCE) has grown from 17,700 applications in October 2009 to approximately 78,000 in September 2013 (see figure 2b), an increase of more than 340 percent. As a consequence, during the same period, the average waiting time between filing an RCE and receiving an initial decision has grown from 2.2 to 7.8 months (see figure 2b).

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[9] U.S. Department of Commerce Office of Inspector General, August 10, 2012. *USPTO's Other Backlog: Past Problems and Risks Ahead for the Board of Patent Appeals and Interferences*, OIG-12-032-A. Washington, DC: DOC OIG.

Figures 2a and 2b. Patent Backlog and Pendency Decreases (2a) and RCE Backlog and Pendency Increases (2b), FYs 2010–2013[a]

Figure 2a

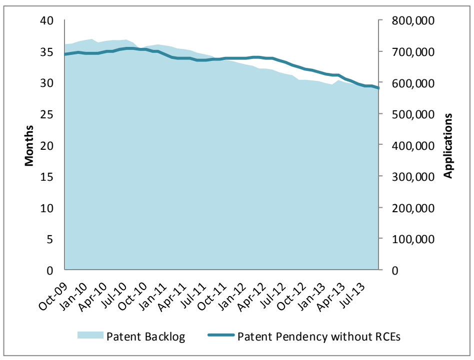
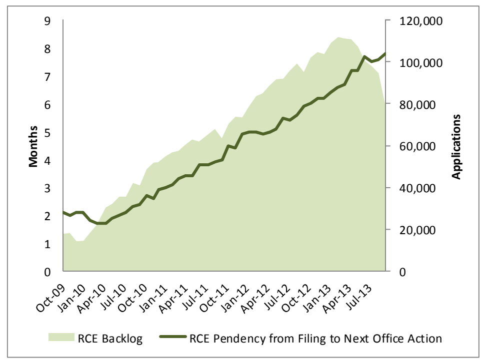


Figure 2b



Source: USPTO data
[a] Graphs present full FY data from October 2010 to September2013.

To address the substantial increases in the RCE backlog and average waiting time, one action USPTO initiated was a series of outreach efforts to identify why applicants file RCEs. In June 2013, OIG initiated an audit to evaluate the reason for the increase in the RCE backlog and review USPTO's efforts to address the issue.

As it works to reduce its patent backlog and pendency (see figure 2a), USPTO's challenge is to ensure that the quality of its patent examination process is not adversely affected and to avoid requiring applicants and the public to file unnecessary and costly challenges to examiners' decisions.

Increasing Spectrum Usage Efficiency

Radio frequency spectrum provides an array of wireless communications services critical to the U.S. economy and supports a variety of government functions.[10] Spectrum capacity is needed to deliver the wireless broadband that stimulates economic growth, spurs job creation, and boosts the nation's capabilities in education, healthcare, homeland security, and other areas.[11] In June 2010, the President requested that 500 megahertz (MHz) of federal or nonfederal spectrum be freed up for commercial wireless broadband. In response, NTIA announced in March 2012 that the federal government intends to repurpose 95 MHz of prime spectrum for commercial use.

[10] U.S. Government Accountability Office, April 2011. *Spectrum Management: Preliminary Findings on Federal Reallocation Costs and Auction Revenues,* GAO-13-563T. Washington, DC: GAO, 1.

[11] President's Council of Advisors on Science and Technology, July 2012. *Realizing the Full Potential of Government-Held Spectrum to Spur Economic Growth.* Washington, DC: President's Council of Advisors on Science and Technology, 11.

However, the $18 billion that NTIA estimates it will cost to relocate existing federal users to other parts of the spectrum[12] could make this cost prohibitive.

Representing a continuation and expansion of the President's June 2010 directive, a July 2012 report by the President's Council of Advisors on Science and Technology recommended that up to 1,000 MHz of federal spectrum be made available for a "shared use spectrum superhighway" between federal agencies and commercial providers.[13] Recent technology advances will make such shared-use architecture feasible in the near future. NTIA collaborated with industry and government representatives, forming working groups of the Commerce Spectrum Management Advisory Committee. These working groups, along with the Federal Communications Commission and the White House, have made some progress toward finding ways to share spectrum with commercial users. However, many challenges—such as lack of incentive for commercial providers to bid for shared spectrum (that is, the cooperative use of common spectrum by accessing the same frequencies in different geographical areas or at different times), revenue generation, and rights-of-use issues—must be addressed to make this effort a possibility. Another challenge NTIA faces in its handling of federal spectrum involves the accuracy of data submitted by federal agencies on their requirements for and their usage of spectrum. NTIA's efforts to address its challenges through the implementation of the Federal Spectrum Management System, a new data management system that uses IT applications to make the spectrum more effective and efficient, has encountered schedule delays and cost increases.

Overseeing the First Responder Network Authority and the Implementation of the Public Safety Broadband Network

On February 22, 2012, the President signed the Middle Class Tax Relief and Job Creation Act. This reallocated the "D-Block" spectrum and authorized $7 billion in funding for the establishment of an interoperable nationwide Public Safety Broadband Network (PSBN). The law requires NTIA to establish an independent authority called First Responder Network Authority (FirstNet) to oversee the existing public-safety spectrum and the establishment and deployment of the PSBN. FirstNet, which held its first meeting in September 2012, has started to implement and establish an organizational structure, hire staff to handle its day-to-day operations, and establish controls (for example, to develop its rules and regulations). FirstNet faces several challenges in establishing the PSBN, including (1) fostering cooperation among various state and local public-safety agencies, (2) integration of seven Broadband Technology Opportunities Program (BTOP) grants funded by the American Recovery and Reinvestment Act of 2009 into the PSBN, and (3) the physical construction of a nationwide long-term evolution network.

[12] Ibid, iv, vi.

[13] U.S. Government Accountability Office, *Spectrum Management,* 1.

Challenge 2:

Strengthen Oversight of National Oceanic and Atmospheric Administration (NOAA) Programs to Mitigate Potential Satellite Coverage Gaps, Address Control Weaknesses in Accounting for Satellites, and Enhance Fisheries Management

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

Environmental satellites are essential components in weather forecasting. They provide data used to track severe storms and predict climate. However, long-standing cost overruns and schedule delays—as well as the aging of the current constellation of satellites—are threatening adequate coverage of these critical functions. Cost increases and budget shortfalls may delay the development and launch of two of NOAA's most vital satellite systems, the Joint Polar Satellite System (JPSS) and the Geostationary Operational Environmental Satellite-R Series (GOES-R). These two programs are the Department's largest investments, accounting for more than 20 percent of its 2014 budget request. In response to last year's *Top Management Challenges*, NOAA improved its communication with stakeholders, as well as the efficacy of satellite program leadership and staffing, and developed a comprehensive polar satellite data gap mitigation plan. In addition, NOAA warned that the GOES-R program is at a stage in its development where launch delays cannot be avoided if its budget is reduced.

The satellites program also faces accounting challenges. During FY 2012, an independent accounting firm noted several control weaknesses at NOAA related to accounting for satellites. The transactions in question originate in a NOAA line office where personnel do not have sufficient financial accounting experience and training, and the bureau's Finance Office does not have sufficient oversight of the accounting for satellites. Further, satellite accounting involves significant contracts and arrangements with contractors and government agencies.

Finally, NOAA must respond to challenges to its fisheries oversight. Vital to our ocean economy, commercial and recreational fishing have a value of more than $155 billion and support more than 28 million jobs. But coastal development, pollution, overfishing, and destruction by invasive species are contributing to the decline in the health of our oceans and coastal ecosystems. NOAA must balance the interests of the fishing community with conservation concerns regarding long-term sustainability.

To strengthen oversight of NOAA programs, we have identified three areas for management attention:

- Enhancing weather satellite development and mitigating potential coverage gaps
- Addressing material weakness over satellite accounting
- Enhancing fisheries management

Enhancing Weather Satellite Development and Mitigating Potential Coverage Gaps

Managing risks in the acquisition and development of the next generation of environmental satellites is a continuing challenge for the Department. In February 2013, GAO added "Mitigating Gaps in Weather Satellite Data" to its high-risk list.[14] The two most prominent programs,[15] the Joint Polar Satellite System (JPSS) and the Geostationary Operational Environmental Satellite-R series (GOES-R), together account for one-third of NOAA's FY 2014 budget request. They are also the largest investments in the Department, accounting for more than 20 percent of the Department's $8.6 billion budget proposal.

JPSS evolved from a predecessor program fraught with cost overruns and schedule delays. NOAA's JPSS program uses the National Aeronautics and Space Administration (NASA) as its acquisition agent, leveraging that agency's procurement and systems engineering expertise—an arrangement based on previous partnerships between the two agencies. In its FY 2014 budget submission, NOAA requested $824 million and reported that the JPSS program, running through 2025, would cost $11.3 billion. The first JPSS-developed satellite (JPSS-1) is scheduled for launch no later than the second quarter of FY 2017. GOES-R, with scope and importance comparable to JPSS, is experiencing development and budgetary challenges that could delay the launch of its first satellite from the first to the second quarter of FY 2016. NOAA requested $955 million for FY 2014 for the GOES-R series of satellites that will provide uninterrupted short-range severe weather warning and "now-casting" capabilities through 2036. With four satellites (the GOES-R, -S, -T, and -U), the program is estimated to cost $10.9 billion over the course of its life cycle.

The satellites will provide data and imagery for weather forecasting—including severe-storm tracking and alerting—and the study of climate change. NOAA's environmental satellite operations and weather forecasting are designated as primary, mission-essential functions of the Department because they help lead and sustain the nation during severe weather events. However, because of cost overruns, schedule delays, and the aging of NOAA's current constellation of satellites, NOAA has had to take steps to mitigate potential coverage gaps for these critical assets.

[14] U.S. General Accountability Office, February 2013. *High-Risk Series: An Update*, GAO-13-283. Washington, DC: GAO, 155-160.

[15] Other satellite acquisitions include Jason-3, which will measure sea surface height, and Deep Space Climate Observatory, which will provide advance warnings of solar storms affecting Earth.

Reducing Program Risks Associated with JPSS-1 Development

Strong program management and close oversight of these programs are needed to reduce risks associated with their development. For JPSS, this requires that the program successfully execute to cost, schedule, and performance baselines established August 1, 2013. The program must also ensure that its flight and ground segments' schedules are fully integrated. JPSS must also effectively coordinate with the newly established NOAA Polar Free Flyer program, the planned NASA climate instrument project,[16] and NOAA's data distribution and archive systems.

NOAA needs to mitigate any degradation to weather forecasting capabilities during polar-orbit data coverage gaps through efficient use of supplemental funding it received as part of the Disaster Relief Appropriations Act, 2013. The bureau has developed a mitigation plan for polar satellite coverage gaps, but obtaining support from other reliable sources—one of its options—could be time-consuming. [17] NOAA should ensure that the mitigation plan is executed before the November 2016 design-life end of Suomi National Polar-orbiting Partnership (NPP), a risk-reduction satellite launched in October 2011 that is flying the first versions of JPSS sensors.

Over the course of the JPSS program, we have analyzed Suomi NPP and JPSS schedules to assess potential gaps in weather forecast data. Consistent with our September 2012 JPSS audit report,[18] we continue to project a 10–16-month gap between Suomi NPP's end of design life and when JPSS-1 satellite data become available for operational use (see figure 3). NOAA's medium-range weather forecasting (3–7 days) could be significantly degraded during the period of time JPSS data are unavailable.

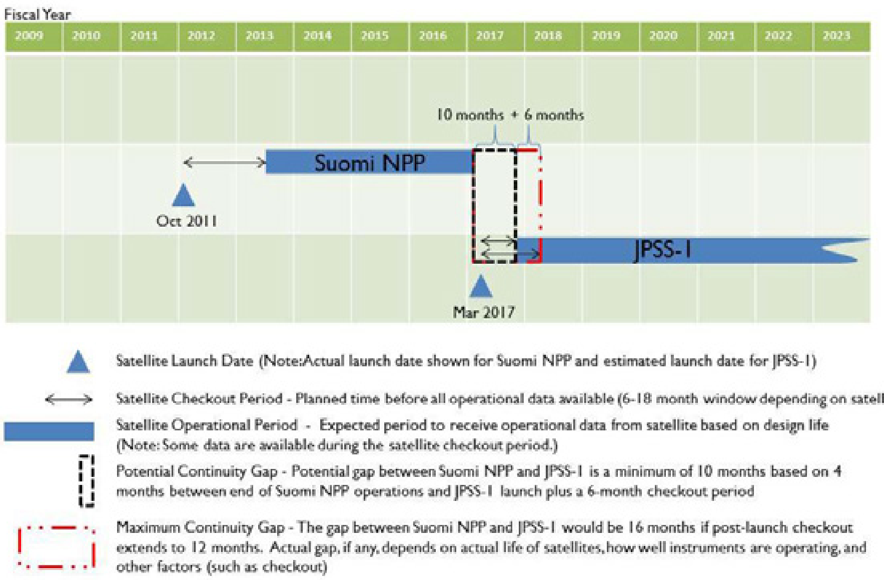
[16] With the FY 2014 President's Budget, NOAA removed five instruments from the JPSS budget and created a separate program, Polar Free Flyer, to develop and launch three of the instruments. It transferred to National Aeronautics and Space Administration (NASA) responsibility for two climate instruments. The JPSS ground system will still support the Polar Free Flyer satellite, and the two NASA climate instruments will be accommodated on the JPSS-2 satellite if their development schedules align with the satellite's development.

[17] For example, using new or different data from the European Organization for the Exploitation of Meteorological Satellites or Japan Aerospace Exploration Agency requires establishing agreements, implementing communication links, updating data processing systems, and assimilating the data.

[18] U.S. Department of Commerce Office of Inspector General, September 27, 2012. *Audit of the Joint Polar Satellite System: Continuing Progress in Establishing Capabilities, Schedules, and Costs Is Needed*, OIG-12-038-A. Washington, DC: Department of Commerce OIG.

U.S. DEPARTMENT OF COMMERCE OFFICE OF INSPECTOR GENERAL

Figure 3. Potential Continuity Gaps for Polar-Satellite Operational Forecast Data



Source: OIG analysis of NOAA data

Reducing Program Risks Associated with GOES-R Development

The GOES-R program must continue to manage its development to meet requirements within its long-standing baselines. The program also needs to ensure sufficient ground system, instrument, and spacecraft development maturity to enter and successfully complete the integration and test phase. In addition, the program must effectively manage activities between flight and ground projects in a compressed development schedule and constrained budget environment.

In our 2013 GOES-R audit report,[19] we found that schedule slips and a potential reduction in testing activities have raised concerns about the satellite's readiness to launch. Funding stability is the program's top risk; an appropriation amount below the FY 2014 requested level may delay launch. Scope reductions are diminishing the satellite's operational capabilities. For these reasons, NOAA needs to implement a comprehensive plan to mitigate the risk of potential launch delays and communicate to users (e.g., in the National Weather Service and Department of Defense) and other stakeholders (e.g., the Administration, Congress) the changes that may be necessary to maintain GOES-R's launch readiness date.

[19] U.S. Department of Commerce Office of Inspector General, April 25, 2013. *Audit of Geostationary Operational Environmental Satellite-R Series: Comprehensive Mitigation Approaches, Strong Systems Engineering, and Cost Controls Are Needed to Reduce Risks of Coverage Gaps*, OIG-13-024-A. Washington, DC: Department of Commerce OIG.

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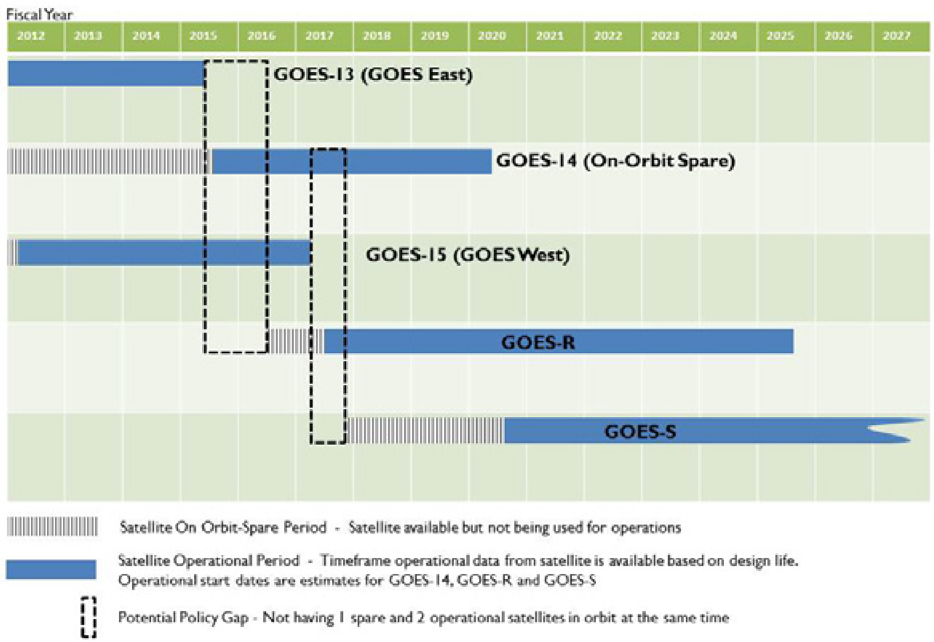
NOAA's policy for its geostationary satellites is to have three satellites in orbit—two operational satellites with overlapping coverage and one spare for backup. Currently, GOES-13, GOES-14, and GOES-15 are in orbit (see figure 4). However, GOES-13 is due to be retired in FY 2015, at which time GOES-14 is projected to become operational. GOES-15 is due to be retired in FY 2017. GOES-R is scheduled to be launched in October 2015, but there is a risk of launch delay. NOAA may not be able to meet its policy of having an on-orbit spare, even without a GOES-R launch delay, based on current GOES satellites' projected retirement dates. Furthermore, a launch delay for GOES-R beyond October 2015 increases the risk that only one geostationary imager will be in orbit—which would severely limit NOAA's capability to visualize and track severe weather events.

Figure 4. Potential Policy Gaps for Geostationary Operational Satellites



Source: OIG analysis of NOAA data

Addressing Material Weakness over Satellite Accounting

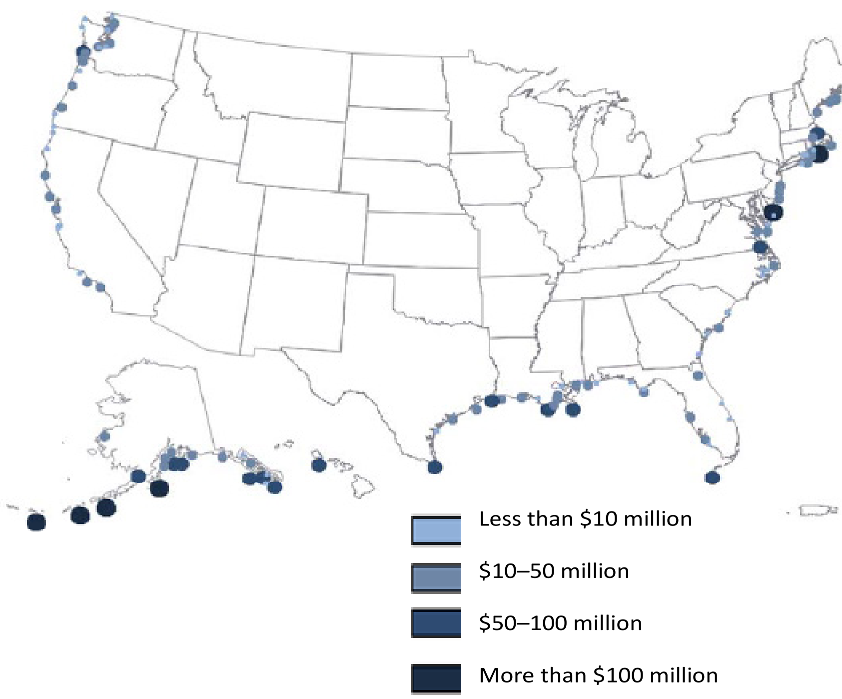
During FY 2012, the accounting firm KPMG noted several material control weaknesses at NOAA related to accounting for satellites. NOAA has a large investment in satellites and, as of the end of FY 2012, satellite construction work-in-progress amounted to $6.1 billion, with completed satellites and ground systems costing another $0.6 billion, totaling approximately more than one-fifth of the Department's assets. In addition, NOAA's accounting for satellites is highly complex. Such transactions originate in a NOAA line office where personnel do not have sufficient financial accounting experience and training, and NOAA's Finance Office does not have sufficient oversight of the accounting for satellites. Further, satellite accounting involves significant contracts and arrangements with contractors and other government agencies.

These challenges have resulted in material deficiencies in NOAA's satellite accounting during FY 2012. Specifically, KPMG identified the incorrect classification of a satellite ground system, unrecorded transfer of a satellite from another federal agency, and corrections to the satellite impairment amount. These errors resulted in approximately $900 million in adjustments to correct the amount of satellites included in NOAA's accounting records. In addition, KPMG identified uncapitalizable costs included in construction work-in-progress, as well as a lack of documentation evidencing review and approval of intragovernmental payments related to satellites. Although NOAA has developed a corrective action plan to address these conditions during FY 2013, we believe that these deficiencies highlight more than accounting challenges. The operation and management of NOAA's satellite program needs strengthening to ensure integrity, accountability, and transparency. Public and Congressional confidence in the Department depends on these basic principles of stewardship. Therefore, program and finance officials must work together to ensure that satellite investments are accurately identified, recorded, and reported—a basic principle of asset management. We also identified additional challenges related to NOAA's accounting and budgetary controls of funds in challenge 5 (see *Continue to Foster a Culture of Management Accountability to Ensure Responsible Spending*).

Enhancing Fisheries Management

In 2011, there were 51 million jobs in U.S. coastal shoreline counties. Of those, the commercial fishing industry accounted for approximately 1 million jobs and the recreational fishing industry accounted for 327,000 jobs. U.S. fishermen at ports in the 50 states brought in 9.9 billion pounds of fish valued at $5.3 billion in 2011—an increase of 1.63 billion pounds (up 19.7 percent) and $769 million (up 17 percent) compared to 2010. Fishing is an important industry in our nation's economy as a whole and in the many coastal communities and port towns, as shown in figure 5.

Figure 5. Dollar Value of Fish Landings at U.S. Ports



Source: NOAA Office of Science and Technology, National Marine Fisheries Service

However, NOAA must also consider the health of our oceans and coastal ecosystems, which are impacted by coastal development, pollution, overfishing, and the destructive impact of invasive species. In U.S. waters, there are 74 listed endangered species and 62 marine mammals under the Marine Mammal Protection Act. There are 219 species under review or of concern to the National Marine Fisheries Service's (NMFS's) Office of Protected Resources.

For several years, we have reported on NOAA's challenges in balancing two competing interests: promoting commercial and recreational fishing as vital elements of our national economy and preserving populations of fish and other marine life. In recent years, members of the fishing industry and elected officials from the New England region have repeatedly questioned certain fishery regulations and whether NOAA has abandoned a core mission to develop the commercial fishing industry and increase industry participation.

In January 2013, we reported on NOAA's controls and processes surrounding fisheries rulemaking as the first phase of our assessment of transparency and the role of fishery management councils (FMCs[20]) in rulemaking. An effective regulatory environment requires a fair and transparent rulemaking process. We learned that FMC members' financial disclosures do little to increase transparency of the process—and NOAA performs minimal reviews of the information on the financial disclosure forms. NMFS has not implemented many of the regulatory changes designed to streamline its rulemaking, and rules packages and administrative records are inconsistently maintained among its regional offices. In response to last year's challenge pertaining to fisheries management, NOAA reported that it continues to make progress in streamlining the rulemaking process and improving the transparency and consistency of fisheries management by addressing the relevant OIG recommendations.

We also issued the results of our survey of fishery management council members and staff—who, in general, supplied positive responses to the survey. Most survey participants were satisfied with their interactions with NMFS, as well as with the fishing industry and nongovernment organizations. Suggestions to improve collaboration between NMFS and FMCs mainly involved occurrence and methods of communication, participation from NOAA's Office of the General Counsel, and outreach and transparency to stakeholders.

We are currently reviewing several of NOAA's catch share programs to determine whether there are (1) adequate controls in place to prevent excessive ownership of limited shares and (2) adequate tools and processes in place to collect information needed to make decisions and to ensure adequate competition.

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

[20] *FMCs* allow for regional, participatory governance by knowledgeable stakeholders. NMFS partners with FMCs—along with state agencies and other federal bureaus—to develop fishery management strategies and rules for the commercial and recreational fishing industries. There are currently 46 fishery management plans, developed by the eight regional FMCs or the Office of the Secretary under certain circumstances, to manage fishery resources.

Challenge 3:

Continue Enhancing Cybersecurity and Management of Information Technology Investments

Pervasive and sustained cyber attacks against the United States could have a devastating effect on federal and nonfederal systems, disrupt the operations of governments and businesses, and impact the lives of the American people. The President's FY 2014 budget requires that agencies eliminate duplicative or low-value IT investments while expanding efforts to counter current and evolving cyber threats. The administration has identified cybersecurity as among the most serious economic and national security challenges we face. To bolster the national cybersecurity program, federal agencies have been asked to implement cross-agency cybersecurity priorities—including strong authentication, Trusted Internet Connections (TIC), and continuous monitoring. In addition, the President has directed the National Institute of Standards and Technology (NIST) to develop a voluntary framework for reducing cyber risks to our nation's critical infrastructure.

We reported our concerns about the Department's fragmented IT governance in previous years. In response to OMB direction, the Acting Secretary issued a June 2012 memorandum that described a strategy to strengthen the Department's Chief Information Officer's (CIO's) ability to oversee the bureaus' annual $2.5 billion IT investments.[21] The CIO has leveraged this increased authority to lead the effort to consolidate commodity IT Department-wide—and continues to strengthen IT oversight through the Commerce IT Review Board. However, the CIO's responsibility to oversee satellite IT investments has been diminished, and IT investments still need to close the gap between planned and actual schedule and cost performance.

To help the Department counter current and evolving cybersecurity threats, as well as maximize the consolidation and oversight of its IT investments, we have identified five areas for management attention:

- Establishing a robust capability to respond to cyber incidents
- Continuing sustainable implementation of enterprise cybersecurity initiatives
- Preserving the CIO's oversight responsibility of satellite-related IT investments
- Continuing vigilant oversight of IT investments
- Maintaining momentum in consolidating commodity IT[22] to cut costs

[21] U.S. Department of Commerce, Office of Secretary, June 21, 2012. *Department IT Portfolio Management Strategy*. Washington, DC: DOC OS.

[22] According to OMB, *commodity IT* includes "IT infrastructure (data centers, networks, desktop computers and mobile devices); enterprise IT systems (e-mail, collaboration tools, identity and access management, security, and web infrastructure); and business systems (finance, human resources, and other administrative functions)." *See* Office of Management and Budget, August 8, 2011. *Chief Information Officer Authorities,* Memorandum M-11-29. Washington, DC: OMB, 2.

Establishing a Robust Capability to Respond to Cyber Incidents

In our FY 2013 *Top Management Challenges* report,[23] we noted that, in January 2012, as a result of a perceived massive malware infection, the Economic Development Administration (EDA) disconnected its systems from the Internet, significantly affecting its ability to maintain normal business operations. Since issuing that report, we completed our review[24] of the events surrounding EDA's cyber incident and found that critical incident response decisions were based on inaccurate information—and that deficiencies in the Department's incident response program impeded EDA's incident response. Because of a series of missteps in responding to this incident, a common malware infection originally found on two EDA computers was portrayed as a widespread cyber attack on EDA's IT infrastructure. This resulted in a prolonged disruption of normal business operations and the unnecessary expense of more than $2.7 million for recovery activities.

Our review also highlighted challenges for the Department when responding to a cyber incident. We made recommendations to improve the Department's Computer Incident Response Team (DOC CIRT), which provides response services to the seven bureaus located in the Department's headquarters at the Herbert C. Hoover Building (HCHB). To begin addressing deficiencies in DOC CIRT incident response capabilities, the Department's CIO conducted an internal review of DOC CIRT's practices and processes. The review identified areas for improvement and focused on strengthening DOC CIRT's organizational structure; its roles and responsibilities; and operating unit procedures for incident identification, analysis, response, and reporting. The Department's CIO has also taken steps to ensure that DOC CIRT staff members receive appropriate training, update DOC CIRT's incident response procedures, develop agreements with external agencies to gain incident response expertise, and hire experienced incident response staff.

The President has identified the cybersecurity threat as one of the most serious national security, public safety, and economic challenges we face. To deal successfully with the cyber threat, the Department needs to establish a robust incident response capability at DOC CIRT. Furthermore—because DOC CIRT primarily provides incident response services to bureaus located at HCHB—ensuring productive collaboration among all bureaus is critical for the Department to effectively respond to a cyber event. This includes bureaus that have their own CIRT capabilities, such as the Census Bureau, the International Trade Administration (ITA), NIST, the National Oceanic and Atmospheric Administration (NOAA), and the U.S. Patent and Trademark Office (USPTO). OIG is currently conducting an audit of the incident detection and response capabilities of several bureaus within the Department. Our audit should complement work already done by the Department and help to further improve its incident response program.

[23] DOC Office of Inspector General, November 9, 2012. *Top Management Challenges Facing the Department of Commerce,* OIG-13-003. Washington, DC: OIG, 15.

[24] DOC OIG, June 26, 2013. *Malware Infections on EDA's Systems Were Overstated and the Disruption of IT Operations Was Unwarranted,* OIG-13-027-A. Washington, DC: DOC OIG.

Continuing Sustainable Implementation of Enterprise Cybersecurity Initiatives

The Department has three enterprise cybersecurity initiatives underway to address mandates from the Office of Management and Budget (OMB). The Enterprise Cybersecurity Monitoring and Operations (ECMO) and Enterprise Security Oversight Center (ESOC) initiatives support OMB's mandate[25] to continuously monitor security-related information from across the enterprise. The TIC initiative supports the mandate[26] that federal agencies optimize and standardize their individual external network connections, including connections to the Internet. Collectively, these undertakings should significantly improve the Department's cybersecurity posture. Table 1, below, provides the goal, implementation status, and issues for each:

[25] Executive Office of the President Office of Management and Budget, April 21, 2010. *FY 2010 Reporting Instructions for the Federal Information Security Management Act and Agency Privacy Management*, Memorandum M-10-15. Washington, DC: OMB, 1.

[26] OMB, November 20, 2007. *Implementation of Trusted Internet Connections (TIC)*, Memorandum M-08-05. Washington, DC: OMB, page 1. Also, *see* OMB, September 17, 2009. *Update on the Trusted Internet Connections Initiative*, Memorandum M-09-32. Washington, DC: OMB, 1.

Table 1. Department's Enterprise Cybersecurity Initiatives

Enterprise Initiatives	Initiative Goal	Implementation Status	Issues
ECMO	Provide nearly real-time security status, support for patch management, and remediation of software configuration issues for Department-wide system components	• Initial capability has been implemented on more than 8,500 system components across HCHB operating units. • Upon full deployment in September 2014, ECMO will support more than 100,000 system components throughout the Department.	Delays in obtaining funding and participation commitments from USPTO and the Census Bureau in FY 2013 may result in missing the September 2014 deadline.
ESOC	Provide Department-wide security situational awareness to senior Departmental and operating unit managers	Currently in the planning stage, the Department is: • Doing a detailed assessment of incident handling capabilities in HCHB and NOAA, and a high-level assessment across the Department. • Conducting a technical capabilities study.	The initiative faces challenges acquiring project resources.
TIC	Consolidate Department external network connections and provide better monitoring of cyber threats from the Internet	• All bureaus—except the Bureau of Industry and Security (BIS), the Census Bureau, and NOAA—have acquired a TIC service. • BIS will acquire TIC services by March 2014. • The Census Bureau has not implemented TIC because of concerns about third-party access to sensitive Title 13[27] data. • NOAA has made progress becoming its own TIC access provider and will do so by March 2015.	BIS is working with its selected service provider to resolve technical issues. Census is working with the Department of Homeland Security to develop a memorandum of understanding that would ensure that the confidentiality of Title 13 data is protected.

Source: Department of Commerce

Timely implementation of these initiatives is crucial to the Department's cybersecurity program, particularly in light of the ever-increasing cyber threats facing government systems. The ECMO and ESOC initiatives are critical to maintaining cybersecurity best practices to protect network components, implementing continuous monitoring, and providing timely cyber situational awareness across the Department. Thus, the Department needs to ensure that current efforts

[27] Title 13 guarantees the confidentiality of information obtained by the Census Bureau and establishes penalties for disclosing this information.

for these initiatives move forward as planned and that operating units cooperate and participate to the fullest extent.

Since last year, NOAA has made progress toward becoming its own TIC provider by implementing about 72 percent of the required TIC capabilities. However, the Census Bureau and BIS have yet to acquire TIC services. The TIC initiative should significantly reduce the risks associated with external network and Internet connections. Accordingly, the Department needs to encourage NOAA to complete its TIC implementation quickly and should make every effort to enable the Census Bureau and BIS to expeditiously resolve their TIC issues.

Preserving the CIO's Oversight Responsibility of Satellite-Related IT Investments

Under the OMB IT reform plan[28] and subsequent OMB guidance,[29] agencies have been directed to expand federal CIO responsibility from a traditional role of policymaking and infrastructure maintenance to managing the agency's *entire* major IT investment portfolio. The Department of Commerce CIO oversees major IT investment in three ways: (1) reviewing the capital asset plan (Exhibit 300) for the initiation or re-planning of each investment; (2) comparing the investment's status against the asset plan monthly and submitting the assessment to the OMB IT Dashboard for public exposure; and (3) holding Commerce IT Review Board sessions periodically for an in-depth look at the investment and gauging when an investment is in trouble because it has significantly deviated from its plan.

However, the CIO oversaw about a quarter fewer IT investments in FY 2013 than in FY 2012. In particular, in an effort to streamline oversight, the Department has waived the requirement to follow CIO oversight practices for six satellite-related investments totaling $642 million in FY 2013 spending.[30] Two of these investments, the development of the Geostationary Operational Environmental Satellite–R Series and Joint Polar Satellite System ground systems, are part of the acquisition of two new satellite series that undergo substantial oversight as part of the satellite acquisition process, including comprehensive milestone reviews by independent satellite experts. The other four satellite-related investments— the maintenance and enhancement of two satellite ground systems and two satellite data processing and distribution systems—do not receive such extensive oversight. Although the Department has established quarterly reviews for executives to discuss high-level investment issues, the reviews do not replace the CIO's in-depth tracking and evaluation of these satellite investments.[31] The four satellite-related maintenance and enhancement investments are similar to other major IT investments overseen

[28] OMB, December 9, 2010. *25 Point Implementation Plan to Reform Federal Information Technology Management*. Washington, DC: OMB, 28.

[29] OMB, August 8, 2011. *Chief Information Officer Authorities*, M-11-29. Washington, DC: OMB.

[30] The satellite-related IT investments include (1) two satellite ground system development projects (Geostationary Operational Environmental Satellite–R series and Joint Polar Satellite System), (2) two ground system maintenance projects (Geostationary Operational Environmental Satellite and Polar Operational Environmental Satellite), and (3) maintenance of two systems that process and distribute satellite data products (NPOESS Data Exploitation Ground System and Environmental Satellite processing center).

[31] The Department has also established a Milestone Review Board for high-profile programs; however, it will only review the two new satellite series acquisitions, not the four satellite-related maintenance and enhancement investments.

by the CIO. The Department should reinstate the CIO oversight process for these four investments.

Continuing Vigilant Oversight of IT Investments

We reported in our FY 2013 *Top Management Challenges* that the IT Review Board has improved its reviews of IT investments, leading to a greater likelihood that investments will progress more satisfactorily.[32] The number of IT investments assessed as high-risk has substantially decreased, falling from six last year to only one investment this year: the National Weather Service (NWS) Telecommunication Gateway. Table 2 presents the current risk evaluation of investments that were at high risk in FY 2012:

Table 2: Disposition of the Department's FY 2012 High-Risk Investments

Investment	Current Risk Disposition
Census Bureau American Community Survey	Medium risk
Census Bureau 2010 Decennial system design, integration, and evaluation	Completed
Census Bureau IT infrastructure	Low risk
NOAA National Weather Service Telecommunication Gateway	High risk
NOAA Joint Polar Satellite System Ground System	Risk not evaluated by CIO due to oversight streamlining
NOAA Weather Radio Improvement Project	Risk not evaluated by CIO due to restructuring and the merging of this project with other investments

Source: OIG, *Top Management Challenges Facing the Department of Commerce*, October 24, 2011, and OMB IT Dashboard, August 2013

We remain concerned, as we reported last year, about IT investments with a history of being high-risk. For example, in December 2010, the Department's CIO assessed the NWS Telecommunication Gateway and designated it a high-risk project. In that same year, OMB designated the Bureau of Industry and Security's Commerce USXPORTS Exporter Support System as a high-risk Departmental project. Although both investments have made some progress since 2010, the Telecommunication Gateway is still assessed as a high-risk investment and USXPORTS recently ran into significant development roadblocks and was again evaluated high-risk for a short period in FY 2013 (see table 3). Both investments now require re-planning to move forward.

[32] DOC OIG, November 9, 2012. *Top Management Challenges Facing the Department of Commerce,* OIG-13-003. Washington, DC: OIG, 18.

Table 3: Department FY 2013 Investments with a High-Risk History

Investments	FY 2013 Spend Plan ($ Millions)	FY 2014 to Completion ($ Millions)	Total Life-Cycle Costs ($ Millions)
NOAA NWS Telecommunication Gateway	21	165	403
BIS Commerce USXPORTS Exporter Support System	6	5	17

Source: Exhibit 300s for FY 2013

The number of investment work activities that are behind schedule is somewhat reduced but more than one-fifth of them are still 30 percent or more behind schedule (see table 4). Overall, cost growth and schedule delays of the Department's investment activities exceed the federal government average.

Table 4: Investment Activity Cost and Schedule Variance

	Department of Commerce	Federal Government
Percentage of activities with cost growth greater than 30 percent	19	12
Percentage of activities with schedule delays greater than 30 percent	22	15

Source: OMB IT Dashboard (August 2013)

The challenge for Departmental IT investment oversight (CIO, IT Review board, and Milestone Review board) is to identify the fundamental reasons that high-risk projects continue not to make adequate progress; implement necessary changes to their acquisition approach, management structure, and development plans; and, if necessary, bring in outside expertise to identify weaknesses and recommend mitigation actions.

Maintaining Momentum in Consolidating Commodity IT to Cut Costs

The Department CIO is leading the effort to reduce commodity IT costs per full-time equivalent by about 25 percent annually[33] to be more in line with costs at comparable agencies. Departmental and bureau CIOs are employing three basic approaches to break down costly and inefficient IT:

1. *Consolidating infrastructure*, including data centers and services (e.g., the Census Bureau is operating centralized Bureau-wide collaboration and content management services)

2. *Sharing procurement vehicles* to leverage economies of scale (e.g., the use of Department-wide Microsoft Office and McAfee SafeBoot contracts)

[33] In FY 2011, the Department spent $8,884 per full-time equivalent, about $2,300 more than comparable agencies.

3. *Hosting services* for other Department bureaus (e.g., the Office of Secretary and NOAA are hosting all IT services for the Economic Development Administration)

Department and bureau heads must ensure that their respective CIOs continue to have full cooperation in overcoming bureaucratic impediments to consolidating and sharing IT commodity resources.

Challenge 4:

Exercise Strong Project Management Controls over 2020 Census Planning to Contain Costs

The decennial census is a highly visible, decade-long program that requires extensive planning and testing. The 2020 Census process has already started building on 2010 Census lessons learned about late-stage design changes and higher-than-expected contractor expenses. Both contributed to pushing the final cost of the 2010 Census to more than $12 billion—nearly twice that of the 2000 Census (in nominal dollars). The Census Bureau has promised bold design changes for the 2020 Census, seeking to reduce per household costs (on an inflation-adjusted basis) to an amount lower than the 2010 Census. To reach this goal, the Bureau must complete research and testing early enough in the decade to plan and build the necessary infrastructure for the projected workload and workforce. The Bureau will be making key 2020 Census design decisions during FYs 2015–16 that drive the program's methodology, quality, and cost for producing congressional apportionment data by December 31, 2020, and redistricting data by March 31, 2021.[34]

As a result of our 2010 Census oversight, we noted challenges the Census Bureau faces to innovate its 2020 Census design.[35] Overcoming these challenges calls for fundamental improvements in decennial planning, management, testing, and transparency to help ensure that the missed opportunities of previous decades are not repeated in 2020. We identified 19 recommendations categorized into 7 areas of improvement:

1. Revamp cost estimation and budget processes to increase accuracy, flexibility, and transparency.
2. Use the Internet and administrative records to contain costs and improve accuracy.
3. Implement a more effective decennial test program using the American Community Survey as a test environment.
4. Effectively automate field data collection.
5. Avoid a massive end-of-decade field operation through continuous updating of address lists and maps.
6. Implement improved project planning and management techniques early in the decade.
7. Establish a Census Bureau director position that spans presidential administrations.

The Census Bureau has made improvements since its 2010 decennial operation, including early monitoring of 2020 decennial risks, more open communication about progress and problems with stakeholders, and efforts to implement an Internet response option to its American Community Survey (ACS) that can serve as a model for 2020 decennial responses. In addition,

[34] These delivery dates are mandated by law; *see* 13 U.S.C. § 141.

[35] U.S. Department of Commerce Office of Inspector General, June 27, 2011. *Census 2010: Final Report to Congress*, OIG-11-030-I. Washington, DC: DOC OIG.

Congress authorized a term-appointed Census Bureau director to oversee timely, critical decennial design decisions. A new director was appointed to this term position in July 2013. The Bureau has partially addressed some of our recommendations; however, more work remains. As the Bureau innovates a 2020 decennial design, we have identified two areas for management attention:

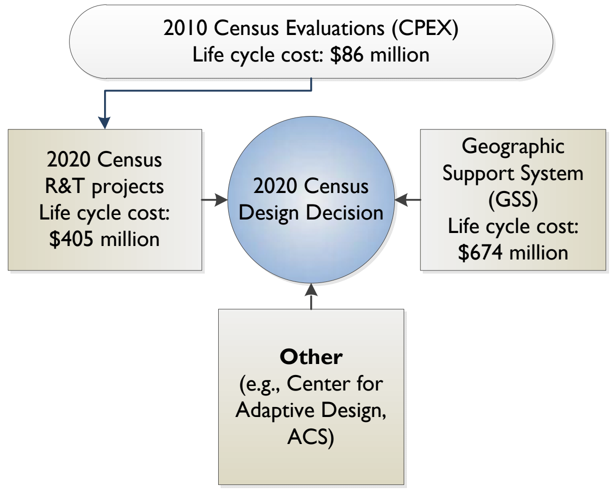
- Ensuring timely design decision making
- Focusing on human capital management, timely research, and testing implementation

Ensuring Timely Design Decision Making

The Census Bureau is approaching critical 2020 Census design decision points that require planning and developing a decennial census in a significantly more constrained budget environment than experienced during the 2010 Census. Soon, the Bureau must rapidly analyze 2020 decennial design alternatives and make key design decisions based on the results of its research and testing phase. Components of this more than $1 billion effort (see figure 6) include:

- *2010 Census evaluations*, referred to as the Census Program Evaluation and Experiments (CPEX)
- *The Geographic Support System (GSS),* which provides the maps, address lists, geographic reference files, and associated processing systems to meet the geographic requirements of all Census Bureau programs. GSS priorities related to the decennial census include maintaining and updating the integrated database that contains the Master Address File (MAF)—an inventory of the nation's addresses—as well as the Topologically Integrated Geographic Encoding and Referencing (TIGER), a national inventory of streets and map features. The GSS also includes an initiative intended to inform the Bureau on the viability of conducting a targeted rather than a full address canvassing operation in 2019 in support of the 2020 Census.
- *2020 Census research and testing (R&T) projects* that test new enumeration methods, new processes to support field operations, more cost-effective IT systems, and address and map improvements needed for the 2020 Census to supplement GSS efforts
- *Other Census Bureau-wide efforts*, including development and processing infrastructure that supports Bureau surveys and leveraging work conducted on the ACS (e.g., adapting an online response option)

Figure 6. 2020 Census Design Decision Process



Source: OIG analysis of Census Bureau documents available May 2013

Our office has conducted several reviews of the Census Bureau's approach and progress toward the planning and development of a new cost-effective 2020 decennial design (e.g, the CPEX,[36] GSS,[37] and R&T[38] programs). We found that, as research and testing continues, the Bureau must contend with and plan for several challenges that could adversely impact the next decennial census. Like the rest of the federal government, the Bureau is operating in a constrained budget environment. It must therefore be strategic in how it spends available funding and provide the Secretary and Congress reliable and transparent budget requests. The Bureau must devote careful attention to its FYs 2015 and 2016 budget submissions, which will fund testing of new decennial design options that ultimately drive the cost trajectory for the 2020 Census.

Focusing on Human Capital Management, Timely Research, and Testing Implementation

During our current 2020 Census redesign evaluation, we noted significant schedule slippage in the Census Bureau's key research and testing programs. If continued, missed deadlines will translate into an untenable continuation of an already expensive design. The cost (in constant dollars) of counting each housing unit could reach $151, compared with $97 for 2010. Through

[36] DOC OIG, April 5, 2012. *2020 Census Planning: Delays with 2010 Census Research Studies May Adversely Impact the 2020 Decennial Census*, OIG-12-023-1. Washington, DC: OIG.

[37] DOC OIG, May 10, 2012. *High-Quality Maps and Accurate Addresses Are Needed to Achieve Census 2020 Cost-Saving Goals*, OIG-12-024-I. Washington, DC: OIG.

[38] DOC OIG, September 17, 2013. *2020 Census Planning: Research Delays and Program Management Challenges Threaten Design Innovation* (draft report). Washington, DC: OIG.

our ongoing work on the Bureau's approach to and progress on planning for 2020 decennial census we have identified three time-sensitive Bureau management priorities:

- Managing human capital to align with the Bureau's mission and programmatic goals
- Completing timely research for making evidence-based design decisions
- Implementing a stable, agile field-testing strategy

Managing Human Capital to Align with Bureau Mission and Programmatic Goals

As part of the decennial census planning effort, the Census Bureau is striving to improve the management and culture of the decennial directorate. The Bureau's two-pronged effort entails collaboration between its 2020 Census directorate and Human Resources division to (1) review required skills and competencies and (2) conduct a formal analysis to compare those requisite skills to the skills and capabilities of their current workforce.

An objective and informative assessment of the Census Bureau's current workforce is critical to containing 2020 Census costs. Like many federal agencies facing mandatory budget reductions, the Bureau must balance meeting critical mission requirements against ensuring the maintenance of its existing human capital. To implement the FY 2013 budget reductions, the Bureau (1) sought to "minimize the impact on our employees, seeking to avoid furloughs, while sustaining our core mission and preserving our most important programs within the limited flexibility provided,"[39] (2) canceled or reduced the scope of, or decided not to award, more than $30 million in contracts for the second half of FY 2013, (3) froze hiring on all but the most mission-critical positions, and (4) did not fill more than 100 "critical vacancies." With more budget reductions projected, the Bureau's workforce assessment should help inform its long-term strategy to implement a decennial census that costs less than the 2010 Census.

Completing Timely Research for Making Evidence-Based Design Decisions

The Bureau's research agenda includes capturing lessons learned from the last decennial census and conducting research and testing projects that emphasize containing costs without diminishing information quality (see table 5.)

[39] Census Director's blog on June 19, 2013; *available at:* http://directorsblog.blogs.census.gov/2013/06/19/census-bureau-budget-update-2/.

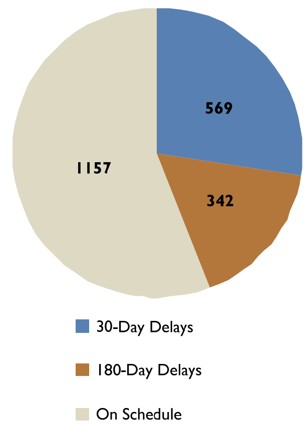
Table 5. Costly 2010 Census Operations and 2020 Research Efforts to Address Them

2010 Census Cost and Operation		2020 Research Aimed to Reduce Costs
$2 billion	Enumerating nonresponding households	*Can the number of household visits be reduced by finding an alternative, less costly response option?* *Can existing government records fill in missing information?*
$790 million	Building a one-time-use field data collection automation system	*Can reusable enterprise-wide solutions be built and expanded to meet decennial needs?*
$473 million	Ensuring that labor, systems, and development are in place to process and capture the data for more than 164 million paper questionnaires at three data centers	*Can the number of paper questionnaires be reduced through an Internet response option?* *Can an automated field data collection reduce the paper workload?* *Can the reduced paper workload result in fewer data capture centers?*
$444 million	Having an end-of-decade address and geography updating operation	*Can Census maps and addresses be efficiently updated throughout the decade, with areas experiencing change accurately targeted to reduce the amount of end-of-decade canvassing?*
$330 million	Leasing 494 local and 12 regional Census offices	*Can distance management, training, and automated processes allow the Census Bureau to reduce the number of temporary Census offices?*

Source: OIG analysis of Census Bureau documents

In addition to the cancellation of 20 of the original 109 studies aimed to measure the Bureau's performance in the 2010 decennial, we found that the CPEX program results were often not implemented as designed to inform the 2020 R&T program. We also found the Census Bureau is experiencing schedule slippage and project delays in its R&T program that affect subsequent research phases and design decision points (see figure 7). The multifaceted and interrelated nature of the research program underscores the necessity of adhering to a schedule to make timely, evidence-based design decisions.

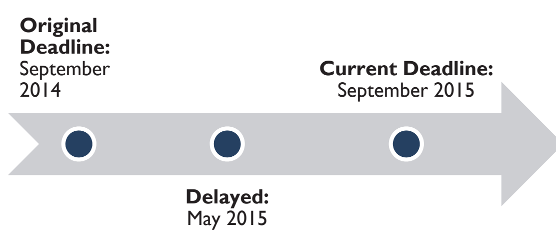
Figure 7. Research and Testing Activity Delays



Source: OIG from Census Bureau data

Another challenge identified in our recent report is to develop a schedule that provides managers and oversight stakeholders with valid, timely, accurate, and auditable performance information on which to base critical decisions. The Census Bureau alters baselines (i.e., re-baselines), which can conceal delays and give the appearance that schedules are met. For example, major decision points for the 2020 Census have been re-baselined three times, with original deadlines pushed back from September 2014 to September 2015 (see figure 8).

Figure 8. Shifting Deadlines: The 2020 Census Design Decision



Source: OIG analysis of Census Bureau documents

Implementing a Stable, Agile Field-Testing Strategy

Testing operations in real-life situations is critical to ensuring that research results yield improvements in the decennial census. However, field test plans are in flux: their schedule has been pushed back three times, with an FY 2016 completion date reflecting a year-and-a-half delay. Further, the Census Bureau canceled 13 of 25 scheduled field tests. Frequent schedule changes, testing delays, and cancellations threaten the Bureau's ability to incorporate test results into subsequent research and design decisions. The Bureau cites the major impacts of the Congressional budget cut and sequestration as a cause for the changes in content and timing of its research and testing efforts. Nevertheless, budget reductions, continuing resolutions, and the sequestration (signed into law in August 2011) should have been planned for.

To increase opportunities for testing, both the National Academy of Sciences and OIG have recommended using the ACS as a test environment for smaller trials of new processes, procedures, and systems for the decennial. The Census Bureau recently developed a small test that uses a modified ACS infrastructure—including ACS's systems, questionnaire, and training materials. Previously, using the ACS as a test environment had been delayed to January 2015. In addition, several legislative proposals to eliminate or alter the quality of the data collected by the ACS threaten its use for decennial testing. The Bureau faces the challenge of implementing the ACS while conducting cost-effective, small-scale tests—or implementing separate large-scale, more costly 2020 Census field tests—to evaluate new design features. With the 2020 Census design still under development, it is unknown how legislatively-mandated changes to the ACS will impact the Bureau's goal of containing the cost of the decennial census while preserving data quality.

Challenge 5:

Continue to Foster a Culture of Management Accountability to Ensure Responsible Spending

As the government experiences an extended period of tightened budgets, it is imperative to foster a culture of management accountability. OIG operates a complaint hotline for employees and the public to submit information about alleged wrongdoing, misconduct, or mismanagement. OIG's determination to audit, investigate, or provide the complaint information to Departmental or bureau management for appropriate action helps to instill a culture of ethical conduct and ensure that spending is appropriate, complies with laws and regulations, and promotes investments with long-term benefits.

While the Department has improved its ability to deal with hotline complaints, there has been an increasing number of complaints to OIG. In FY 2013, NOAA-related complaints represented the largest increase; those complaints comprise almost 40 percent of total complaints. OIG's hotline also receives complaints related to the use of appropriated funds by other bureaus. These issues highlight the Department's need to implement stricter control over funds Department-wide. The Department and most of its bureaus use outdated financial management systems. Limited system functionality and high support costs impede the Department's ability to oversee and manage Department-wide financial activities. Plans to replace the legacy systems by FY 2018 face significant challenges.

The Department's annual acquisitions total approximately $2.4 billion and range from satellites, public safety networks and broadband technology opportunities to the construction of facilities. Last year the Department reported it exceeded its goals in reducing the dollar amount of high-risk contracts, per 2009 Office of Management and Budget guidance. However, our audits indicate that reducing the use of several types of high risk contracts remains a critical challenge. Oversight of these goods and services requires a qualified staff of appropriate numbers. However, budget constraints and uncertainties present significant roadblocks to recruiting competent staff, retaining mid-level staff, and adjusting to attrition.

Finally, the potential misuse of federal funds by award recipients requires stronger oversight of Departmental programs that award grants or cooperative agreements. These awards amounted to $6.5 billion in the 3-year period ending June 30, 2013. In addition, American Recovery and Reinvestment Act of 2009 (Recovery Act)-funded Broadband Technology Opportunities Program (BTOP) awards, a $3.8 billion program, require oversight as they are closed out.

We have identified five key areas for management attention:

- Responding to concerns of mismanagement and ethical violations
- Implementing stricter controls over funds
- Modernizing the enterprise financial management system to strengthen financial oversight
- Strengthening controls over high-risk contract actions and developing the acquisition workforce
- Addressing grant management issues

Responding to Concerns of Mismanagement and Ethical Violations

According to the Office of Management and Budget (OMB) Circular A-123, *Management's Responsibility for Internal Control*, federal departments' managements are responsible for establishing, maintaining, implementing, and continuously monitoring and improving internal control systems. Each year, in the Department's financial statement audit, the Secretary and other management officials certify their responsibility for the design and implementation of programs and controls to prevent, deter, and detect fraud. OIG's compliance and ethics hotline has helped the Department make progress toward this responsibility.

Addressing Hotline Complaints

OIG operates a hotline for employees and members of the public to report information about alleged wrongdoing, misconduct, waste, or mismanagement. Many hotline complaints become the basis of OIG audits and investigations. Complaints that detail management issues are provided promptly to Departmental and bureau leadership for inquiry and action. These referrals provide Departmental leadership with information regarding possible issues with their programs and operations and an opportunity to confront discrete issues before they develop into larger problems.

Over the past year, bureaus have worked closely with OIG to look into and resolve many management issues raised through OIG's hotline. Timely and thorough action to resolve these issues helps to create a culture of compliance and accountability in the Department. Examples of successful efforts to resolve such problems during FY 2013 include:

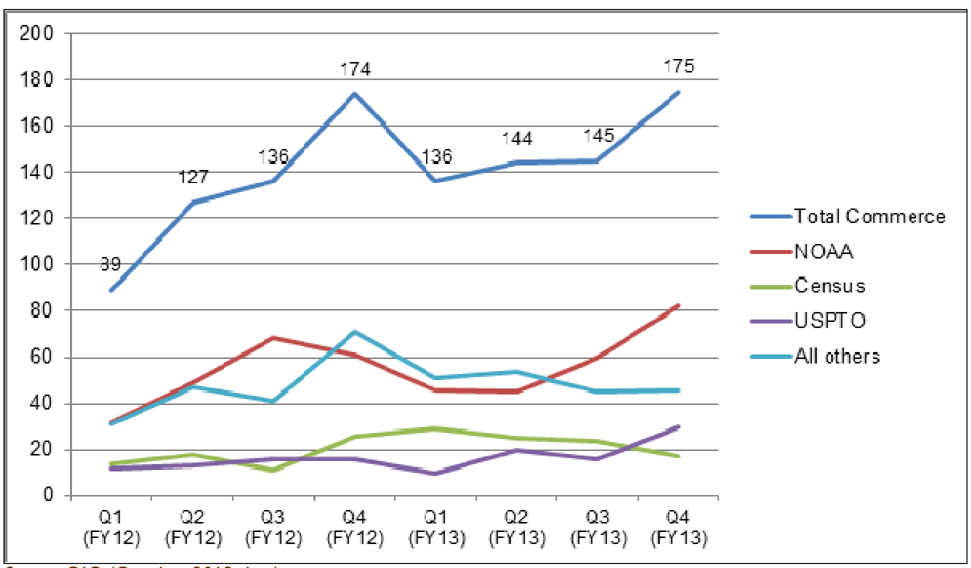
- In March 2013, the National Oceanic and Atmospheric Administration (NOAA) confirmed information provided by OIG indicating that a team of university researchers had been improperly occupying space in a federal facility, subjecting NOAA to potential security and appropriations law issues. NOAA informed OIG that it discovered eight university employees improperly occupying space in a research facility since 2009 and, because an official agreement could not be reached with the university, the team vacated that space.
- In November 2012, the Department, working through OIG's complaint process, looked into and confirmed that an employee, using the identity of a former employee, applied for and received a Department of Commerce ID badge. The individual, granted access to a federal facility under a false identity, proceeded to access the facility using the

assumed identity repeatedly after normal business hours. The individual, when confronted by Department officials, lied about this activity and later resigned.

- In January 2013, NOAA looked into, and substantiated, an OIG hotline allegation that employees in NOAA's Office of Marine and Aviation Operations (OMAO) sold scrap metal and expired pharmaceutical drugs and used the money to fund an employee social group. In November 2012, OMAO issued new policy and procedures to address the issues discovered during this inquiry to prevent future recurrence. NOAA is in the process of recovering almost $43,000 for return to the Treasury.

While the Department's management has increased its capacity and ability to deal with hotline complaints, employees and members of the public have provided an increasing volume of complaints to OIG. During FY 2013, OIG received 600 Department-related complaints, a 14 percent increase over the previous year (526 complaints). Figure 9 shows the total volume of Department-related complaints over FYs 2012–2013; in FY 2013, 39 percent of total complaints related to NOAA.

Figure 9. Department-Related Complaints Received by OIG (First Quarter, FY 2012–Fourth Quarter, FY 2013)



Source: OIG (October 2013 data)

In order to continue managing potential issues and resolving problems, Departmental management must remain vigilant in its efforts to seriously look into and address hotline complaints.

Results from OIG Investigations

In addition to awarding funds to contractors and grantees, Departmental management is responsible for providing oversight and ensuring that these funds are properly spent. The following examples from OIG investigations underscore the need for stronger controls and more vigilant oversight to prevent fraud, waste, and abuse within the Department and among its grant recipients and contractors:

- Two former executive directors of the Alaska Eskimo Whaling Commission were sentenced to 41 months and 6 months in prison, respectively, for their roles in defrauding the commission, a NOAA grantee, by money laundering and embezzlement. One of the former executive directors was convicted of misapplying almost $400,000 in funds from the Commission.
- An engineering consultant on a National Telecommunications and Information Administration (NTIA) grant pled guilty to a felony count of theft of grant funds, which the consultant used for personal purposes. The consultant—who pled guilty and was sentenced to serve almost 4 months in jail—agreed to repay the Department of Commerce and the Indian Health Service more than $240,000 in restitution.
- Former employees of the Upper Cumberland Development District in Tennessee, an Economic Development Administration (EDA) grantee, were indicted and await trial for substantial theft of government property, bank fraud, and an unlawful monetary transaction, as well as making false statements.

Implementing Stricter Controls over Funds

In response to hotline complaints about mismanagement of appropriated funds within National Oceanic and Atmospheric Administration's (NOAA's) National Weather Service (NWS) in 2010 and 2011, the Department conducted a review that highlighted mismanagement of budgetary resources throughout NWS, including specific instances where accounting records were manipulated and the Antideficiency Act (ADA) was violated. The Department's review, *Internal Inquiry into Alleged Mismanagement of Funds at National Weather Service* (May 11, 2012), found significant management, leadership, budget, and financial control problems at NWS. Further, the Department's independent auditor reported a material weakness in internal controls over financial reporting in FY 2012, in part because NWS circumvented budgetary controls by inappropriately moving expenses between accounts to prevent budget authority from being exceeded.

Addressing Issues Related to the Unauthorized Reprogramming of Funds

Following the release of the May 11, 2012 report, then-Deputy Secretary Rebecca Blank and then-Under Secretary of Commerce for Oceans and Atmosphere Jane Lubchenco issued separate decision memorandums on May 24, 2012. Their memorandums required a total of 20 specific actions for correcting the conditions that led to the report's findings, including audits, organizational reporting adjustments, and budget formulation and execution process changes. In a recent review of these actions, we found that the Department and NOAA have taken steps to address the findings identified in the Department's internal inquiry and completed many action items, but additional work is needed to complete several key action plan items and ensure proper stewardship of funds and compliance with laws and regulations. Continued Departmental leadership attention is essential to ensuring a culture of transparency, accountability, and effective oversight.

Modernizing the Enterprise Financial Management System to Strengthen Financial Oversight

The financial control problems at NWS highlight the Department's need to implement stricter control over funds Department-wide. A lack of centralized data systems poses reporting and oversight challenges to the Department, such as effectively reporting financial data and monitoring financial activity across its bureaus.

The Department and most of its bureaus use a financial system developed with aging technology and augmented with in-house software that is increasingly difficult to maintain. This system currently addresses core financial accounting, financial management, grants management, acquisition management, and property management. However, limitations such as high support costs and a lack of system integration and lack of centralized reporting capability impede the Department's ability to oversee and manage Department-wide financial activities.

The Department plans to replace these legacy systems—collectively known as the Commerce Business System (CBS)—with Business Application Solutions (BAS), a commercially available system, by FY 2018. While the Department has provided OIG with regular updates on the status of this modernization project, significant challenges remain:

- *The implementation timetable is aggressive.* The Department plans to implement the BAS component that handles the bulk of financial statement reporting at NOAA, the Census Bureau, and NIST—the only 3 bureaus that use CBS—in stages. Its aim is to complete NOAA by the end of FY 2015, the Census Bureau by the end of FY 2016, and NIST by the end of FY 2017. This modernization affects multiple bureaus and will involve defining new system requirements and identifying potential changes to business operations and processes across the Department.

- *The Census Bureau's successful conversion is critical to its 2020 decennial readiness.* The Census Bureau plans to implement BAS by the end of FY 2016. Any delays to this time frame could necessitate pushing back the implementation dramatically. Having a functional financial system in place prior to the 2020 decennial will be critical, as the decennial will likely monopolize available resources.

- *The Department plans to host the system with a shared-service provider instead of hosting it internally.* The existing system is currently hosted and managed internally at each of the three bureaus that utilize CBS. Following OMB's strategy for federal financial management systems, the Department plans to use the Department of Transportation Enterprise Service Center, which has been designated a "Center of Excellence" provider. As the Department moves to using this external shared-service provider, it faces the challenge of adapting to a new accounting environment within its bureaus and a modified role in responding to necessary system changes.

- *CBS modernization will result in BAS, but there will continue to be separate component systems that will require interfacing with BAS.* For example, CBS modernization will not integrate the U.S. Patent and Trademark Office and National Technical Information Service financial systems into BAS. Also, NOAA's grants management system, which will serve all bureaus, will remain a separate system—although the plan is to interface the grants management system with BAS. The current acquisition system will be replaced with a system that will be integrated into BAS.

- *The modernization requires adequate funding.* Inadequately funding the modernization project could result in implementation delays—and in the Department being forced to continue using its legacy systems for longer than anticipated. This would lead to a much longer delay at the Census Bureau—which, constrained by decennial responsibilities, would take longer to begin focusing on its migration to BAS. As a result, the Bureau would need to maintain both the new and old systems concurrently.

Strengthening Controls over High-Risk Contract Actions and Developing the Acquisition Workforce

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

Incurring Risk from the Use of High-Risk Contracts

In July 2009, the Office of Management and Budget's (OMB's) Office of Federal Procurement Policy issued contracting guidance to chief acquisition officers and senior procurement executives. The guidance—stating that time and materials/labor hour (T&M/LH) contracts, cost-reimbursement contracts, and noncompetitive contracting pose special risks of overspending (see table 6)—directed agencies to reduce by at least 10 percent the use of high-risk contracting authorities for new contract actions. For FY 2012, the Department reported that it exceeded its goals in reducing the dollar amount of high-risk contracts, and it continues to track its goal based on OMB's 2009 guidance. However, our audit results indicate that a critical challenge remains in the use of high-risk contracts such as T&M/LH contracts.

Table 6. High-Risk Contracts

Type of Contract	Definition	High-Risk Factor
T&M/LH	These contracts require contractors to provide their best effort to accomplish contract objectives up to the maximum number of hours authorized. Each hour of work authorizes a contractor to charge the government an established labor rate, which includes profit, along with reimbursement for the actual cost of materials used.	The contractor's profit is tied to the number of hours worked. As a result, these contracts pose a risk of overspending.
Cost Reimbursement	This type of contract provides for payment of allowable incurred costs, to the extent prescribed in the contract.	Under this contract type, the contractor has minimal responsibility for the performance costs. There is no incentive for the contractor to control costs.
Noncompetitive Contracts	These procurements are awarded to a single contractor without requiring any competition.	The government enters (or proposes to enter) into purchases of supplies or services after soliciting and negotiating with only one source. There is no direct market mechanism for setting the contract price.

Source: OIG

In a report issued in November 2013,[40] we reported weaknesses in the awarding and administering of T&M/LH contracts. We found that Departmental contracting officers did not award T&M/LH contract actions in accordance with the requirements of the Federal Acquisition Regulation and the Commerce Acquisition Manual. T&M/LH contracts are considered high risk because the contractor's profit is tied to the number of hours worked. We also noted that contract actions in our sample were incorrectly coded in the Federal Procurement Data System (FPDS).

The Department's challenge is to better monitor and evaluate its T&M/LH contracts through the acquisition review board and investment review board processes, which are used to manage the Department's major acquisitions of goods and services. A further challenge it faces is to improve the processes for entering accurate and complete data in FPDS. Effective implementation of the Department's measures will be crucial to ensuring that the Department properly awards, administers, and reports high-risk T&M/LH contracts.

[40] DOC OIG, November 8, 2013. *The Department's Awarding and Administering of Time-and-Materials and Labor-Hours Contracts Needs Improvements*, OIG-14-001-A. Washington, DC: OIG.

Needing a Sufficiently Staffed and Qualified Acquisition Workforce

In a March 2009 memorandum,[41] the President acknowledged that the federal government must maintain the workforce needed to carry out robust and thorough oversight of contracts to help program management achieve goals, avoid significant overcharges, and curb wasteful spending. However, the Department's acquisition workforce faces major challenges to its capacity and capability to oversee and manage contracts because of budget constraints and uncertainties affecting recruitment. Although the Department has 215 contracting officers and specialists, 15 more than projected, it could face an attrition of 70 retiring members by the end of 2014. Many of the bureau procurement officer corps consider the potential loss of approximately one-third of the workforce through attrition a catastrophic risk to their ability to support the Department's mission. To develop mid-level staff under current budget conditions, the Department needs to continue recruitment at the entry levels and seek to retain that staff at higher certification levels.

Addressing Grant Management Issues

OIG also provides oversight of the Department's management of more than 70 programs authorized to award grants or cooperative agreements. Each program has its own rules, regulations, and eligibility requirements. For the period July 1, 2010–June 30, 2013, these programs issued approximately 4,353 awards amounting to $6.5 billion. We review an average of 340 finding reports a year; of those, about 7–8 percent will have significant procedural or internal control findings.

Tightening Controls over Use of Federal Funds by Award Recipients

Grant oversight requires that recipients of awards meeting certain dollar thresholds submit either a Circular A-133 single audit report or a program-specific audit report. These types of awards pose particular oversight challenges for the Department. OIG continues to review these audit reports to identify trends in findings across bureau programs, as well as to monitor whether findings are resolved in a timely manner.

Table 7 presents averages of the single audit and program-specific audit reports that OIG reviewed during the period July 1, 2010–June 30, 2013, the number of material findings, and amounts of questioned costs and funds to be put to better use reported. We have noted a problematic indicator in the Economic Development Administration's (EDA's) revolving loan fund program, NTIA's BTOP, and the National Institute of Standards and Technology's (NIST's) Advanced Technology/Technology Innovation Program. The most common types of findings across all Departmental programs involved violations of reporting requirements (e.g., deficient, late, or unfiled reports); noncompliance with cost principles pertaining to allowable costs; inadequate preparation of financial statements; the lack of, inadequate, or deficient internal control policies concerning segregation of duties; and not following, lacking, or having deficient policies and procedures on cash management. It is important that all Departmental program and grants management offices review these findings and implement internal controls to address

[41] The White House, Office of the Press Secretary, March 4, 2009, "Memorandum for the Heads of Executive Departments and Agencies: Government Contracting."

the root causes of the findings, which may require program or grant operations changes in order to improve grant recipients' compliance with laws and regulations.

Table 7. Analysis, by Bureau, of OIG-Reviewed Single Audit Reports: Annual Average (from July 1, 2010, Through June 30, 2013)[a]

Bureau	Reports Reviewed	Reports with Material Findings[b]	Material Findings	Questioned Costs[c]	Funds Put to Better Use[d]
EDA	105	7	20	1,154	1,990
NOAA	43	4	13	2,269	0
NTIA	46	5	20	1,441	0
NIST	76	10	23	1,045	96
Other[e]	72	0	0	0	0
TOTAL	**342**	**26**	**76**	**5, 909**	**2,086**

Source: OIG

[a] The table does not include less significant procedural or internal control findings, the resolution of which OIG does not monitor; [b] *material findings* are those with questioned costs greater than or equal to $10,000 and/or significant nonfinancial findings; [c] *questioned costs*, shown here in thousands of dollars, are subject to change during the audit resolution/appeal process; [d] *funds to be put to better use*, shown here in thousands of dollars, are subject to change during the audit resolution/appeal processes; [e] *other* includes the International Trade Administration (ITA), the Minority Business Development Agency (MBDA), and *multiple*, which are single audit reviewed programs from more than one bureau.

To improve controls over award recipients' use of federal funds, bureaus need to review these single audit and program-specific audit reports and take action on the report findings.

Maintaining Focus on the Broadband Technology Opportunities Program (BTOP) Through Grant Closeouts

With approximately $3.8 billion in grant awards, BTOP—funded by the Recovery Act—represents the Department's largest grant program. As of August 31, 2013, about 20 percent of BTOP funds remain to be disbursed. As these projects near their completion dates (as of June14, 2013, only 7 of approximately 230 projects had been closed, with another 36 in the closeout process), the potential lingers for fraud, waste, and abuse associated with such large-dollar-amount awards (many of which are more than $25 million). Management must remain committed to monitoring BTOP recipient compliance with grant award terms and achievement of intended benefits. Awards for which the grantee has requested extensions to complete projects also merit close attention.

The audit closeout process—how the award recipient and the grants office ensure that project activity is complete and the award recipient has met all the requirements under applicable laws, regulations, OMB circulars, and award terms and conditions—calls for particular attention.

OIG's ongoing work indicates that the completion dates for many of the awards (112 as of September 13, 2013) have been extended and the BTOP award closeout process (a) is taking longer than expected, particularly with infrastructure projects and (b) could be improved by strengthening closeout policies and procedures and ensuring the consistent implementation of those policies and procedures in place.

Potential consequences of not strengthening the closeout process at NTIA and the grants offices (NOAA and NIST) supporting NTIA in the implementation of BTOP include an increased likelihood that grants are closed without (a) obtaining and reviewing all required closeout documentation and determining that all award activity was completed and laws and regulations were complied with or (b) ensuring that the federal government's interest in BTOP property was protected. In addition, the closeout process should help identify unused funds or funds not used in compliance with grant terms—both of which must be returned to the government. NTIA, NOAA, and NIST, in responding to our September 23, 2013, draft report, concurred with our findings and identified improvements they had taken or were in the process of taking to strengthen the closeout process.

Maintaining a Professionally Certified Grants Management Workforce

The quality and effectiveness of the grants management process depends on the development and maintenance of a qualified workforce. The Department's grants management office (GMO) and grants program office (GPO) personnel have a fiduciary responsibility to manage resources appropriately, with assurance that proposed work is feasible and has verifiable merit. However, unlike acquisitions personnel, the approximately 1,119 personnel who monitor grants and cooperative agreements do not maintain their professional education through a formal, standardized certification program.

In October 2008, the Office of Personnel Management initiated a government-wide study to identify critical competencies for grants management work. Based on this effort, the Grants Policy Committee[42] developed a set of competencies for grants personnel serving as officers, government technical representatives, and program office staff. The resulting competency model forms the foundation upon which the Department based its Grants Management Certification Program[43]—which, once implemented,[44] would establish policies and procedures for certification of GMO and GPO personnel.

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[42] The Chief Financial Officers Council, which represents the 24 largest federal agencies, established a *Grants Policy Committee* to lead implementation of Public Law 106-107. With OMB providing oversight and technical assistance, the Committee's workgroups of agency staff work to accomplish the grants streamlining required by the legislation.

[43] The *GMCP* develops and maintains a Departmental grants workforce through a formal, standardized grants education and certification program. Through the program, the grants workforce learns federal and Departmental requirements and regulations, as well as grants management best practices.

[44] The implementation of this important initiative may be delayed if bureaus do not have adequate funds for training.

Acronym List

ACS	American Community Survey
AIA	America Invents Act
BAS	Business Application Solutions
BIS	Bureau of Industry and Security
BTOP	Broadband Technology Opportunities Program
CBS	Commerce Business System
CIO	Chief Information Officer
CPEX	Census Program Evaluation and Experiments
DOC CIRT	Department of Commerce Computer Incident Response Team
ECMO	Enterprise Cybersecurity and Monitoring Operations
EDA	Economic Development Administration
ESOC	Enterprise Security Oversight Center
FirstNet	First Responder Network Authority
FMC	fishery management council
FPDS	Federal Procurement Data System
FY	fiscal year
GMO	grants management office
GOES-R	Geostationary Operational Environmental Satellite–R series
GPO	grants program office
GSS	Geographic Support System
HCHB	Herbert C. Hoover Building
IT	information technology
ITA	International Trade Administration

JPSS	Joint Polar Satellite System
MAF	Master Address File
MHz	megahertz
NASA	National Aeronautics and Space Administration
NEI	National Export Initiative
NIST	National Institute of Standards and Technology
NMFS	National Marine Fishery Service
NOAA	National Oceanic and Atmospheric Administration
NPP	National Polar-orbiting Partnership
NTIA	National Telecommunications and Information Administration
NWS	National Weather Service
OIG	Office of Inspector General
OMB	Office of Management and Budget
PSBN	Public Safety Broadband Network
R&T	research and testing
RCE	request for continued examination
T&M/LH	time and materials/labor hour
TIC	Trusted Internet Connection
TIGER	Topologically Integrated Geographic Encoding and Referencing
USPTO	U.S. Patent and Trademark Office

Appendix A: Related OIG Publications

This list presents OIG's past and current work related to FY 2014's top management challenges. These products can be viewed at www.oig.doc.gov. If the product contains information that cannot be released publicly, a redacted version or an abstract will be available on the website.

Challenge 1: Strengthen Commerce Infrastructure to Support the Nation's Economic Growth

- *USPTO Successfully Implemented Most Provisions of the America Invents Act, but Several Challenges Remain* (OIG-13-032-A, September 30, 2013)
- *U.S. Export Assistance Centers Could Improve Their Delivery of Client Services and Cost Recovery Efforts* (OIG-13-010-I, November 30, 2012)

Challenge 2: Strengthen Oversight of National Oceanic and Atmospheric Administration (NOAA) Programs to Mitigate Potential Satellite Coverage Gaps, Address Control Weaknesses in Accounting for Satellites, and Enhance Fisheries Management

- *Audit of Geostationary Operational Environmental Satellite-R Series: Comprehensive Mitigation Approaches, Strong Systems Engineering, and Cost Controls Are Needed to Reduce Risks of Coverage Gaps* (OIG-13-024-A, April 25, 2013)
- IG's Testimony on Commerce Department's FY 2014 Budget Request: Senate Appropriations Committee (OIG-13-023-T, April 11, 2013)
- Results of Commerce OIG's Online Survey of Fishery Management Council Members and Staff (OIG-13-022-I, April 5, 2013)
- Deputy IG's Testimony on Top Challenges for Science Agencies: House Science, Space, and Technology Committee (OIG-13-018-T, February 28, 2013)
- *NOAA Needs to Continue Streamlining the Rulemaking Process and Improve Transparency and Consistency in Fisheries Management* (OIG-13-011-I, January 16, 2013)

Challenge 3: Continue Enhancing Cybersecurity and Management of Information Technology Investments

- *Malware Infections on EDA's Systems Were Overstated and the Disruption of IT Operations Was Unwarranted* (OIG-13-027-A, June 26, 2013)
- *USPTO Deployed Wireless Capability with Minimal Consideration for IT Security* (OIG-13-014-A, February 1, 2013)

Challenge 4: Exercise Strong Project Management Controls over 2020 Census Planning to Contain Costs

- IG's Testimony on Top Management Challenges Facing the Department of Commerce in FY 2013: House Appropriations Committee (OIG-13-019-T, March 5, 2013)
- Letter to Senator Coburn re: Improving the 2020 Census Through Administrative Records and Geospatial Information (OIG-13-002-M, October 25, 2012)

Challenge 5: Continue to Foster a Culture of Management Accountability to Ensure Responsible Spending

- *The Department's Awarding and Administering of Time-and-Materials and Labor-Hours Contracts Needs Improvements* (OIG-14-001-A, November 8, 2013)
- *Status of Departmental Actions to Correct NWS Mismanagement of Funds* (OIG-13-029-I, September 13, 2013)
- Nonfederal Audit Results for the 6-Month Period Ending June 30, 2013 (OIG-13-030-M, September 9, 2013)
- *Monitoring of Obligation Balances Needs Strengthening* (OIG-13-026-A, June 18, 2013)
- *Internal Controls for Purchase Card Transactions Need to Be Strengthened* (OIG-13-025-A, May 2, 2013)
- *FY 2012 Compliance with Improper Payment Requirements* (OIG-13-020-I, March 15, 2013)
- Principal Asst. IG's Testimony on Broadband Stimulus: House Energy and Commerce Committee (OIG-13-017-T, February 27, 2013)
- *Fourth Annual Assessment of the PSIC Grant Program* (OIG-13-016-A, February 22, 2013)
- Nonfederal Audit Results for the 6-Month Period Ending December 31, 2012 (OIG-13-015-M, February 11, 2013)
- *Proper Classification and Strengthened Monitoring of Subrecipients Are Needed for the Broadband Technology Opportunities Program* (OIG-13-013-A, January 31, 2013)
- Letter to Chairmen Walden and Shimkus in response to their request to review the National Telecommunications and Information Administration's (NTIA's) Broadband Technology Opportunities Program (BTOP) grant awarded to the Executive Office of the State of West Virginia (OIG-13-012-I, January 23, 2013)
- *Quarterly Conference Reporting Processes Need Improvement* (OIG-13-001-I, October 17, 2012)

Appendix B: Comparison Between FY 2013 and FY 2014 Challenges

FY 2014	FY 2013
Strengthen Commerce infrastructure to support the nation's economic growth: • *Promoting U.S. exports while protecting national security interests* • *Enhancing economic growth through intellectual property and wireless initiatives*	Stimulate economic growth in key industries, increase exports, and enhance stewardship of marine fisheries: • *Growth in manufacturing, intellectual property, and wireless industries* • *Export promotion and regulation* • *Protection and promotion of marine fisheries*
Strengthen oversight of National Oceanic and Atmospheric Administration (NOAA) programs to mitigate satellite coverage gaps, address control weaknesses in accounting for satellites, and enhance fisheries management: • *Enhancing weather satellite development and mitigating potential coverage gaps* • *Addressing material weakness over satellite accounting* • *Enhancing fisheries management*	Increase oversight of resources entrusted by the public and invest for long-term benefits: • *Internal controls and oversight* • *Investment for long-term benefits* • *Design changes to contain 2020 decennial costs*
Continue enhancing cybersecurity and management of information technology (IT) investments: • *Establishing a robust capability to respond to cyber incidents* • *Continuing sustainable implementation of enterprise cybersecurity initiatives* • *Preserving the CIO's oversight responsibility of satellite-related IT investments* • *Continuing vigilant oversight of IT investments* • *Maintaining momentum in consolidating commodity IT to cut costs*	Strengthen security and investments in IT: • *Addressing persistent IT security weaknesses* • *Incident response and recovery capabilities* • *IT governance for portfolio management* • *Oversight of IT investments*
Exercise strong project management controls over 2020 Census planning to contain costs: • *Ensuring timely design decision making* • *Focusing on human capital management, timely research, and testing implementation*	Implement framework for acquisition project management and improve contract oversight: • *Planned framework for acquisition management* • *Oversight of high-risk contracts* • *Acquisition workforce maintenance* • *Implementation of suspension and debarment program*
Continue to foster a culture of management accountability to ensure responsible spending: • *Responding to concerns of mismanagement and ethical violations* • *Implementing stricter controls over funds* • *Modernizing the enterprise financial management system to strengthen financial oversight* • *Strengthening controls over high-risk contract actions and developing the acquisition workforce* • *Addressing grant management issues*	Reduce risks of cost overruns, schedule delays, and coverage gaps for NOAA's satellite programs: • *JPSS capabilities, schedule, and costs* • *Leadership and governance structure over JPSS* • *Weather forecasting during JPSS coverage gaps* • *Risks associated with GOES-R development*

UNITED STATES DEPARTMENT OF COMMERCE
The Secretary of Commerce
Washington, D.C. 20230

MEMORANDUM FOR: Todd J. Zinzer
Inspector General

FROM: Penny Pritzker
Secretary of Commerce

SUBJECT: Response to the OIG Report, "Top Management Challenges Facing the Department of Commerce" in FY2014

Thank you for the opportunity to review the Office of Inspector General's report, "Top Management Challenges Facing the Department of Commerce." Every day the Department's bureaus work with American businesses, communities, and private citizens to spur innovation, promote trade and investment, foster use of data, and ensure production of critical environmental products and services – and we want to do so in the most effective and efficient way possible.

We are aware that we have challenges in the areas discussed in your report, and we realize that these areas require continued oversight, planning, and work. To that end, I have directed Ellen Herbst, our CFO and ASA, to focus on improving our oversight processes and internal controls at both the bureau and Department levels. Such oversight is critical to the success of our mission.

We look forward to working with you to address the challenges identified in this year's OIG report, and we will document our progress in our Agency Financial Report for FY 2014.

IMPROPER PAYMENTS INFORMATION ACT (IPIA) OF 2002, AS AMENDED, REPORTING DETAILS

IPIA of 2002, as amended by the Improper Payments Elimination and Recovery Act (IPERA) of 2010 and the Improper Payments Elimination and Recovery Improvement Act of 2012, requires agencies to periodically review all programs and activities and identify those that may be susceptible to significant improper payments, take multiple actions when programs and activities are identified as susceptible to significant improper payments, and annually report information on their improper payments monitoring and minimization efforts. Office of Management and Budget (OMB) Circular A-123, Appendix C, *Requirements for Effective Measurement and Remediation of Improper Payments*, provides guidance to agencies to comply with IPIA, as amended, and for agency improper payments efforts. The Department has not identified any programs or activities susceptible to significant improper payments nor any significant problems with improper payments.

On January 29, 2013, the President signed into law the Disaster Relief Appropriations Act (Act), which provides a total of $50.5 billion in aid for Hurricane Sandy disaster victims and their communities. The National Oceanic and Atmospheric Administration (NOAA) received $326 million of funds under the Act for Hurricane Sandy recovery and other disaster-related activities. Pursuant to OMB Memorandum M-13-07, *Accountability for Funds Provided by the Disaster Relief Appropriations Act*, the Department in March 2013 submitted its final plan for accountability, internal controls, and other requirements, for funds provided to NOAA by the Act. The Act sets forth that programs and activities receiving funds under the Act shall be deemed to be susceptible to significant improper payments for the purposes of requirements under IPIA of 2002, as amended, and are required to calculate and report an improper payments estimate for the FY 2014 reporting period, to the extent possible. The Department will develop and submit to OMB for its approval a sampling methodology plan for funds received under the Act by NOAA, which, when carried out, will result in a NOAA improper payments estimate that will be reported for the FY 2014 reporting period.

The Department recognizes the importance of maintaining adequate internal controls to ensure proper payments, and the Department's commitment to continuous improvement in the overall disbursement management process remains very strong. Each of the Department's payment offices has implemented procedures to detect and prevent improper payments. For FY 2014 and beyond, the Department will continue its efforts to ensure the integrity of its disbursements.

I. Risk Assessment. Briefly describe the risk assessment(s) performed (including the risk factors examined, if appropriate) subsequent to completing a full program inventory. List the risk-susceptible programs (i.e., programs that have a significant risk of improper payments based on statutory thresholds) identified by the agency risk assessments or required by OMB to be included (OMB may determine, on a case-by-case basis, that certain programs that do not meet the thresholds requirements may still be subject to the annual reporting requirements). Any programs that had been previously identified in the former Section 57 of OMB Circular A-11, P*reparation, Submission, and Execution of the Budget*, shall continue to report improper payment estimates, unless OMB has granted relief from reporting requirements (as discussed in OMB Circular A-123, Appendix C). Highlight any changes to the risk assessment methodology or results that occurred since the last report.

The Department annually conducts an assessment of the effectiveness of internal control over financial reporting, in compliance with OMB Circular A-123, *Management's Responsibility for Internal Control.* Furthermore, every three years, the assessment includes a review of internal controls over disbursement processes. The most recent review performed indicated that internal controls over disbursement processes were sound.

Each of the Department's bureaus/reporting entities periodically completes or updates, over a one to three-year period (depending on the size of the entity), improper payments risk assessments covering all of its programs/activities as required by OMB Circular A-123, Appendix C. These improper payments risk assessments of the entity's programs/activities also include assessments of the control, procurement, and grants management environments. The improper payments program/activity risk assessments performed thus far revealed no program or activity susceptible to significant improper payments.

The results of Departmental assessments revealed no risk-susceptible programs/activities, and demonstrated that, overall, the Department has strong internal controls over disbursement processes, the amount of improper payments by the Department is immaterial, and the risk of significant improper payments is low.

II. Statistical Sampling. Any agency that has programs or activities that are susceptible to significant improper payments shall briefly describe the statistical sampling process conducted to estimate the improper payment rate for each program identified with a significant risk of improper payments. Please highlight any changes to the statistical sampling process that have occurred since the last report.

As discussed previously, the Department will develop and submit to OMB for its approval a sampling methodology plan for funds received by NOAA under the Disaster Relief Appropriations Act, which, when carried out, will result in a NOAA improper payment estimate that will be reported for the FY 2014 reporting period.

III. Corrective Actions. Any agency that has programs or activities that are susceptible to significant improper payments shall describe the corrective action plans for:

a. **Reducing the estimated improper payment rate and amount for each type of root cause identified. Agencies shall report root cause information (including error rate and error amount) based on the following three categories: Administrative and Documentation errors; Authentication and Medical Necessity errors; and Verification errors. This discussion must include the corrective action(s), planned or taken, most likely to significantly reduce future improper payments due to each type of error an agency identifies, the planned or actual completion date of these actions, and the results of the actions taken to address these root causes. If efforts are ongoing, it is appropriate to include that information in this section, and to highlight current efforts, including key milestones. Agencies may also report root cause information based on additional categories, or sub-categories of the three categories listed above, if available.**

b. **Grant-making agencies with risk-susceptible grant programs shall briefly discuss what the agency has accomplished in the area of funds stewardship past the primary recipient. Discussion shall include the status of projects and results of any reviews.**

There is not a need for corrective actions plans, as of December 2013, for funds received by NOAA under the Disaster Relief Appropriations Act. While the Department does not have a current need for corrective actions for improper payments for risk-susceptible programs/activities, the Department has, nevertheless, further enhanced its processes and is actively working with each of the Department's payment offices to identify and implement additional procedures to prevent and detect improper payments. In FY 2013, the Department continued with the bureaus' quarterly reporting of any improper payments to the Deputy Chief Financial Officer (CFO), along with identifying the nature and magnitude of any improper payments and identifying any necessary control enhancements. The Department has additionally reviewed all financial statement audit findings/comments and results of any other payment reviews for indications of breaches of disbursement controls. None of these audit findings/comments or reviews have uncovered any significant problems with improper payments or the internal controls that surround disbursements.

In 2013, the Department conducted a sampling process to draw and review random samples of disbursements from a Department-wide universe of disbursements. Grants and other cooperative agreements, travel payments, bankcards/purchase cards, all procurement vehicles with other federal agencies, government bills of lading, and gifts and bequests were excluded from review. Each selected sample item was then subjected to a review of invoices and supporting documentation to determine that the disbursement was accurate, made only once, and that the correct vendor was compensated. The results of the Department's review did not reveal any improper payments. The same results were achieved following a similar review in 2012.

IV. Recapture of Improper Payments Reporting.

a. **An agency shall discuss payment recapture audit efforts, if applicable. The discussion should describe: the agency's payment recapture audit program; the actions and methods used by the agency to recoup overpayments; a justification of any overpayments that have been determined not to be collectable; and any conditions giving rise to improper payments and how those conditions are being resolved (e.g., the business process changes and internal controls instituted and/or strengthened to prevent further occurrences). If the agency has excluded any programs or activities from review under its payment recapture auditing program (including any programs or activities where the agency has determined a payment recapture audit program is not cost-effective), the agency should list those programs and activities excluded from the review, as well as and the justification for doing so (i.e., a discussion of the analysis conducted to determine that a payment recapture audit program would not be cost-effective). Include in your discussion the dollar amount of cumulative payment recaptures collected beginning with FY 2004.**

In conformity with IPIA of 2002, the Department has been performing, since 2005, payment recapture audits of closed contracts/obligations for many of the Department's bureaus/reporting entities on a rotational basis. The payment recapture audits were performed by a contractor or by the Department's Office of Financial Management. Payment recapture audits of contracts/obligations on a rotational basis will continue to be performed. Since 2005, cumulative recapture of improper payments is $96 thousand. Effective FY 2012, the scope of payment recapture audits of contracts/obligations has been expanded to additionally include contracts/obligations for which the period of performance ended and last payment was made, but for which the closeout process has not yet been completed.

As a result of the Department's implementation of additional requirements under IPERA of 2010, payment recapture auditing is additionally performed, effective FY 2011, for the Department's grants and other cooperative agreements (i.e., financial assistance). Per OMB's IPERA implementation guidance, intragovernmental transactions and payments to employees are not required to be reviewed. With regard to loan disbursements, NOAA is currently the only bureau with loan disbursements. As part of NOAA's internally-conducted reviews and testing processes, NOAA loan disbursements are significantly tested every three years for both internal controls and improper payments, and the disbursements testing for improper payments is considered to be essentially equivalent to a payment recapture audit. With regard to the NOAA Corps Retirement System and the NOAA Corps Health Benefits benefit programs, these programs are cross-serviced for disbursements by the Department of Defense, and therefore are not subject to payment recapture auditing by the Department.

For payment recapture audits of contracts/obligations and grants and other cooperative agreements, the auditor analyzes the reasons why any payment errors occurred, and develops, presents, and documents any recommendations for cost-effective controls to prevent improper payments in the future; and for enhancing the applicable bureau processes.

In November 2012, payment recapture audits of contracts/obligations were completed by an independent contractor for the Census Bureau and the Franchise Fund. Contracts/obligations greater than $100 thousand, which were closed out, or for which the period of performance ended and last payment was made but for which the closeout process has not yet been completed, after September 30, 2009 and through April 30, 2012, were reviewed. Intragovernmental transactions and payments to employees were excluded from review in conformity with OMB's IPERA implementation guidance. Travel payments, bankcards/purchase cards, government bills of lading, and gifts and bequests were also excluded from review. The Department determined that, for these categories of transactions, the Department's costs for the payment recapture audit activities would likely exceed the benefits of a payment recapture audit. As part of the payment recapture audit, vendor inquiries were performed for a sample of vendors to determine if the reporting entities had any open credits or debts with those vendors. Of the $277.8 million reviewed, no amounts were identified for payment recapture.

In December 2013, payment recapture audits of contracts/obligations were completed by an independent contractor for the National Institute of Standards and Technology (NIST) and NOAA. Contracts/obligations greater than $100 thousand, which were closed out, or for which the period of performance ended and last payment was made but for which the closeout process has not yet been completed, after April 30, 2012 and through March 31, 2013, were reviewed. Intragovernmental transactions and payments to employees were excluded from review in conformity with OMB's IPERA implementation guidance. Travel payments, bankcards/purchase cards, government bills of lading, and gifts and bequests were also excluded from review. The Department determined that, for these categories of transactions, the Department's costs for the payment recapture audit activities would likely exceed the benefits of a payment recapture audit. As part of the payment recapture audit, vendor inquiries were performed for a sample of vendors to determine if the reporting entities had any open credits or debts with those vendors. Of the $48.5 million reviewed, $91 thousand was identified for payment recapture.

In December 2013, a payment recapture audit of Department-wide grants and other cooperative agreements was completed by an independent contractor. The applicable bureaus/entities are: Departmental Management, Economic Development Agency (EDA), International Trade Administration (ITA), Minority Business Development Administration (MBDA), NIST, NOAA, and National Telecommunications and Information Administration (NTIA). The audit consisted of two different populations: 1) sustained disallowed costs of $10 thousand or more for grants and other cooperative agreements per Single Audit Act audit reports, grant/cooperative agreement-specific audits, and Office of Inspector General (OIG) audits or reviews, issued between May 1, 2012 and through March 31, 2013; and 2) grants and other cooperative agreements for which the period of performance expired during the timeframe of February 1, 2012 through December 31, 2012, and greater than $100 thousand, and which were not subjected to any of the types of audits or reviews indicated in item 1) above. Of the $429.0 million reviewed, no amounts were identified for payment recapture.

b. Payment Recapture Audits Reporting Data.

The following table presents a summary of results of the Department's payment recapture audits that are reportable in FY 2013 (CY) and that was reportable in prior fiscal years (PYs).

(In Thousands)

Reporting Entity(s)	Amount Subject to Review for CY Reporting	Actual Amount Reviewed for CY Reporting	Amounts Identified for Payment Recapture for CY Reporting	Amounts Recaptured for CY Reporting	Amounts Identified for Recapture in PYs Reporting	Amounts Recaptured in PYs Reporting	Cumulative Amounts Identified for Recapture (CY and PYs Reporting)	Cumulative Amounts Recaptured (CY and PYs Reporting)
Payment Recapture Audits of Department-wide Grants and Other Cooperative Agreements:								
Department-wide 2013 Audit	$ 1,247,808	$428,954	$ –	N/A	N/A	N/A	N/A	N/A
Department-wide 2012 and 2011 Audits	N/A	N/A	N/A	N/A	$ –	N/A	$ –	N/A
Payment Recapture Audits of Contracts/Obligations:								
NIST and NOAA	$ 812,215	$48,525	$ 57	$ –	N/A	N/A	$ 57	$ –
Census Bureau and Franchise Fund	$1,805,658	$277,825	$ –	N/A	N/A	N/A	N/A	N/A
OIG, MBDA, and USPTO	N/A	N/A	N/A	N/A	$ –	N/A	$ –	N/A
NTIA	N/A	N/A	N/A	N/A	$ –	N/A	$ –	N/A
BIS and NTIS	N/A	N/A	N/A	N/A	$ 6	N/A	$ 6	N/A
EDA/S&E and ITA	N/A	N/A	N/A	N/A	$ –	N/A	$ –	N/A
DM/S&E, DM/WCF, and ESA/BEA	N/A	N/A	N/A	N/A	$ –	N/A	$ –	N/A
Census Bureau, NIST, NOAA, and USPTO	N/A	N/A	N/A	N/A	$ 96	$ 96	$ 96	$ 96

N/A – Not applicable

c. Payment Recapture Audit Targets. If an agency has a payment recapture audit program in place, then the agency is required to establish annual targets to drive their annual performance. The targets shall be based on the rate of recapture. Agencies are expected to report current fiscal year amounts and rates, as well as recapture rate targets for three fiscal years.

The Department's target payment recapture rate is 100 percent of amounts identified for recapture. Since 2005, the Department has recaptured $96 thousand of the $102 thousand identified for payment recapture in prior fiscal years' reporting, and the remaining $6 thousand identified for payment recapture was subsequently determined by the Department to be proper payments not subject to payment recapture.

d. Aging of Outstanding Overpayments. In addition, agencies shall report the following information on their payment recapture audit programs, if applicable: An aging schedule of the amount of overpayments identified through the payment recapture audit program that are outstanding (i.e., overpayments that have been identified but not recaptured). Typically, the aging of an overpayment begins at the time the overpayment is detected—please indicate with a note whenever that is not the case.

The Department has recaptured all amounts that were subject to payment recapture in prior fiscal years' reporting.

e. Disposition of Recaptured Funds. A summary of how cumulative amounts recaptured have been disposed of
(if any of this information is not available indicate by note).

There has not yet been any recapture of overpayments that fall under the new IPERA requirements for disposition of recaptured funds.

f. Overpayments Recaptured Outside of Payment Recapture Audits. As applicable, agencies should also report on improper payments identified and recaptured through sources other than payment recapture audits. For example, agencies could report on improper payments identified through: statistical samples conducted under IPIA; agency post-payment reviews or audits; OIG reviews; Single Audit reports; self-reported overpayments; or reports from the public. Specific information on additional required reporting for contracts is included in Section 7 of OMB Memorandum M-11-04, *Increasing Efforts to Recapture Improper Payments by Intensifying and Expanding Payment Recapture Audits*, issued in November 2010. Reporting this information is required for FY 2011 reporting and beyond.

The Department has extensive improper payments monitoring and minimization efforts in place beyond payment recapture audits, including the identification of improper payments through bureau post-payment reviews, OIG audits or reviews, Single Audit Act audits of grants/cooperative agreements, other grants/cooperative agreements audits, contract closeout reviews, grants/cooperative agreements closeout reviews, other audits or reviews, and Departmental annual reviews of sample disbursements.

The following table summarizes the Department's overpayments identified, and overpayments verified as recaptured, through sources other than payment recapture audits that are reportable in the current fiscal year (CY) and that was reported in prior fiscal years (PYs). Prior fiscal years' amounts represent amounts reported for FY 2011 and FY 2012, as FY 2011 was the first fiscal year for this reporting requirement.

(In Thousands)

Source of Overpayments	Amounts Identified for CY Reporting	Amounts Recaptured for CY Reporting	Amounts Identified in PYs Reporting	Amounts Recaptured in PYs Reporting	Cumulative Amounts Identified (CY and PYs Reporting)	Cumulative Amounts Recaptured (CY and PYs Reporting)
Post-payment Reviews	$ 1,657	$ 1,423	$ 2,516	$ 2,251	$ 4,173	$ 3,674
Closeout Reviews	–	–	611	611	611	611
Audits and Other Reviews	5,836	1,930	141	141	5,977	2,071
Reported by Grantees and Vendors	1,219	1,217	742	742	1,961	1,959
Settlements with Vendors	440	427	600	600	1,040	1,027
Other	3	–	100	100	103	100
Total	**$ 9,155**	**$ 4,997**	**$ 4,710**	**$ 4,445**	**$ 13,865**	**$ 9,442**

V. Accountability. Any agency that has programs or activities that are susceptible to significant improper payments shall describe the steps the agency has taken and plans to take (including timeline) to ensure that agency managers, accountable officers (including the agency head), programs, and States and localities (where appropriate), are held accountable for reducing and recapturing improper payments. Specifically, they should be held accountable for meeting applicable improper payments reduction targets and establishing and maintaining sufficient internal controls (including an appropriate control environment) that effectively prevents improper payments from being made and promptly detects and recaptures any improper payments that are made.

The Department has not identified any significant problems with improper payments; however, the Department recognizes the importance of maintaining adequate internal controls to ensure proper payments, and its commitment to continuous improvement in disbursement management processes remains very strong. The Department's CFO has responsibility for establishing policies and procedures for assessing Departmental and program risks of improper payments, taking actions to reduce those payments, and reporting the results of the actions to Departmental management for oversight and other actions as deemed appropriate. The CFO has designated the Deputy CFO to oversee initiatives related to reducing improper payments within the Department, and to work closely with the bureau CFOs in this area.

In FY 2013, the Department continued its reporting procedures that required quarterly reporting to the Department by its bureaus on any improper payments, identifying the nature and magnitude of any improper payments along with any necessary control enhancements to prevent further occurrences of the types of improper payments identified. The Department's analysis of the data collected from the bureaus shows that Department-wide improper payments were at or below one-tenth of one percent in FY 2013 and FY 2012. The bureau CFOs are accountable for internal controls over improper payments, and for monitoring and minimizing improper payments.

For FY 2014 and beyond, the Department will continue its efforts to ensure the integrity of its disbursements.

VI. Agency Information Systems and Other Infrastructure.

a. Describe whether the agency has the internal controls, human capital, and information systems and other infrastructure it needs to reduce improper payments to the levels the agency has targeted.

b. If the agency does not have such internal controls, human capital, and information systems and other infrastructure, describe the resources the agency requested in its most recent budget submission to Congress to establish and maintain the necessary internal controls, human capital, and information systems and other infrastructure.

The Department has ensured that internal controls, manual as well as financial systems, relating to payments are in place throughout the Department, and has reviewed all financial statement audit findings/comments and results of any other payment reviews for indications of breaches of disbursement controls. None of these audit findings/comments or reviews have uncovered any significant problems with improper payments or the internal controls that surround disbursements.

VII. Barriers. Describe any statutory or regulatory barriers which may limit agency corrective actions in reducing improper payments and actions taken by the agency to mitigate the barriers' effects.

The Department has not identified any significant barriers that limit actions to reduce improper payments.

VIII. Additional Comments. Discuss any additional comments on overall agency efforts, specific programs, best practices, or common challenges identified, as a result of IPIA implementation.

The Department's Disbursement Best Practices. The following are some examples of internal control procedures used by the Department's payment offices:

- Limited/controlled access to vendor files—access to basic vendor information (e.g., name, address, business size, etc.) is available to financial system users; access to banking information, however, is strictly limited by system security to certain Office of Finance staff.
- Controlled access to financial system accounts payable screens—authority to create, edit, approve, process, and amend payment records is limited to certain Office of Finance financial system users. Also, authority to add or revise records in the vendor database is limited to separate Office of Finance system users.
- Segregation of duties for financial system data entry and review prior to transmitting disbursement files to Treasury—data entry duties are assigned to technicians in the Office of Finance who do not have authority to review and process payments. Authority to approve and process payments is assigned to accountants in the Office of Finance. Both data entry and approval/processing of payments are separate functions from transmitting disbursement files to Treasury.
- Financial system edit reports highlight potential items that may result in improper payments (e.g., invoice amount and accrual amount are not the same). There is a daily Invoice Workload Report that displays open amounts (not closed by a payment) on all invoices. This report is reviewed and action is taken to resolve partially open invoices. Furthermore, system settings prevent a payment in excess of the amount of the invoice.

- Daily pre-payment audit of invoices for accuracy, and corrective actions prior to disbursement, are in place, thereby preventing improper payments from occurring.
- Financial system edit checks if the vendor's name on the payment does not agree with that on the obligation, or if the payment amount is greater than the obligation or accrual amount.
- The monthly vendor statement for purchase cards is interfaced into the financial system, thereby reducing data entry error.
- An accountant or supervisor reviews individual payments before releasing for payment to help ensure that the correct banking information or payment addresses are used, and that the correct amount will be paid.
- Monthly post-payment random sample audits are performed for detection purposes.
- Contracts include a clause requiring the contractor to notify the contracting officer if the government overpays when making an invoice payment or a contract financing payment.

SUMMARY OF FINANCIAL STATEMENT AUDIT AND MANAGEMENT ASSURANCES

Presented below is a summary of financial statement audit and management assurances for FY 2013. Table 1 relates to the Department's FY 2013 financial statement audit, which resulted in an unqualified opinion with one material weakness. Table 2 presents the number of material weaknesses reported by the Department under Section 2 of the Federal Managers' Financial Integrity Act (FMFIA)—either with regard to internal controls over operations or financial reporting, and Section 4, which relates to internal controls over financial management systems; as well as the Department's compliance with the Federal Financial Management Improvement Act (FFMIA).

Table 1. Summary of Financial Statement Audit

- **Audit Opinion:** Unqualified
- **Restatement:** No

Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Ending Balance
NOAA Financial Management Oversight	1	0	1	0	0
Total Material Weaknesses	1	0	1	0	0

Table 2. Summary of Management Assurances

EFFECTIVENESS OF INTERNAL CONTROL OVER FINANCIAL REPORTING (FMFIA § 2)						
Statement of Assurance:	Unqualified					
Material Weaknesses	**Beginning Balance**	**New**	**Resolved**	**Consolidated**	**Reassessed**	**Ending Balance**
NOAA Financial Management Oversight	1	0	1	0	0	0
Total Material Weaknesses	1	0	1	0	0	0
EFFECTIVENESS OF INTERNAL CONTROL OVER OPERATIONS (FMFIA § 2)						
Statement of Assurance:	Unqualified					
Material Weaknesses	**Beginning Balance**	**New**	**Resolved**	**Consolidated**	**Reassessed**	**Ending Balance**
Total Material Weaknesses	0	0	0	0	0	0
CONFORMANCE WITH FINANCIAL MANAGEMENT SYSTEM REQUIREMENTS (FMFIA § 4)						
Statement of Assurance:	Systems conform with financial management system requirements					
Non-Conformances	**Beginning Balance**	**New**	**Resolved**	**Consolidated**	**Reassessed**	**Ending Balance**
Total Non-Conformances	0	0	0	0	0	0

COMPLIANCE WITH FFMIA		
	Agency	**Auditor**
1. System Requirements	No noncompliance noted	No noncompliance noted
2. Accounting Standards	No noncompliance noted	No noncompliance noted
3. U.S. Standard General Ledger at Transaction Level	No noncompliance noted	No noncompliance noted

GLOSSARY OF KEY ACRONYMS

Abbreviation	Title
A	
AFR	Agency Financial Report
APG	Agency Priority Goals
APR	Annual Performance Report
ARRA	American Recovery and Reinvestment Act of 2009
ASAP	Automated Standard Application for Payments
B	
BAS	Business Application Solutions Project
BEA	Bureau of Economic Analysis
BIS	Bureau of Industry and Security
BTOP	Broadband Technology Opportunities Program
C	
CAS	Condition Assessment Survey
CBS	Commerce Business Systems
CCR-SAM	Central Contractor Registration – System for Award Management
CEIP	Coastal Energy Impact Program (a NOAA direct loan program)
CFO	Chief Financial Officer
CFO/ASA	Chief Financial Officer and Assistant Secretary for Administration (DM)
CITRB	Commerce Information Technology Review Board
CLC	Commerce Learning Center
CPI	Consumer Price Index
CSRS	Civil Service Retirement System
CSTARS	Commerce Standard Acquisition and Reporting System
D	
DASHER	Department's Executive Dashboard Application
DM	Departmental Management
DOL	U.S. Department of Labor
DOT	U.S. Department of Transportation
E	
ECMO	Enterprise Cybersecurity Monitoring and Operations
EDA	Economic Development Administratio
ELGP	Emergency Steel Loan Guarantee Program
ERM	Enterprise Risk Management
ESA	Economics and Statistics Administration
ESC	Enterprise Services Center (DOT)
ESOC	Enterprise Security Oversight Center
F	
FAR	Federal Acquisition Regulation
FCC	Federal Communications Commission
FCCS	Federal Claims Collection Standards
FECA	Federal Employees Compensation Act
FEGLI	Federal Employees Group Life Insurance Program
FEHB	Federal Employees Health Benefit Program
FERS	Federal Employees Retirement System
FFMIA	Federal Financial Management Improvement Act of 1996
FMFIA	Federal Managers' Financial Integrity Act of 1982
FTR	Federal Travel Regulation
FVOG	Fishing Vessel Obligation Guarantee Program (a NOAA loan guarantee program)
FWC	Future Workers' Compensation
FY	Fiscal year ended September 30
G	
G&B	Gifts and Bequests (a fund that is part of DM)
GAAP	Generally Accepted Accounting Principles
GPRA	Government Performance and Results Act of 1993

Abbreviation	Title
GSA	U.S. General Services Administration
GTAS	Government-wide Treasury Account Symbol Adjusted Trial Balance System (Treasury)
H	
HCHB	Herbert C. Hoover Building Renovation Project (a reporting entity included in the financial statements)
HR	Human Resource
I	
IFQ	Individual Fishing Quota Direct Loans (a NOAA direct loan program)
IPIA	Improper Payments Information Act of 2002
IT	Information Technology
ITA	International Trade Administration
J	
JPSS	Joint Polar Satellite System (NOAA)
M	
MBDA	Minority Business Development Agency
MD&A	Management's Discussion and Analysis
N	
NASA	National Aeronautics and Space Administration
NBS	National Bureau of Standards (former name of NIST)
NEFSC	Northeast Fisheries Science Center (NOAA)
NERR	National Estuarine Research Reserve
NIST	National Institute of Standards and Technology
NMFS	National Marine Fisheries Service (NOAA)
NOAA	National Oceanic and Atmospheric Administration
NPOESS	National Polar-orbiting Environmental Satellite System (NOAA)
NPP	NPOESS Preparatory Project (NOAA)
NTIA	National Telecommunications and Information Administration
NTIS	National Technical Information Service

Abbreviation	Title
NWHI	Northwestern Hawaiian Islands
O	
O&M	Operations and Maintenance
OAM	Office of Acquisition Management (DM)
OCIO	Office of the Chief Information Officer (DM)
OFM	Office of Financial Management (DM)
OGC	Office of General Counsel (DM)
OHRM	Office of Human Resources Management (DM)
OIG	Office of Inspector General (DM)
OMB	Office of Management and Budget
OPM	U.S. Office of Personnel Management
P	
PAM	Payment Application Modernization (Treasury)
PP&E	Property, Plant, and Equipment, Net
PII	Personally Identifiable Information
R	
R&D	Research and Development
S	
S&E	Salaries and Expenses (a fund that is part of DM)
SBR	Combined Statements of Budgetary Resources
SCNP	Consolidated Statements of Changes in Net Position
SFFAS	Statement of Federal Financial Accounting Standards
T	
Treasury	U.S. Department of the Treasury
TROR	Treasury Report on Receivables
TSP	Thrift Savings Plan
U	
USPTO	U.S. Patent and Trademark Office
W	
WCF	Working Capital Fund (a fund that is part of DM)

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