U.S. DEPARTMENT OF COMMERCE

FY 2005 PERFORMANCE & ACCOUNTABILITY REPORT

AMERICAN JOBS,

AMERICAN VALUES

The Department at a Glance

History and Enabling Legislation

The Department of Commerce is one of the oldest cabinet-level departments in the United States Government. Originally established by Congressional Act on February 14, 1903 as the Department of Commerce and Labor (32 Stat. 826; 5 U.S.C. 591), it was subsequently renamed the U. S. Department of Commerce by President William H. Taft on March 4, 1913 (15 U.S.C. Section 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.

Bureaus

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

Strategic Goals

Goal 1: Provide the information and tools to maximize U.S. competitiveness and enable economic growth for American industries, workers, and consumers.

Goal 2: Foster science and technological leadership by protecting intellectual property, enhancing technical standards, and advancing measurement science.

Goal 3: Observe, protect, and manage the Earth's resources to promote environmental stewardship.

Management Integration Goal: Achieve organizational and management 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

The Department is an agency with approximately 34,000 employees.

Financial Resources

The Department's FY 2004 budget was approximately $5.8 billion and its FY 2005 budget is about $6.3 billion.

Internet

The Department's Internet address is www.doc.gov.

U.S. DEPARTMENT OF COMMERCE

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AMERICAN JOBS, AMERICAN VALUES

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Statement from the Secretary

I am pleased to present the Department of Commerce's FY 2005 Performance and Accountability Report. The report describes the Department's goals and the methods we use to measure our progress in meeting them. It also provides program data and information about financial performance.

The data and details that we provide in this report tell a story of the commitment of the Department's employees to accomplishing our strategic goals of enabling economic growth, fostering U.S. leadership in science and technology, and promoting environmental stewardship. These goals shape our priorities and inspire our achievements.

One of the greatest concerns for Americans over the past year was the devastation caused by major hurricanes. We are proud of our efforts to respond to the enormous human and environmental needs of affected citizens. We established a call center to help private sector contributions to reach those in need, and, beginning the day after Hurricane Katrina made landfall, conducted aerial photography flights that produced thousands of aerial images to support national security and emergency response requirements. We are restoring fisheries, assessing damage to major fishing ports and seafood processing facilities, assisting fishing communities' recovery efforts, re-mapping ports to enable resumption of shipping and commerce, and extending economic development recovery grants. We created the Hurricane Contracting Information Center to help U.S. businesses, especially minority, women, and small businesses, to participate in rebuilding. We will continue to support recovery efforts in the months and years ahead.

Facilitating Economic Growth and Maximizing U.S. Competitiveness

In FY 2005, we met many objectives that promote U.S. interests and keep American business affairs on course. Because free and fair trade is a two-way street, the Department has taken aggressive action to remove barriers for American exporters and has negotiated many solutions to unfair trade practices. Our efforts have opened Korea's closed telecommunications and wireless market, relaxed India's import certification requirements on American textiles, removed Mexico's barriers to U.S. auto parts, and, in the Dominican Republic, settled patent disputes and won commitments to fight piracy and counterfeiting.

The approval of the U.S.-Central America Free Trade Agreement (CAFTA) represents an achievement that will eliminate barriers to U.S. products and greatly improve U.S. competitiveness in Costa Rica, El Salvador, Guatemala, Honduras, and Nicaragua. Access to these markets will create many new opportunities for American businesses, and the agreement sends a strong signal to our trading partners that the United States continues to be a vigorous leader for free trade. Markets opened by CAFTA will help these Central American countries to attract the trade and investment needed for greater economic growth.

Domestically, we assisted economically distressed communities by promoting a favorable business environment through investments in public infrastructure and technology which, in turn, attract private capital investment and new jobs. For example, an FY 2005 Commerce investment in a South Carolina technical college will provide training for workers in robotics, computer technology, and other manufacturing techniques necessary to sustain competitiveness in the global marketplace. As a result, 26 employers have committed to creating 764 new jobs, saving 417 existing jobs, and generating over $317 million in private investment.

Not only did we take direct action to improve the nation's economic situation, we also improved the economic information used as a basis for important decisions by business leaders, policymakers, and the American public. One of the most important gains in FY 2005 was incorporating quarterly services data into the gross domestic product. By using quarterly information on some of the Nation's largest and most volatile industries, we provided users with more accurate early estimates on which to base decisions. We also met the demands of users for more timely statistics by accelerating the release of local area industry data by four months, prototype gross state product estimates by 12 months, and summary estimates on the operations of multinational companies by four months.

Leadership in Science and Technology

Our work in science, technology, and telecommunications will benefit millions of people for years to come. Our detailed analysis of the 2001 collapse of the World Trade Center buildings resulted in definitive recommendations that will dramatically alter the way all future high-rises are designed, built, and maintained. In FY 2005, our researchers also made advances that could help make powerful quantum computers a reality. This will lead eventually to processing power capable of breaking today's best encryption codes, optimizing complex systems such as airline schedules, developing novel products such as fraud-proof digital signatures, and simulating complex biological systems for use in drug design. Another team of Commerce scientists, engineers, and statisticians collaborated with colleagues outside the Department to develop new test structures to reliably measure features on computer chips as small as 40 nanometers wide—less than one-thousandth the width of a human hair. The test structures provide standard "rulers" to measure the features that can be etched into a computer chip, and will allow better calibration of tools that monitor the manufacture of microprocessors and similar devices.

Among our other important technical responsibilities is the allocation of the radio spectrum to provide the greatest benefit to the nation. In FY 2005, we significantly reduced the time necessary to process frequency assignment requests. These frequency assignments enable communications of 63 federal agencies that provide national and homeland security, law enforcement, transportation control, natural resource management, and other public services during peacetime and emergencies.

Stewardship of Natural Resources

We continued to serve as the international leader in earth observations and facilitated international agreement on the Global Earth Observation System of Systems. The ten-year implementation plan, adopted in February at the Third Global Earth Observation Summit in Brussels, will improve our ability to predict weather and climate, prepare for natural hazards, and strengthen the health of people and economies worldwide.

During FY 2005, we ensured that the nation received the best weather and forecast information available. Seven weather data buoy stations were deployed in key locations in the Caribbean, Gulf of Mexico, and Atlantic. We also launched a multi-year intensity forecasting experiment by the NOAA Aircraft Operations Center to improve our understanding and forecasting of hurricanes. In response to the devastating tsunami that hit Southeast Asia in December 2004, we developed a multi-year implementation plan for an improved Tsunami Warning and Mitigation System that will deploy advanced technology deep-ocean buoy stations, expand real-time sea-level monitoring, enhance seismic monitoring, improve community preparedness, and maintain 24 hour-a-day, 7 day-a-week operations at NOAA Tsunami Warning Centers.

This year also saw a record-breaking exploration of the South Pacific. The Hawaii Undersea Research Laboratory (HURL) conducted the longest ocean expedition in its 25-year history. The expedition by the research vessel Ka'imikai-O-Kanaloa covered 10,000 nautical miles, with the Pisces submersibles making 67 dives, one as deep as 1,820 meters, on an undersea volcano in the South Pacific. The results included discovery and the advancement of knowledge about that largely unknown region of the ocean. The nearly five-month long international expedition produced discoveries that included numerous suspected new species, new ranges for known species, measurements of the diversity of marine life, and more data about undersea volcanoes and the rare interface of life based on sunlight with chemosynthetic organisms.

Program Data and Financial Performance

Our financial data and performance results that are described in this report enable us to administer our programs, gauge their success, and make adjustments necessary to improve program quality and service to the public. Therefore, the confidence of managers and the public in such data is essential. Because past Office of Inspector General audits have noted a need to improve the accuracy and validity of performance data, we initiated a multi-year effort, beginning in FY 2005, to address this concern. We now have a specific procedure in place to ensure that each of the 115 data elements tied to our Government Performance and Result Act measures will be thoroughly examined and verified over the next five years. In addition, bureaus have begun to take specific steps to address deficiencies identified in earlier reports, such as eliminating ineffective or ambiguous performance measures.

In response to the Reports Consolidation Act of 2000, we are reporting that the financial and performance data presented are substantially complete and reliable, in accordance with Office of Management and Budget guidance (OMB Circular A-11). Any specific data limitations are discussed in the body of the report. Our financial management systems are in substantial compliance with the requirements of the Federal Financial Management Improvement Act of 1996. For the seventh year in a row, our financial statements have been issued an unqualified ("clean") opinion by independent auditors.

We must also comply with the management control standards established by the Federal Managers' Financial Integrity Act of 1982 (FMFIA). Continual evaluation of our operations through a variety of internal and external studies enables us to determine whether our systems and management controls conform with the FMFIA. Based on these reviews, for the programs, organizations and functions covered by the FMFIA, the Department of Commerce's systems of management controls, taken as a whole, provide reasonable assurance that the objectives of the FMFIA have been achieved with the exception of one material weakness. Although we continue to make progress in improving our information technology security posture, we have not reached the point at which this material weakness can be considered resolved. Further information about this issue can be found in the Management Discussion and Analysis section of this report.

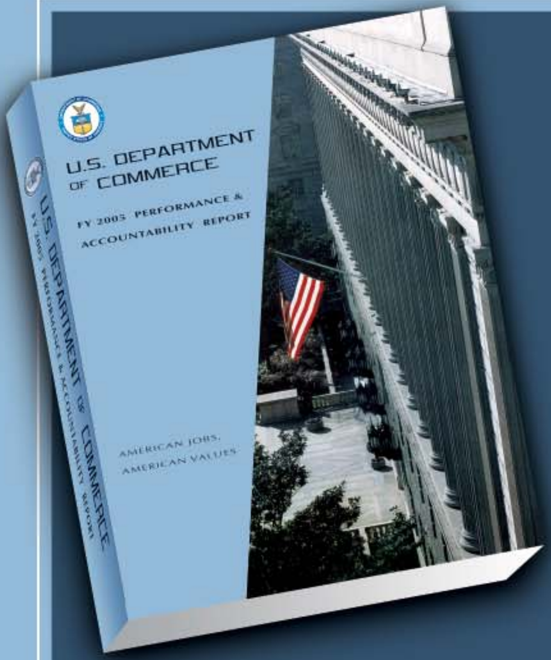
In our efforts to make our programs more efficient, effective, and results-oriented, we continue to be guided by the President's Management Agenda (PMA). We have made significant progress in implementing the core government-wide initiatives: strategic management of human capital, competitive sourcing, improved financial performance, electronic government, and budget and performance integration. We also are engaged in activities that support faith-based and community initiatives, one of the PMA components found in selected departments. Additional information about our PMA activities is included in this report.

In Conclusion

Again, I am proud to submit this report on FY 2005 performance results for the Department of Commerce. I hope the report will provide a useful look at the activities of the Department and its 34,000 employees, whose work continues to result in improvements in the Nation's economic situation, and in scientific progress and environmental stewardship that benefit people around the globe. I look forward in the year ahead to strengthening our focus on these critical activities and once again furthering our mission and management objectives.

Carlos M. Gutierrez
Secretary of Commerce

November 15, 2005



HOW TO USE THIS REPORT

This Performance and Accountability Report (PAR) for fiscal year (FY) 2005 provides the Department of Commerce's (DOC) financial and performance information, enabling the President, Congress, and the American people to assess the Department's performance as provided by the requirements of the:

- *Reports Consolidation Act of 2000 and other laws*
- *Government Management Reform Act of 1994*
- *Government Performance and Results Act (GPRA) of 1993*
- *Chief Financial Officers (CFO) Act of 1990*
- *Federal Managers' Financial Integrity Act (FMFIA) of 1982.*

The assessment of the Department's performance contained in this report compares performance results to the Department's strategic goals and performance goals. The Department's Strategic Plan, Performance Plan, and annual PARs are available on the Department's Web site at http://www.osec.doc.gov/bmi/budget/budgetsub_perf_strategicplans.htm. 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 performance information presented in the report and a statement of assurance on the Department's management controls as required by the FMFIA.

Management Discussion and Analysis (MD&A)

This section provides an overview of the financial and performance information contained in the Performance Section, Financial Section and Appendices. The MD&A includes an overview of the Department's organization, highlights of the Department's most important performance goals and results, current status of systems and internal control weaknesses and other pertinent information, such as the progress being made by the Department in implementing the President's Management Agenda (PMA) and the key management challenges identified by the Office of Inspector General (OIG).

Performance Section

This section provides the annual performance information as required by Office of Management and Budget (OMB) Circular A-11 and GPRA. Included in this section is a detailed discussion and analysis of the Department's performance in FY 2005. For each service and major office, the results are presented by each Performance Goal within the four Department Strategic Goals.

Financial Section

This section contains the details of the Department's finances in FY 2005. A message from the Department's Chief Financial Officer (CFO), is followed by the information on the Department's Financial Management, Debt Management, Payments Management, and audited financial statements, other supplemental financial information, and the Independent Auditors' Report.

Appendices

This section provides a discussion of the data sources used in this report, summary chart of performance information, description of changes to performance goals and measures from the FY 2004 PAR, financial information, and a glossary of acronyms.

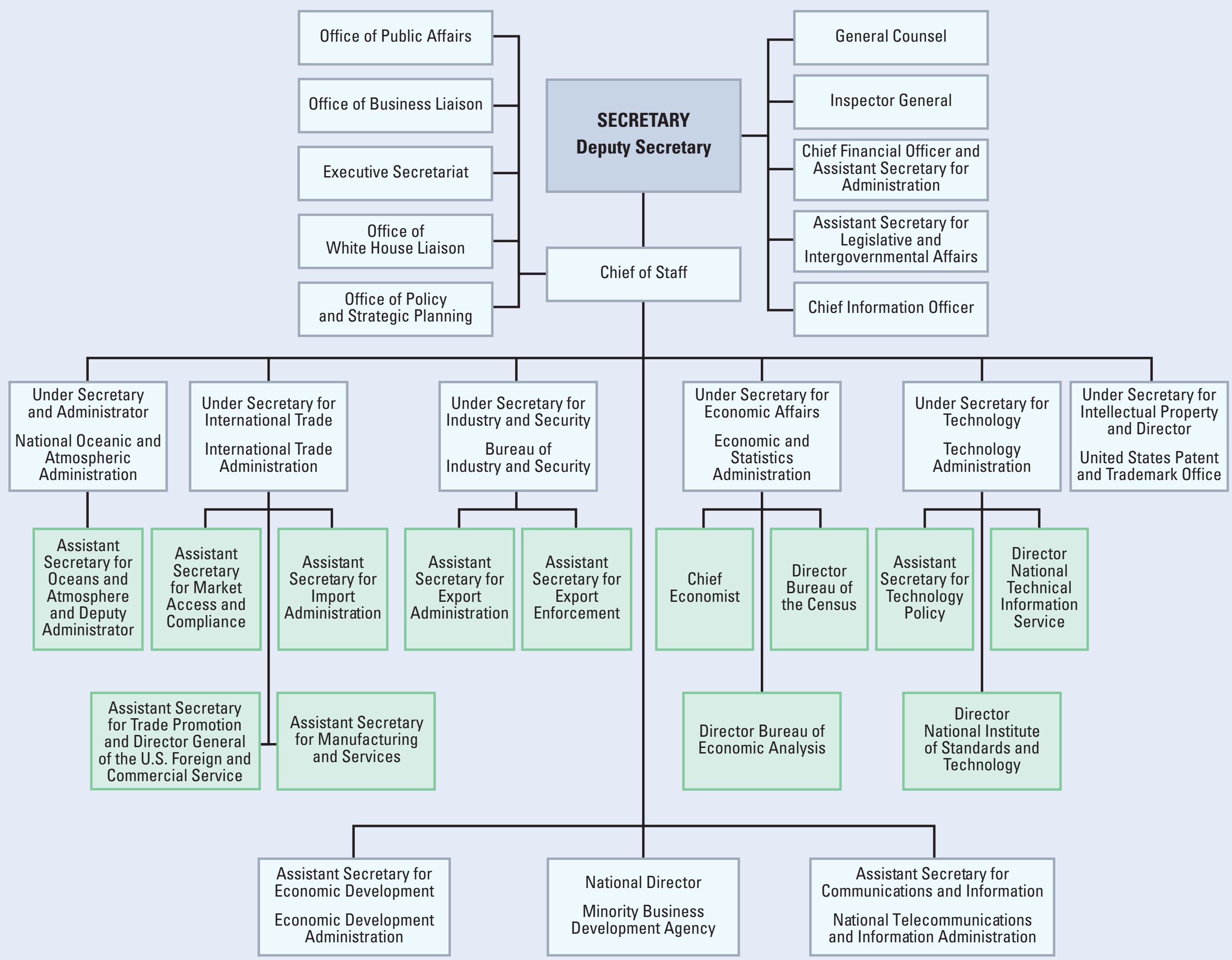
Management Discussion & Analysis

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



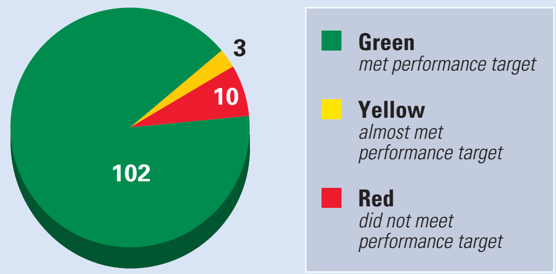
FY 2005 PERFORMANCE AND FINANCIAL HIGHLIGHTS

PERFORMANCE HIGHLIGHTS

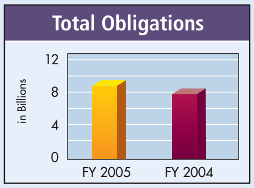
Overall performance results for the Department show that of the 115 performance targets, 89 percent were at or above target, three percent slightly below target, and eight percent not on target. These results reflect better performance results than last year, when 84 percent were at or above target. Below are the performance results by strategic goal. Achieving results in each of the strategic goals furthers the Department's mission. This summary provides a snapshot of our targeted achievements. Discussions and highlights of successes can be found in the performance discussions of each performance goal.

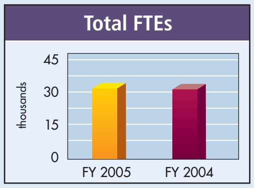
PERFORMANCE RESULTS

Number of Measures



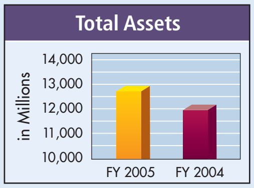
(Dollars In Millions)	Percentage Change	FY 2005	FY 2004
For the Period Ended September 30, 2005 and 2004			
Obligations by Strategic Goal:			
Strategic Goal 1: Provide the Information and Tools to Maximize U.S. Competitiveness and Enable Economic Growth for American Industries, Workers, and Consumers	+2%	$ 1,888.5	$ 1,854.0
Strategic Goal 2: Foster Science and Technological Leadership by Protecting Intellectual Property, Enhancing Technical Standards, and Advancing Measurement Science	+14%	$ 2,456.5	$ 2,147.5
Strategic Goal 3: Observe, Protect, and Manage the Earth's Resources to Promote Environmental Stewardship	+7%	$ 4,064.0	$ 3,802.0
Management Integration Goal: Achieve Organizational and Management Excellence	+3%	$ 79.2	$ 77.1
TOTAL OBLIGATIONS	+8%	$ 8,488.2	$ 7,880.6
Full Time Equivalents (FTEs) by Strategic Goal:			
Strategic Goal 1: Provide the Information and Tools to Maximize U.S. Competitiveness and Enable Economic Growth for American Industries, Workers, and Consumers	+1%	11,877	11,778
Strategic Goal 2: Foster Science and Technological Leadership by Protecting Intellectual Property, Enhancing Technical Standards, and Advancing Measurement Science	0%	10,022	10,005
Strategic Goal 3: Observe, Protect, and Manage the Earth's Resources to Promote Environmental Stewardship	0%	11,918	11,868
Management Integration Goal: Achieve Organizational and Management Excellence	-3%	292	310
TOTAL FTEs	0%	34,109	33,961

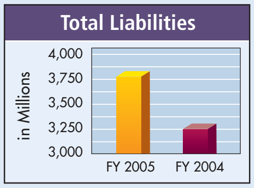


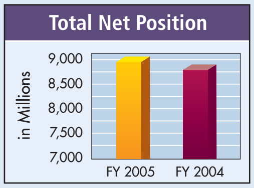


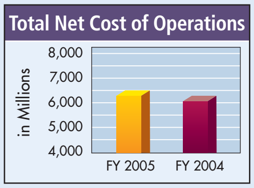
FINANCIAL HIGHLIGHTS

(Dollars In Millions)	Percentage Change	FY 2005	FY 2004
As of September 30, 2005 and 2004			
Condensed Balance Sheets:			
ASSETS:			
Fund Balance with Treasury	+6%	$ 7,041,269	$ 6,652,727
General Property, Plant, and Equipment, Net	+6%	4,927,707	4,652,882
Loans Receivable and Related Foreclosed Property, Net	+32%	417,509	317,138
Accounts Receivable, Net	-12%	126,754	143,929
Other	+28%	216,937	169,631
TOTAL ASSETS	**+7%**	**$12,730,176**	**$11,936,307**
LIABILITIES:			
Unearned Revenue	+18%	$ 1,287,749	$ 1,088,142
Federal Employee Benefits	+2%	569,114	557,679
Accounts Payable	+23%	399,957	325,124
Accrued Grants	+11%	388,679	350,452
Debt to Treasury	+30%	357,581	274,426
Accrued Payroll and Annual Leave	+10%	351,698	321,114
Other	+22%	407,211	333,262
TOTAL LIABILITIES	**+16%**	**$ 3,761,989**	**$ 3,250,199**
NET POSITION:			
Unexpended Appropriations	+1%	$ 4,238,321	$ 4,209,311
Cumulative Results of Operations	+6%	4,729,866	4,476,797
TOTAL NET POSITION	**+3%**	**$ 8,968,187**	**$ 8,686,108**
TOTAL LIABILITIES AND NET POSITION	**+7%**	**$12,730,176**	**$11,936,307**
For the Years Ended September 30, 2005 and 2004			
Condensed Statements of Net Cost:			
Strategic Goal 1: Provide the Information and Tools to Maximize U.S. Competitiveness and Enable Economic Growth for American Industries, Workers, and Consumers	+3%	$ 1,672,505	$ 1,626,669
Strategic Goal 2: Foster Science and Technological Leadership by Protecting Intellectual Property, Enhancing Technical Standards, and Advancing Measurement Science	+6%	931,507	875,061
Strategic Goal 3: Observe, Protect, and Manage the Earth's Resources to Promote Environmental Stewardship	+3%	3,708,116	3,617,242
TOTAL NET COST OF OPERATIONS	**+3%**	**$ 6,312,128**	**$ 6,118,972**
Total Gross Costs	+4%	$ 8,438,306	$ 8,092,700
Total Earned Revenue	+4%	(2,126,178)	(1,973,728)
Total Net Cost Of Operations	**+3%**	**$ 6,312,128**	**$ 6,118,972**

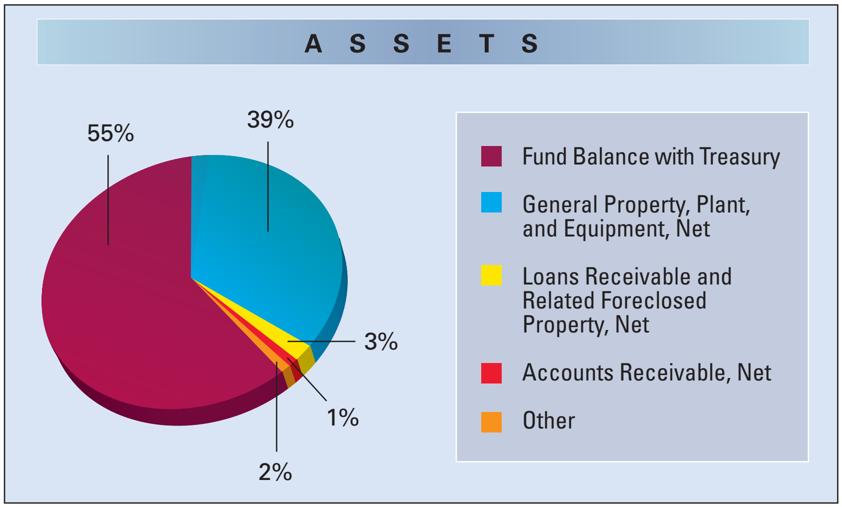






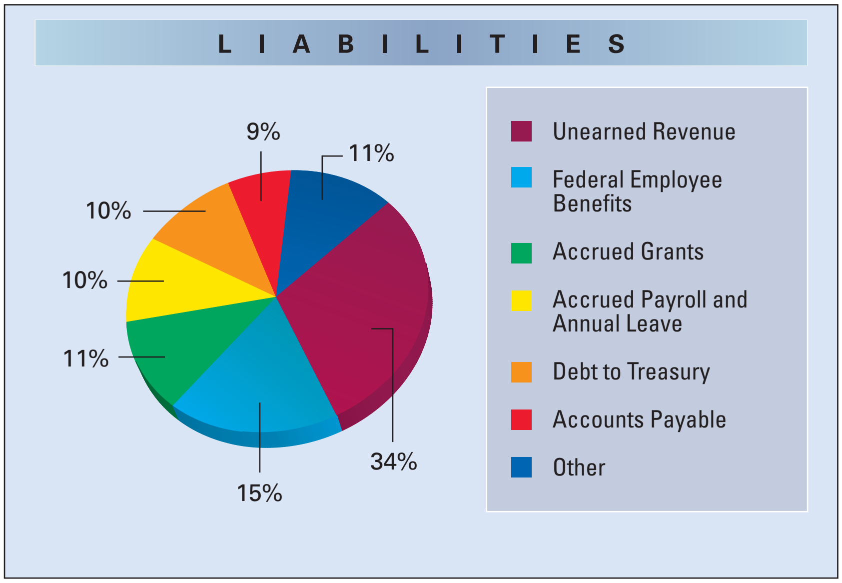


REVIEW OF FINANCIAL POSITION AND RESULTS



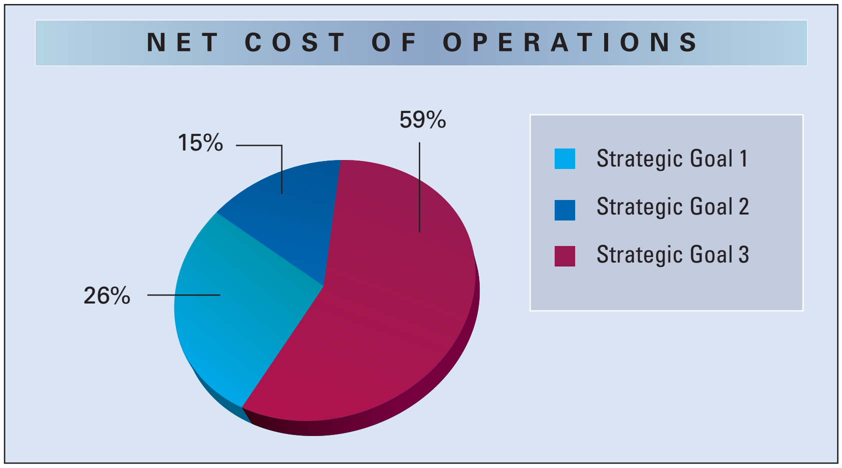
Assets

The Department had total assets of $12.7 billion as of September 30, 2005. This represents an increase of $793.8 million (seven percent) over the previous year's total assets of $11.9 billion. The increase is primarily the result of Fund Balance with Treasury increasing by $389 million, which primarily resulted from higher Appropriations Received of $362 million or 5.9 percent; and General Property, Plant, and Equipment (PP&E), Net increasing by $275 million, which primarily resulted from increase in Construction-Work-in-Progress of $270 million or 10.8 percent.



Liabilities

The Department had total liabilities of $3.8 billion as of September 30, 2005. This represents an increase of $511.7 million (16 percent) over the previous year's total liabilities of $3.3 billion. The increase is primarily the result of Unearned Revenue increasing by $199.6 million, which primarily resulted from increased patent and trademark application and user fees that are pending action; and the result of Debt to Treasury increasing by $83 million primarily due to increase in crab buyback program loans.



Net Cost of Operations

In FY 2005, Net Cost of Operations amounted to $6.3 billion, which consists of Gross Costs of $8.4 billion less Earned Revenue of $2.1 billion. Strategic Goal 1 includes Gross Costs of $2.0 billion related to providing information and tools to maximize U.S. competitiveness and enable economic growth. Strategic Goal 2 includes Gross Costs of $2.5 billion related to fostering science and technological leadership by protecting intellectual property, enhancing technical standards, and advancing measurement science. Strategic Goal 3 includes Gross Costs of $3.9 billion related to observing, protecting, and managing the Earth's resources to promote environmental stewardship.

Other Financial Information

All other financial information such as the introduction letter from the Department's Chief Financial Officer (CFO), financial management discussion and analysis, debt management, payment practices, the audited financial statements and other supplementary information, and the independent auditors' report can be found starting on page 151 of the Financial Section.

THE DEPARTMENT OF COMMERCE PROCESS FOR STRATEGIC PLANNING AND PERFORMANCE REPORTING

Management Strategic Framework, Performance Planning, and Reporting at a Glance

Performance Management Process

An overall performance management process ensures that performance feedback, accountability, performance results, corrective action, and performance planning occur.

The Department's Strategic Plan provides a comprehensive vision for fostering the conditions that create jobs; increase the productivity of the American economy; encourage the economic growth that benefits all U.S. industries, workers, and consumers; enhance technological leadership and environmental stewardship; and support market growth strategies. The plan puts forth broad objectives, targets specific outcomes and identifies key challenges. The strategic plan released in FY 2003 can be found at: *http://www.osec.doc.gov/bmi/budget/DOCSTPLAN.htm*.

The Department's Annual Performance Plan (APP) provides the Department of Commerce's bureau-specific performance goals and measures that align with the Department's strategic goals and objectives. These performance goals, are linked with the resource requirements for the past, current, and upcoming fiscal years. The Plan is integrated with the President's budget submission to Congress. The Department-wide FY 2006 APPs can be found at: *http://www.osec.doc.gov/bmi/budget/DOCSTPLAN.htm*.

This Department's Performance and Accountability Report (PAR) provides a public accounting of Commerce's FY 2005 performance results and completes the Department's performance management process. The Web address of the FY 2005 PAR is: *http://www.osec.doc.gov/bmi/budget/DOCSTPLAN.htm*.

The appendices of the FY 2005 PAR provide details of the Department's performance and explanatory materials supporting the program results. Commerce's goal structure has three levels. Strategic goals describe outcomes that emerge from the Department's mission. Each of these goals in turn has outcome goals or objectives that define the results that the bureaus aim to achieve. These are long-term objectives that often involve more than one Department bureau. Within each strategic objective are performance goals tied to specific bureaus that support each outcome goal and provide program-level clarity of purpose. Each has associated indicators and targets to measure the Department's impact on a continuous basis.

How the Department Selects Its Performance Goals and Measures

Performance goals articulated in the introductory material for each goal in the APP are aimed at achieving one or more strategic outcomes, and convey a sense of how the Department creates value for the American public. Performance measures, depict tangible progress by Commerce program activities towards these goals. Commerce has tailored performance measures to be more outcome-oriented (described in the next section). When considered along with external factors and information provided in program evaluations, these measurements give valuable insight into the performance of Department programs, and are meant to broadly illustrate how Commerce adds value to the U.S. economy. The FY 2005 PAR depicts a top-level, integrated system for managing for results within the Department, and is not an exhaustive treatment of all Department programs and activities. This report must also be read with each Commerce bureau's own performance results to gain a comprehensive picture of Commerce's accomplishments in FY 2005. More in-depth performance results for FY 2005 and prior years are available in Appendix A, and other information about the bureaus can be found on individual bureau Web sites. The directory of Web sites is located on the back cover of this report and provides a good foundation for researching additional information.

Performance Validation and Verification

Commerce uses a broad range of performance goals and measures to make reporting useful and reliable. It is imperative to demonstrate that performance measures are backed by accurate and reliable data; valid data are important to support management decisions on a day-to-day basis. The data and the means to validate and verify the measures are also diverse. A general discussion of the Department's process follows. The APPs of each bureau provide the data validation and verification tables for each measure and describe how the data are validated and verified. They can be found at *http://www.osec.doc.gov/bmi/budget/DOCSTPLAN.htm*.

Currently, the Department reviews its performance validation and verification processes to ensure that the performance data are accurate. These reviews are based on the Office of Inspector General's (OIG) identification of the Department's strategic planning and performance measurement efforts as a management challenge. Specifically, OIG recommended that the Department continue to improve upon its strategic planning and performance measurement in accordance with the Government Performance and Results Act (GPRA). As a result of this recommendation, Commerce developed a new quarterly performance monitoring process that provides reviews of performance measurement data as well as the measures themselves. Departmental staff review bureau performance data on a quarterly basis. These reviews involve selecting different performance measures each quarter, requiring that the bureaus provide all the data used for determining the actuals for these measures, reviewing the measures for validity, and then making recommendations for improving the measures.

Performance Controls and Procedures

Performance Data: Commerce's performance measurement data are collected by its 13 bureaus, each with systems to manage their data validation and verification processes. Some of these are automated systems and others are manual processes. The validity of the data is certified by each bureau's Chief Financial Officer (CFO) and Under Secretary, and can be divided into three types: Financial Data, Data Management Methods, and Data from Manual Processes. The controls and procedures used to validate and verify the data can be found in the validation and verification tables in the FY 2006 APPs at: http://www.osec.doc.gov/bmi/budget/FY2006APP.htm. As of September 30, 2005, Department staff reviewed 20 measures. Some examples include: jobs created or retained (EDA), lead time of tornado warnings (NOAA), and trademark applications filed electronically (USPTO).

Financial Data: As stated above, the Department has a high degree of confidence in its financial data. Normal audit and other financial controls maintain the integrity of these data elements. During the FY 2005 consolidated financial statement audit, tests and reviews of the core accounting system and internal controls were conducted as required by the Chief Financial Officers Act.

Performance Reviews: The Department also conducts quarterly performance reviews. These reviews involve a bureau head (or representative) reporting on the current status of bureau performance, including planned and achieved priorities and accomplishments. They also report on the status of measures that eventually appear at the end of the year in this report.

Future Enhancements to Financial and Performance Information

The Department is continuously making improvements in its financial and performance data, particularly in integrating the information. As demonstrated by its efforts in improving internal processes, Commerce is building on its existing Commerce Business System (CBS) to bring these two data sets together.

MOST IMPORTANT RESULTS AND THE FUTURE: PERFORMANCE, PRIORITIES, AND CHALLENGES

The Department's three diverse strategic goals and a Department-wide management integration goal promote the mission of the Department through the various actions of each bureau. What follows is a table summarizing the performance results that were achieved by the Department and a table listing the key measures of the Department. A goal is said to have been met if 100 percent of the targets of its corresponding measures were achieved, significantly met if 75 percent to 99 percent of its targets were achieved, and not met if less than 75 percent of its targets were achieved.

SUMMARY OF PERFORMANCE RESULTS

STRATEGIC GOAL	STRATEGIC OBJECTIVE	PERFORMANCE GOAL	STATUS*
Strategic Goal 1: Provide the information and tools to maximize U.S. competitiveness and enable economic growth for American industries, workers and consumers	Enhance economic growth for all Americans by developing partnerships with private sector and nongovernmental organizations	Increase private enterprise and job creation in economically distressed communities	MET
		Improve community capacity to achieve and sustain economic growth	MET
		Strengthen U.S. industries	MET
		Expand U.S. exporter base	SIGNIFICANTLY MET
		Increase access to the marketplace and financing for minority-owned businesses	SIGNIFICANTLY MET
	Advance responsible economic growth and trade while protecting American security	Ensure fair competition in international trade	MET
		Advance U.S. national security, foreign policy, and economic interests by enhancing the effectiveness and efficiency of the export control system	MET
		Ensure U.S. industry compliance with the Chemical Weapons Convention (CWC) agreement	MET
		Prevent illegal exports and identify violators of export prohibitions and restrictions for prosecution	MET
		Enhance the export and transit controls of nations seeking to improve their export control system	MET
	Enhance the supply of key economic and demographic data to support effective decision-making of policymakers, businesses, and the American public	Meet the needs of policymakers, businesses, non-profit organizations, and the public for current and benchmark measures of the U.S. population, economy, and governments	MET
		Promote a better understanding of the U.S. economy by providing the most timely, relevant, and accurate economic data in an objective and cost-effective manner	MET

* ● = MET (100%) ● = SIGNIFICANTLY MET (75% - 99%) ● = NOT MET (< 75%)

(continued)

SUMMARY OF PERFORMANCE RESULTS (CONTINUED)

STRATEGIC GOAL	STRATEGIC OBJECTIVE	PERFORMANCE GOAL	STATUS*
Strategic Goal 2: Foster science and technological leadership by protecting intellectual property, enhancing technical standards, and advancing measurement science	Develop tools and capabilities that improve the productivity, quality, dissemination, and efficiency of research	Promote innovation, facilitate trade, ensure public safety and security, and help create jobs by strengthening the nation's measurements and standards infrastructure	🟢
		Accelerate private investment in and development of high-risk, broad-impact technologies	🟢
		Raise the productivity and competitiveness of small manufacturers	🟢
		Enhance public access to worldwide scientific and technical information through improved acquisition and dissemination activities	🟢
	Protect intellectual property and improve the patent and trademark system	Improve the quality of patent products and services and optimize patent processing time	🟡
		Improve the quality of trademark products and services and optimize trademark processing time	🟡
		Create a more flexible organization through transitioning patent and trademark operations to an e-government environment and advancing intellectual property development worldwide	🔴
	Advance the development of global e-commerce and enhanced telecommunications and information services	Ensure that the allocation of radio spectrum provides the greatest benefit to all people	🟢
		Promote the availability, and support new sources, of advanced telecommunications	🟢
Strategic Goal 3: Observe, protect and manage the Earth's resources to promote environmental stewardship	Advance understanding and predict changes in the Earth's environment to meet America's economic, social, and environmental needs	Serve society's needs for weather and water information	🟡
		Understand climate variability and change to enhance society's ability to plan and respond	🟢
	Enhance the conservation and management of coastal and marine resources to meet America's economic, social, and environmental needs	Protect, restore, and manage the use of coastal and ocean resources through an ecosystem approach to management	🔴
		Support the nation's commerce with information for safe, efficient, and environmentally sound transportation	🟢
Management Integration Goal: Achieve organizational and management excellence		Identify and effectively manage human and material resources critical to the success of the Department's strategic goals	🔴
		Promote improvements to Commerce programs and operations by identifying and completing work that (1) promotes integrity, efficiency, and effectiveness; and (2) prevents and detects fraud, waste, and abuse	🟢

* 🟢 = MET (100%) 🟡 = SIGNIFICANTLY MET (75% - 99%) 🔴 = NOT MET (< 75%)

The following is a listing of the key measures of each of the bureaus in the Department. After this list is a discussion of our most important results, challenges, and action plans by strategic goal.

KEY PERFORMANCE MEASURES

STRATEGIC GOAL	STRATEGIC OBJECTIVE	PERFORMANCE MEASURE
Strategic Goal 1: Provide the information and tools to maximize U.S. competitiveness and enable economic growth for American industries, workers and consumers	**1.1** Enhance economic growth for all Americans by developing partnerships with private sector and nongovernmental organizations	Private sector dollars invested in distressed communities as a result of EDA investments (EDA)
		Jobs created or retained in distressed communities as a result of EDA investments (EDA)
		Percentage of undertaken advocacy actions completed successfully (ITA)
		Dollar value of contract awards obtained (MBDA)
		Dollar value of financial awards obtained (MBDA)
	1.2 Advance responsible economic growth and trade while protecting American security	Number of MAC cases completed (ITA)
		Median processing time for referral of export licenses to other agencies (days) (BIS)
		Number of investigative actions that result in the prevention of a violation and cases which result in a criminal and/or administrative prosecution (BIS)
	1.3 Enhance the supply of key economic and demographic data to support effective decision-making of policymakers, businesses, and the American public	Achieve pre-determined collection rates for Census Bureau censuses and surveys in order to provide statistically reliable data to support effective decision-making of policymakers, businesses, and the public (Census)
		Release data products for Census Bureau programs on time to support effective decision-making of policymakers, businesses, and the public (Census)
		Timeliness: Reliability of delivery of economic data (number of scheduled releases issued on time) (BEA)
		Relevance: Customer satisfaction with quality of products and services (mean rating on a 5-point scale) (BEA)
		Accuracy: Percent of GDP estimates correct (BEA)
Strategic Goal 2: Foster science and technological leadership by protecting intellectual property, enhancing technical standards and advancing measurement science	**2.1** Develop tools and capabilities that improve the productivity, quality, dissemination, and efficiency of research	Qualitative assessment and review of technical quality and merit using peer review (NIST)
		Customer satisfaction with NTIS products and services (NTIS)
	2.2 Protect intellectual property and improve the patent and trademark system	Patent allowance error rate (USPTO)
		Trademark final action deficiency rate (USPTO)
		Technical assistance activities completed (USPTO)
	2.3 Advance the development of global e-commerce and enhanced telecommunications and information services	Support new telecom and information technology by advocating Administration views in FCC docket filings and Congressional proceedings (NTIA)

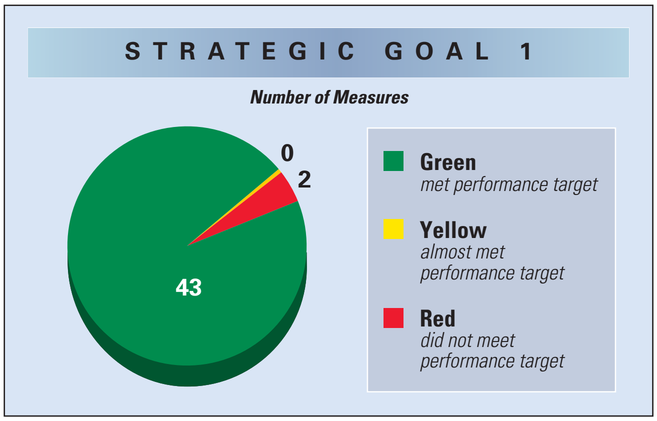
(continued)

KEY PERFORMANCE MEASURES (CONTINUED)

STRATEGIC GOAL	STRATEGIC OBJECTIVE	PERFORMANCE MEASURE
Strategic Goal 3: Observe, protect and manage the Earth's resources to promote environmental stewardship	**3.1** Advance understanding and predict changes in the Earth's environment to meet America's economic, social, and environmental needs	Lead time of severe weather warnings for tornadoes (NOAA)
		Hurricane forecast track error (48 hours) (NOAA)
		Determine the national explained variance (%) for temperature and precipitation for the contiguous United States using USCRN stations (NOAA)
	3.2 Enhance the conservation and management of coastal and marine resources to meet America's economic, social, and environmental needs	Number of major stocks with an "unknown" stock status (NOAA)
		Reduce the hydrographic survey backlog within navigationally significant areas (square nautical miles surveyed per year) (NOAA)
Management Integration Goal: Achieve organizational and management excellence		Provide accurate and timely financial information and conform to federal standards, laws, and regulations governing accounting and financial management (DM)
		Improve the management of information technology (DM)
		Percentage of OIG recommendations accepted by departmental and bureau management (OIG)

STRATEGIC GOAL 1

Provide the information and tools to maximize U.S. competitiveness and enable economic growth for American industries, workers, and consumers



Most Important Results

The Department achieved success in 96 percent of the targets that were set. Such achievements can be measured through the many activities that support this goal.

The Economic Development Administration (EDA) tracks the results of their investments in three, six, and nine-year intervals. EDA data indicate that investments made in FY 1999 and FY 2002 (six and three years prior to FY 2005) generated $3.57 billion in private investment and created or retained 67,046 jobs. EDA anticipates that investments made in FY 2005 will generate $270 million by FY 2008, $674 million by FY 2011, and $1.349 billion by FY 2014. EDA expects that those same investments will create or retain 7,251 jobs by FY 2008, 18,128 jobs by FY 2011, and 36,255 jobs by FY 2014.

New strategic public and private sector partnerships that the Minority Business Development Agency (MBDA) established helped MBDA leverage its resources and add value to the services provided by the Minority Business Development Centers (MBDC) and the Minority Business Opportunity Committees (MBOC). These partnerships identified many successful opportunities and provided value-added resources to support the services of the MBDCs and MBOCs. Partnerships MBDA made with the National Urban League, the U.S. Department of Agriculture (USDA), Microsoft, Forbes, and the Kauffman Foundation will strengthen minority participation by leveraging resources and providing valuable assistance to grow firms.

The MBDA Portal has successfully become a virtual business center offering new tools, services, and a message board for information exchange for Minority Business Enterprises (MBE) to better compete in the worldwide economy. Continuous improvements provide new enhancements and sources of information and technology to improve the services available. The portal serves as an information clearinghouse and the center for referral of opportunities and resources to registered minority firms.

In FY 2005, the Department implemented key aspects of the Next Steps in Strategic Partnership, which have transformed the U.S.-India strategic trade relationship by freeing approximately $35 million in exports to India from licensing requirements.

The Department published two major rules in FY 2005 that will contribute to U.S. competitiveness consistent with U.S. national security interests. In July 2005, the Department published a rule updating controls on certain goods and technology in accordance with U.S. commitments under a multilateral export control regime. The rule updated controls on a wide range of controlled items, including certain computer software and technology to control only the most sensitive items and also placed controls on night vision-related components to protect U.S. national security. The Department also responded to the U.S. policy changes related to Libya and the lifting of sanctions with a new rule (March 2005) that lifted certain restrictions on items used by U.S. persons in Libya.

The Department advances trade while promoting national security with an industry outreach program to facilitate compliance with U.S. export controls. In FY 2005, the Department conducted 39 seminars to respond to a variety of exporter needs. They

include programs on the major elements of the U.S. dual-use export control system; programs that explain exporter obligations under the Export Administration Regulations (EAR); and special topic seminars, on exporter obligations, doing business with key trading partners, or technologies and deemed exports (export controls for technology transfers in the United States).

United States and India held talks on stimulating high-technology commerce, focusing on trade facilitation and on ways to enhance the security of bilateral high-technology trade.

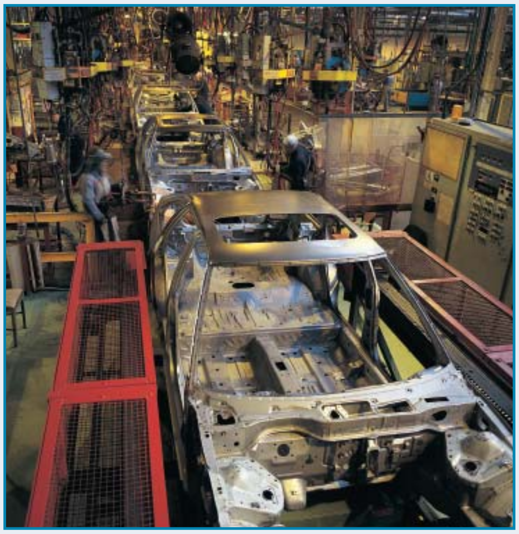
Enforcement accomplishments for FY 2005 resulted in 31 convictions, and the imposition of $7.7 million in fines for criminal export violations; prosecution of 74 administrative cases and the imposition of $6.8 million in administrative penalties; and completion of more than 500 post-shipment verifications overseas to confirm compliance with export license requirements.

The Department successfully remedied 40 deficiencies in the national export control systems of countries receiving technological assistance under the Export Control and Border Security program. Some highlights include: Kazakhstan and Romania passed legislation to improve their respective export control legal frameworks and bring them up to international standards; Armenia adopted a national control list that meets international standards; and more than 170 Russian customs officials from more than 70 customs posts, ports, airports, and other customs entities were trained in use of the Product Identification Tool (PIT). This tool assists customs officials to identify dual-use items by sight to better monitor which products require a license and which do not. Cyprus, Turkey, and Kazakhstan made high-level commitments to work with the Bureau of Industry Security (BIS) to develop and deploy an indigenous version of the PIT to train their respective customs officials. BIS deployed industry awareness programs and internal control program software tools in more than 400 Russian, Ukrainian, Romanian, and Kazakh enterprises.

In 2005, the Department made a commitment to support the participation in the Security and Prosperity Partnership (SPP) in North America. The SPP is another opportunity to build more open, more secure societies and more competitive business communities for stronger economies. ITA also continued its commitment toward helping U.S. businesses to gain market access in China through participating in the U.S.-China Joint Commission on Commerce and Trade (JCCT). ITA, in close coordination with the United States Trade Representative (USTR) and other agencies, has adopted an aggressive and multi-pronged approach to ensure that China honors its World Trade Organization (WTO) commitments and that U.S. companies benefit from these opportunities.

In 2005, Market Access and Compliance (MAC) was key in the passage of the Central American - Dominican Republic Free Trade Agreement (CAFTA-DR). MAC also created an Intellectual Property Rights (IPR) Enforcement Unit, which aggressively enforces trade agreements with specific attention to IPR. In addition, MAC continued to work closely with the USTR and the U.S. Patent and Trademark Office (USPTO) to investigate and resolve IPR violations of U.S. negotiated trade agreements.

In 2005, the Import Administration (IA) created an Unfair Trade Practices Team which tracks, detects, and confronts unfair competition by monitoring economic data from U.S. global competitors and vigorously investigates evidence of unfair subsidization and production distortions. IA was also able to focus and sharpen expertise on China through its China Compliance office to ensure that China adheres to its accession requirements under the WTO.



Manufacturing is important to the economy of the United States.

The Department successfully completed updates to geographic reference features for all planned counties for FY 2005. Improving the Census Bureau's geographic data is important in order to improve accuracy, reduce operational risk, and contain the cost of the 2010 Census. Census data are used for the apportionment of seats in the U.S. House of Representatives and for the distribution of billions of dollars in federal funds to states and localities.

In FY 2005, Census released all targeted data products for the economic programs on schedule. This included 116 principal economic indicator releases, the Annual Survey of Manufactures, the Annual Trade Survey, the Annual Retail Trade Survey, the Service Annual Survey, 883 geographic area series reports from the 2002 Economic Census, two reports from the 2002 Survey of Business Owners, and preliminary data from the 2002 Business Expense Survey. These statistics are critical to understanding the condition and performance of the U.S. economy and are used extensively by government and private-sector decisionmakers. Census Bureau surveys and census results also are used in other important federal measures of economic activity, including the producer price indexes and measures of industrial production. The Department also met the targeted response rates and released all data products on time for the demographic surveys, such as the Survey of Income and Program Participation (SIPP) and Current Population Survey. These data are used to make policy decisions and allocate federal program funds that support schools, employment services, housing assistance, hospital services, and programs for the elderly and disabled. The data are also used to modify programs such as Social Security, Medicare, and Medicaid.

The Department's Bureau of Economic Analysis (BEA), within ESA, has made significant gains in improving the economic information used as the basis for important decisions by business leaders, policymakers and the American public. One of the most important changes in 2005 was the incorporation of data from the Census Bureau's Quarterly Services Survey (QSS). This new and important data source provides detailed quarterly estimates for some of the nation's largest and most volatile industries. By providing this information quarterly rather than annually or once every five years, the Department is able to provide users with more accurate and earlier estimates on which to base decisions. The Department also continues to meet the demands of users for more current and timely economic statistics. In the past year, the Department accelerated the release of local area industry data by four months, produced prototype gross state product estimates with a 12-month acceleration, and again provided summary estimates on the operations of multinational companies four months ahead of schedule.

EDA uses the Balanced Scorecard (BSC) approach to emphasize cause and effect relationships. Integration of management, performance, and budget is critical to achieving timely financial improvements and enhancing performance. At the highest level, the BSC is a framework that helps translate strategy into operational objectives that drive both behavior and performance at the operational level. The BSC is a value-added management process that provides a critical tool for getting from vision to execution. BSC analysis and review provides regional directors with opportunities to enhance performance and crucial information to target their performance improvement actions. Improved responsiveness to applicants and grantees is one result of this process at the regional level.

In FY 2004, EDA helped establish the Economic Development Information Coalition (EDIC) to expand its information dissemination efforts. During FY 2005 and with EDA's continued support, EDIC continues to produce a monthly e-newsletter, a quarterly magazine, and six satellite broadcasts. The magazine and e-newsletter are distributed to about 6,000 people. The satellite broadcasts are generally available for viewing in 80 to 100 locations and attract about 3,000 to 4,000 viewers. While there is no way to track the actual number of viewers, an agreement reached with DISH NETWORK makes these telecasts available to 9.85 million subscribers. In addition, the Association of Public Television Stations (APTS) promoted the Economic Development Today telecast to affiliate stations nationwide. APTS represents 80 percent of the market of public television stations. Finally, the broadcasts are also shown as Webcasts after the actual airing which attracts even more viewers. EDA will also hold a symposium in September 2005 to focus on leading edge economic development strategies.

The Future: Performance, Priorities, and Challenges

Continue to meet the needs of the fast growing population: The Department will develop products and services through customer survey feedback such as the American Customer Satisfaction Index (ACSI). The Department will further expand the Strategic Growth Initiative for medium to large size MBEs, while continuing to provide the same level of service for the smaller MBEs. Beginning in FY 2006, the Census Bureau's ACS will begin enumeration of Group Quarters and expand the number of geographies published by nearly ten fold.

Leading the federal economic development agenda: The Department will promote innovation and competitiveness to prepare U.S. regions for growth and success in the worldwide economy.

Updating and adapting the export control system: The Department will continue to strengthen and streamline the dual-use export control system. Further, the Department will continue to improve its process for writing the regulations that translate law and policy into rules for exporters, while also managing the rising number and complexity of licensing applications and other export control requests. The Department will continue to improve its enforcement capabilities by prioritizing its efforts, working with other federal law enforcement and intelligence agencies, and increasing outreach with industry to create a robust enforcement environment.

Meeting needs for quality information: The Department will make improvements in the use of state-of-the-art technology in data collection, processing, and dissemination in order to stay ahead of demand from policymakers for information of emerging economic and societal trends.

Trade relations with China: The Department in close coordination with the USTR and other agencies, has adopted an aggressive and multi-pronged approach to ensure that China honors its WTO commitments and that U.S. companies benefit from these opportunities. Additionally, IA is focusing and sharpening expertise in China through the China Compliance office that devotes more resources to China and cases /issues unique to non-market economies.

Expanding global IPR enforcement: ITA is focusing resources to enforce U.S. negotiated trade agreements, uphold the U.S. Strategy Targeting Organized Piracy (STOP), and combat violators of IPR around the world. ITA will pursue perpetrators along the entire chain, including manufacturers and importers, and will exert pressure on countries where problems are found. ITA works with U.S. industry and coordinates with other Commerce Bureaus and U.S. agencies, including USPTO and the U.S. Food and Drug Administration (FDA), to investigate allegations of piracy and to help resolve market access and trade compliance cases.

Strengthen federal trade promotion programs and cooperation: In 2004, ITA reorganized its trade promotion functions under the Assistant Secretary for Trade Promotion and the Director General of the US&FCS. With this significant realignment of resources came the mandate to increase and improve trade promotion activities for U.S. businesses, especially SMEs that rely on federal and

Wall Street and business economists rely on the Department's measures of national economic activity.

other assistance programs to successfully compete in the global marketplace. Utilizing the 2004 National Export Strategy, the Secretary of Commerce announced a multi-year national trade promotion agenda to better leverage federal trade promotion programs in commercially significant markets and areas where Free Trade Agreements (FTA) have been established.

Continue to accurately measure a constantly and rapidly changing U.S. economy: The U.S. economy is constantly changing and becoming increasingly complex. The Department must be responsive to these changes. To meet this challenge, the Department must better understand how the economy is changing, recognize how these changes are affecting our programs and methods, identify emerging and lessening data needs, and satisfy changing customer needs. Issues of immediate attention are the measurement of pensions, medical costs, and other fringe benefits and the continued expansion of service industry coverage. Program improvement, however, is a daunting task and not one that can be done by us alone. The Department must find more effective ways of collaborating with the business world, industry experts, researchers and policymakers.

Understanding the economic phenomenon known as offshoring: The past year has seen an increased interest in the issue of offshore outsourcing. The Department has provided detailed information on the operations of multinational companies to help inform part of this debate. Expanding these data to provide more information to help understand the economics of offshore outsourcing will be a challenge.

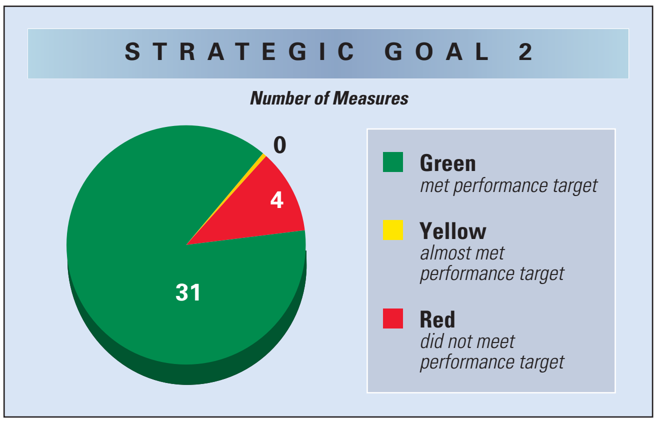
STRATEGIC GOAL 2

Foster science and technological leadership by protecting intellectual property, enhancing technical standards, and advancing measurement science

Most Important Results

The Department achieved success in 89 percent of the targets that were set.

The Department has begun efforts to strengthen IPR for enhancing protection for copyrights, geographical indications, patents, trademarks, trade secrets and other forms of IPR with representatives from many countries throughout the world, including those in which the United States is negotiating or has negotiated FTAs[1].



1 *Countries include China, Brazil, Paraguay, Mexico, Eastern Europe, the Republic of Korea, the Philippines, and many other countries. Countries in which the United States is negotiating or has negotiated FTAs include Morocco, Bahrain, the Central American countries, Australia, Panama, the Andean countries, Thailand, the Southern Africa Customs Union, Chile, Jordan, and Singapore.*

USPTO developed a new pre-appeal brief conference pilot program that offers applicants a way to request a panel of managers and examiners to formally review application rejections before they file an appeal brief. USPTO anticipates that the change will save patent applicants at least $30 million annually. Introduction of the pre-appeal brief conference was made to fulfill the President's Management Agenda (PMA) mandate for a more citizen-centered, results-oriented government. USPTO initiated a program to ensure that applications filed under existing provisions to request expedited examination for certain subject matter areas or under circumstances are acted on in a timely manner. The USPTO goal is to revise the accelerated examination provision to provide guaranteed final examiner disposition within 12 months if applicants share a greater burden in assisting the examiner. Any subject matter is eligible for this provision of expedited examination.

USPTO began Trilateral Document Access (TDA) to facilitate access by patent examiners to the content of published patent applications stored in participating foreign IP offices' application document image systems. The first phase, File Wrapper Access, allows examiners to compare foreign application documents to the application under review and assist in the possibility of future worksharing efforts. Also, the prototype of TDA Priority Document Exchange has been deployed to facilitate automatic electronic retrieval of priority documents between participating foreign IP offices.

Significant progress has been made in the seven years since electronic filing of trademark applications first became available. More than 85 percent of the applications for registration of a trademark were filed electronically in FY 2005 up from 38 percent in FY 2002. USPTO has continued to enhance its trademark electronic filing system by expanding the number and type of transactions that can be completed online, and by offering reduced fees to encourage electronic communications. Twenty-six electronic forms are now available through the award-winning Trademark Electronic Application System (TEAS). USPTO established more options for filing for a trademark registration, consistent with its *21st Century Strategic Plan*, to create financial and market-based incentives and encourage greater participation in the U.S. trademark system. Trademark owners can now select the option that best meets their needs—with higher fees for filing on paper. USPTO achieved a major milestone in maximizing electronic tools to make the trademark registration process fully transparent to the public. Anyone with Internet access anywhere in the world can review documents in the official trademark application file, including all decisions made by trademark examining attorneys and their reasons for making them through the Trademark Document Retrieval (TDR) system.

The Department's National Institute of Standards and Technology (NIST) researchers performed experiments aimed at improving emergency radio communications at the old Washington Convention Center in Washington, D.C., before, during, and after its implosion in December 2004. The work, which supports public safety programs of the U.S. departments of Homeland Security (DHS) and Justice (DOJ), is intended to help improve the communications capabilities of first responders. First responders who rely on radio communications often lose signals in shielded or complex environments, such as the basements or elevator shafts of buildings. It also is very difficult to detect radio signals through the dense rubble of a building that has collapsed as a result of a natural disaster or terrorist attack. NIST researchers hope to develop reliable, cost-effective tools that can be retrofitted to existing radio systems to assist emergency personnel in locating and perhaps communicating with rescuers and other survivors trapped inside a collapsed building.

For the first time, NIST researchers used chip-scale refrigerators capable of reaching temperatures as low as 100 millikelvin to cool bulk objects. The solid-state refrigerators can be used to cool cryogenic sensors in highly sensitive instruments for semiconductor defect analysis and astronomical research, for example.

New quantum calculations and computer models show that carbon nanotubes "decorated" with titanium or other transition metals can latch on to hydrogen molecules in numbers more than adequate for efficient hydrogen storage, a capability key to long-term efforts to develop fuel cells, an affordable non-polluting alternative to gasoline. Using established quantum physics theory, the NIST researchers predicted that hydrogen can amass in amounts equivalent to eight percent of the weight of titanium-

decorated single walled carbon nanotubes. That's one-third better than the six percent minimum storage-capacity requirement set by the FreedomCar Research Partnership involving the Department of Energy (DOE) and the nation's Big Three automakers.

The Office of Technology Policy (OTP) advanced the commercialization of emerging and promising Radio Frequency Identification (RFID) technology. OTP convened a workshop on "RFID in 2005: Technology and Industry Perspectives," that brought together leading industry, private sector, government experts, and other interested parties to discuss the latest advances, efforts to further develop the technology, current and future applications, and privacy and security concerns. OTP subsequently wrote and issued a report on "RFID: Opportunities and Challenges in Implementation." OTP's efforts to advance the development and commercialization of RFID technology also include leadership on the Commerce RFID Working Group and joint leadership with the Department of Defense (DOD) on the RFID Intra-Government Council. OTP participated in an RFID workshop hosted by the U.S. Chamber of Commerce on RFID where the then Acting Deputy Secretary Sampson provided a keynote address and Deputy Assistant Secretary / Chief Privacy Officer (DAS/CPO) Caprio moderated a panel on privacy and security. OTP sent out an informational mailing to members of Congress to increase awareness of the Department's efforts in developing a dialogue with stakeholders on RFID technology.

NIST electrical engineers Chris Holloway and Galen Koepke place transmitters in a protected air vent at the old Washington Convention Center prior to the implosion of the building. The experiments were performed to help improve the communication capabilities for emergency first responders.

OTP developed and launched in collaboration with State Science and Technology Institute (SSTI) a Web-based, online resource for how to build a technology-based economy, called Technology-Based Economic Development Resource Center (Tbed). Tbed provides links to more than 1,300 strategic plans, best practices, research on entrepreneurship, and impact analyses.

OTP successfully laid the groundwork for the first meeting of the U.S.-Russia Innovation Council on High Technology in Moscow, established to promote bilateral public and private sector cooperation in stimulating commercial science and technology (S&T) innovation and entrepreneurship. Prior to the meeting, OTP led the effort to develop the Terms of Reference for the Council, established and chaired an interagency group responsible for selecting U.S. business members to the Council, and organized the first meeting as U.S. Secretariat and Co-Chair of the Council. Four focus groups were established at the meeting to provide input to the Council for the next meeting in early 2006.

In FY 2005, the Wage Determinations Online Program Web site (*http://www.wdol.gov*) has been selected as a 2005 Intergovernmental Solution Awards (ISA) finalist by the American Council for Technology (ACT). The Web site was developed by the National Technical Information Service (NTIS) as a cooperative effort with an Office of Management and Budget (OMB)-sponsored Interagency Working Group (including representatives from the Department of Labor (DOL), DOD, General Services Administration (GSA), DOE, and other agencies) to improve the wage determination process.

In FY 2005, NTIS was selected by the Office of Personnel Management (OPM) as a 2005 ISA finalist for the ACT e-Training Initiative program in support of the PMA.

In a "Memorandum for the Heads of Executive Departments and Agencies" dated November 30, 2004, the President directed that Commerce develop a Spectrum Reform initiative implementation plan in FY 2005 to address the recommendations contained in a two-part series of reports released by the Secretary of Commerce. This initiative will fundamentally change the business of spectrum management over the next five years.

Among its broadband-related activities, the Department provided technical guidance to the Federal Communications Commission (FCC) for the responsible deployment of broadband over power line (BPL) systems, contributing significantly toward fulfillment of affordable broadband Internet access for all Americans by 2007. Broadband technology opens up new opportunities for telemedicine, long distance education, and countless other services that will foster investment, improve productivity, and promote job producing economic growth. NTIA has taken the lead in the areas of next-generation Internet Protocols, ultra wideband technology, wireless broadband applications, wireless sensor technologies, and child-friendly Internet content.

The Future: Performance, Priorities, and Challenges

Providing the technology infrastructure for U.S. business: The Department will ensure that NIST continues to fulfill its role as the nation's Measurement Institute and remains a world leader in the most critical matters of measurement science, measurement services, and standards. NIST will focus strategically on critical areas by developing a roadmap of U.S. measurement needs, providing for these needs through the U.S. Measurement System (USMS) project, and linking NIST decisions on funding, facilities, staffing, and competencies to those critical areas. NIST will continue to strengthen its partnerships with industry, other agencies, and academia; and increase awareness, appreciation, and support among stakeholders and customers for NIST's role in strengthening U.S. technological innovation. The effective development and use of standards among manufacturers and the service sector will improve the effectiveness and efficiency of U.S. technology, enable greater interoperability, help all business in the supply chain to work together better and promote international trade practices that are more fair and open.

USPTO's patent and trademark operations are rapidly moving to eliminate paper documents from their processes: Electronic communications will continue to be improved, encouraging more applicants to do business electronically with the delivery of Web-based text and image search systems. Patent and trademark operations have made significant progress in achieving the long-term goal to create an e-government operation, and the Office now relies exclusively on trademark data submitted or captured electronically to support examination, publish documents, and print registrations.

Furthering radio spectrum policy for 21st century: The Department will better manage the nation's airwaves, enhance homeland and economic security, increase benefits to consumers, and ensure U.S. leadership in high-technology innovations.

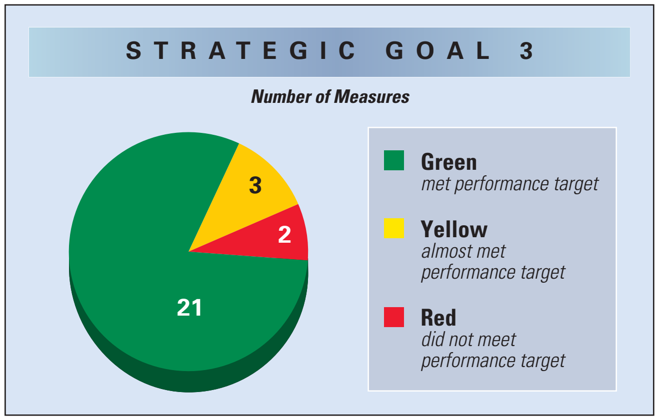
Ensuring broader availability and support for new sources of advanced telecommunications and information. Furthering technology will continue to open new opportunities for everything we do in our lives. The Department will continue its efforts to lead the way in the next-generation Internet Protocols, ultra wideband technology, wireless broadband applications, wireless sensor technologies, and child-friendly Internet content.

STRATEGIC GOAL 3

Observe, protect and manage the Earth's resources to promote environmental stewardship

Most Important Results

The Department achieved success in 81 percent of the targets that were set.



NOAA Provided Critical Information and Support Before and After Hurricane Katrina: Within 48 hours of landfall on the central Gulf coast, all NOAA National Hurricane Center forecasts indicated that Katrina would come ashore in southeastern Louisiana with a hurricane intensity of at least a level 4. NOAA accurately predicted the path of this hurricane well in advance of landfall, enabling governments to initiate mass evacuations. During Katrina, NOAA collected accurate tide and current information on storm surge that will be invaluable to engineers planning the recovery and rebuilding of the coasts according to standards safe for people and the environment. NOAA provided thousands of before and after Katrina images using high-resolution aerial photography that provided critical help to damage assessment teams and emergency recovery operations. Google Earth and GlobeXplorer companies integrated the imagery into their web services allowing the public to use these images to begin assessing impacts and damages and the insurance industry to expedite claims assessments. NOAA's mapping and charting services acted immediately after the storm to find navigation obstructions that might impede maritime commerce and delivery of critical supplies to stricken populations. NOAA analyzed satellite imagery of the area to determine coastal impacts (e.g., amount of land inundated and wetland loss.) NOAA assisted the State of Louisiana Department of Wildlife and Fisheries Enforcement agents in security and safety matters involving marine rescues through the provision of NOAA enforcement agents and vessels. NOAA determined a commercial fishery failure and a fishery resource disaster in the Gulf of Mexico which will enable additional assistance to be delivered. Further, NOAA helped provide emergency response for more than 200 hazard incidents, including several Superfund hazardous waste sites.

The Department Led the Advancement of Integrated Earth Observations Systems: The Department led the approval and is leading the implementation of the *Strategic Plan for the US Integrated Earth Observation System* through the U.S. Group on Earth Observations (USGEO). USGEO, a standing subcommittee of the White House Committee on Environment and Natural Resources composed of 15 federal agencies and three White House offices, created the plan which was released in April 2005. The Department then led a U.S. Public Engagement Workshop in May 2005 to discuss the plan and its implementation. On a parallel track, the Department continued to provide international leadership in Earth observations and helped to facilitate international agreement on the Global Earth Observation System of Systems (GEOSS). The 10-year implementation plan was adopted at the third Global Earth Observation Summit, held in February 2005 in Brussels. By adopting the plan, the nations have accomplished the first phase of realizing the goal of a comprehensive, integrated, and sustained Earth observation system. The Department also played a vital role in the establishment of the permanent Group on Earth Observations (GEO) through membership on its Executive Committee and in the successful transition of its Secretariat from the United States to Geneva, Switzerland.

Max Mayfield, Director of NOAA's National Hurricane Center, briefed President Bush on Hurricane Frances at the Miami center.

NOAA Begins Expansion of U.S. Tsunami Warning Program; Accurately Predicts West Coast Tsunami: In response to the December 26, 2004 Indian Ocean tsunami, NOAA has taken actions to expand the U.S. Tsunami Warning Program. The multi-year implementation plan, developed after receiving supplemental funding in FY 2005, will improve the Tsunami Warning and Mitigation System and Tsunami Forecast System. Among the steps taken in FY 2005, NOAA now provides 24 hours a day, seven days a week (24/7) operations at NOAA Tsunami Warning Centers, seismic monitoring, and improved community preparedness through the Tsunami Ready program. NOAA also utilized the experimental Tsunami Forecast System to accurately predict a tsunami just off the coast of Oregon following an approximately 7.2 magnitude earthquake off of the northern California coast in June. The accurate forecast and measurement of the resulting tsunami enabled NOAA's Alaska Tsunami Warning Center to cancel its warning for the Oregon coast, which was issued five minutes after the earthquake struck.

NOAA Assists the IPCC Fourth Assessment Report on Climate Change: NOAA's new "state-of-the-art" coupled climate model (CM2) provided massive amounts of data to the world's research communities for the IPCC Fourth Assessment Report on Climate Change (2007). The CM2 model was evaluated and revealed to be one of the best in the world by a variety of measures. This accomplishment represents the culmination of an intensive effort by the Geophysical Fluid Dynamic Laboratory (GFDL) scientists over the last several years to construct this climate model. The experiment was begun using two initial conditions: one representing present-day climate, and one from 1860. To assess the effects of global warming, two scenarios were created; the first ran increasing atmospheric carbon dioxide (CO_2) concentrations one percent per year until it reached twice the concentration relative to present day and the second was run increasing atmospheric concentrations of CO_2 one percent per year until it reached four times the concentration relative to present day. Nearly 500 gigabytes of data have been shipped to the Program for Climate Model Diagnosis and Intercomparison (PCMDI) on a large computer disk. NOAA/GFDL was the first organization to ship nearly 500 gigabytes of model data from a state-of-the-art model.

Exploration Of South Pacific finds new species; sets records for NOAA undersea research and ocean exploration: Hawaii Undersea Research Laboratory (HURL) and Ocean Exploration completed the longest and most-challenging ocean expedition in HURL's 25-year history. The ship traveled 10,000 nautical miles and the Pisces submersibles made 67 dives, one as deep as 1,820 meters on Brothers undersea volcano. The results included the discovery and advancement of knowledge about that largely unknown oceanic region. The nearly five-month-long international expedition to explore the South Pacific produced many discoveries, including numerous suspected new species, new ranges for known species, measurements of the diversity of marine life, and more data about undersea volcanoes and the rare interface of life based on sunlight with chemosynthetic organisms.

Rebuilt fish stocks: As a result of the Department's efforts to conserve and manage the nation's fishery resources, one formerly overfished fish stock, Pacific Whiting, was fully rebuilt in only two years. In addition, six stocks are no longer considered to be overfished, and overfishing has been eliminated on three stocks. Overfished and/or overfishing determinations were made for 20 stocks whose status was previously unknown. The percentage of stocks with a known population status that are not overfished

increased from 64 percent to 72 percent, while the percentage of stocks with a known fishing rate that are not subject to overfishing has increased from 79 percent to 81 percent.

Recovering Threatened and Endangered Salmonids: The Department's efforts to conserve and recover the nation's protected resources have made steady and sometimes dramatic progress. In recent years, the abundance of both hatchery-reared and naturally spawning populations of listed salmon and steelhead has generally increased. This increase in abundance is likely due to changes in ocean conditions; improvements to habitat from restoration efforts; and changes in harvest regimes, hydropower operations, and hatchery practices implemented since the listings occurred. Improvements are seen in many salmon populations—16 of 26 species or evolutionarily significant units (ESU) of Pacific salmon are stable or increasing, six more than had been anticipated for this time.

National Digital Forecast Database (NDFD) adds additional forecast elements and expands: In FY 2005 two new experimental elements, relative humidity and apparent temperature, were added to the NDFD for the lower 48 states, Puerto Rico, Hawaii, and Guam. This is the first expansion of NDFD. The elements were added in response to land management, emergency response, and public health officials who requested relative humidity, wind chill, and heat indices be added to the digital database. The National Weather Service (NWS) also upgraded six experimental elements to operational status for Puerto Rico and Hawaii. These six forecast elements are already operational for the lower 48 states and will be operational for Guam later in 2005. NOAA customers continue to be excited about these products and are utilizing the NDFD in their decision-making and as part of their business.

The Future: Performance, Priorities, and Challenges

Advancing understanding of climate variability, potential responses, and options: The Department will work to develop a predictive understanding of the global climate system, with quantified uncertainties sufficient for making informed and reasoned decisions. The Department will also target climate-sensitive sectors and the climate literate public and help them to more effectively incorporate the Department's climate products into their everyday planning and decision-making processes. These efforts involve building integrated atmospheric and oceanic climate observing systems, including expansion of the global ocean observing system in support of the Integrated Ocean Observing System (IOOS)/Global Ocean Observing System; improving analyses and attribution of climate trends for improved models and forecasts; understanding the impacts of climate variability and change on marine ecosystems (e.g. fish stocks); and expanding regional decision support climate information and services to a variety of economic sectors (e.g. agriculture, energy providers).

Improving accuracy and timeliness of weather and water information: As the Department has seen from the hurricanes that have struck U.S. coastal areas this fall, accurate hurricane projections are essential in the saving of lives and mitigating property damage. The Department will work to improve the accuracy and lead time of all severe weather events. At the same time, it will work to improve the accuracy of daily weather patterns.

Advancing the place-based ecosystem approach to management: This approach will improve resource management by advancing understanding of ecosystems through better simulation and predictive models, environmental observing, and gathering of information needed for social and economic indicators. To facilitate this, the Department will engage with partners to bridge existing governance structures to achieve regional objectives by implementing cooperative strategies to improve ecosystem health and productivity. Recognizing the vulnerability of the coasts and stressors on ecosystems, NOAA will promote the smart development on the coasts, and the protection and restoration of marine and coastal habitats and biodiversity. With population expected to grow by five to eight percent in the next five years, NOAA will guide coastal managers in balancing the benefits of economic growth with managing and mitigating the impacts of growth on coastal environments and helping to resolve increasing conflicts in competition for land and water resources.

Improving integration and accuracy of marine, aviation, and surface transportation information: A safe, efficient, and environmentally sound transportation network is crucial to the nation's economic strength. NOAA will work to provide accurate and timely weather information to promote the safe transport of goods. Transportation weather information supports the reduction of weather related crashes and incidents in the air, at sea, and on land.

Improving and expanding knowledge of the world's oceans through deep-sea exploration: The ocean is the lifeblood of Earth, covering more than 70 percent of the planet's surface, driving weather, regulating temperature and ultimately, supporting all living organisms. Throughout history, the ocean has been a vital source of sustenance, transport, commerce, growth and inspiration. Yet for all of our reliance on the ocean, 95 percent of the ocean remains unexplored—unseen by human eyes. NOAA explores the oceans for the purpose of discovery and advancement of knowledge, supporting missions to investigate and document unknown and poorly known areas of the ocean.

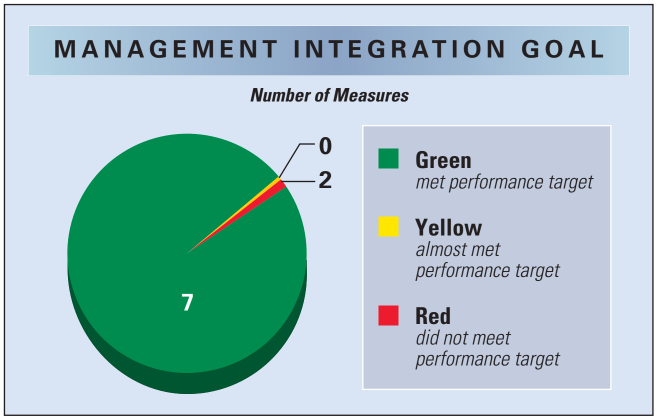
Revolutionizing understanding of how earth works through the GEOSS: Sixty countries, the European Commission, and more than 40 international organizations are supporting the development of a GEOSS that, over the next decade, will revolutionize the understanding of Earth and how it works. With benefits as broad as the planet itself, the U.S.-led initiative promises to make people and economies around the globe healthier, safer, and better equipped to manage basic daily needs. The aim is to make 21st century technology as interrelated as the planet it observes, predicts, and protects providing the science on which sound policy and decision-making must be built. The United States, led in major part by the Department, is spearheading such a system, domestically and around the world.

MANAGEMENT INTEGRATION GOAL

Achieve organizational and management excellence

Most Important Results

The Department achieved success in 78 percent of the targets that were set for this goal.



The Department received an unqualified audit opinion for the seventh consecutive year, and obligated 62 percent of its contracting resources to small businesses. In order to keep pace with changing competency needs, the Department continued to refine the Learning Management System (LMS), which provides diverse Department audiences with one-stop access to more than 1,200 off-the-shelf and customized e-learning courses anytime and anywhere, via the Internet. Combining course-authoring capability, storage of employee training information, and automation of individual development plans, the LMS ensures that the Department will be able to quickly respond to urgent, mandated, or other customized training needs as well as more comprehensive training solutions.

To assist managers in assuring that program performance plays a role in decisions about their programs, the Department's executive information system, the Consolidated Reporting System (CRS), for the first time included performance data in addition to financial, procurement, human resources, and grants information. CRS allows managers to extract the data they need without having to rely on other people's schedules or availability, and provides a comprehensive picture of the status of human and material resources and performance.

The Future: Performance, Priorities, and Challenges

Promoting information security throughout the Department: In today's world, overcoming the threat to the security of the information that organizations generate and use remains a constant challenge. Although the Department has made much progress over the last few years in improving information security, it will continue to develop and implement security controls for its systems and will equip its personnel with the necessary training to administer systems securely and effectively.

Improving budget and performance integration: To ensure that taxpayers are receiving an appropriate return on investment, the Department must continue to assess the relationship between funds spent and performance outcomes. The establishment of quarterly monitoring has fostered greater accountability for delivering program performance, but the Department must continue to evaluate the link between budget and performance to ensure it is making the best possible use of public funds.

Effectively managing Departmental and bureau acquisition processes: The Department is continually challenged to maintain an effective business environment in which administrative costs are minimized and contract cost avoidance is maximized. During FY 2005, the Department embarked upon a major communications program to reach out to the acquisition and program communities, focusing on acquisition planning, training of contracting officers' representatives, and development of a performance-based acquisition enterprise. Towards those ends, the Department developed a training program for contracting officers' representatives that requires expertise in business/industry, general management, project management, and procurement. In addition, a contracting officer representative element must be included in the performance plans of individuals who spend more than 20 percent of their time working on contracts. The increasing expertise of the Department's acquisition workforce will contribute to positive results when feasibility studies of all major commercial functions are conducted and competitions to be held in the next several fiscal years are identified.

STAKEHOLDERS AND CROSS-CUTTING PROGRAMS

The Department has numerous cross-cutting programs involving multiple bureaus: other federal, state, and local agencies; foreign government; and private enterprise. Federal programs dealing with economic and technological development, the natural environment, international trade, and demographic and economic statistics play a major role in advancing the welfare of all Americans. Commerce continues to work with other government agencies in furthering efforts in these areas for the American public. Examples of cross-cutting programs external to the Department's bureaus include the following federal, state, local, and international agencies:

DEPARTMENT OF COMMERCE BUREAU ACTIVITIES	OTHER FEDERAL AGENCIES AND ORGANIZATIONS[1]	
Export controls	Federal Emergency Management Agency/Homeland Security	Federal Reserve Board
Improvements to highways and railroads	Department of Defense	Bureau of Justice Statistics
Improvements to the environment	Department of Energy	Agency for Health Care Research and Quality
Economic distress and recovery efforts	Department of Justice	Bureau of Transportation Statistics
Tracking the U.S. economy through GDP and other statistics	Department of State	Department of Health and Human Services
Market access/improvements	Department of Treasury	Federal Aviation Administration
Research	Environmental Protection Agency	Food and Drug Administration
Telecommunications	Department of Labor	National Institutes of Health
Technology transfer	Department of Housing and Urban Development	Federal Communications Commission
Trade policies	Department of Agriculture	National Science Foundation
Environmental programs	Delta Regional Authority	Department of Homeland Security
Homeland security	Indian Tribes	European Patent Office
Patents and trademarks and intellectual property	Department of Transportation	States
Defense industrial base activities	Small Business Administration	Other Countries and Organizations
Chemical Weapons Convention compliance	Agency for International Development	U.S. Coast Guard
Economic development	Department of Education	U.S. Postal Service
Minority-owned business development	Customs/Border and Transportation Security/ Homeland Security	Central Intelligence Agency
Measurements and standards		Bureau of Immigration
		Federal Bureau of Investigation

[1] *Note: This is not an all-inclusive listing.*

THE PRESIDENT'S MANAGEMENT AGENDA

It is the Department of Commerce's stated mission to promote job creation and improve living standards for all Americans by fostering economic growth, technological competitiveness, and sustainable development. In meeting this obligation to the American taxpayer, the Department fully appreciates the importance of sound management practices and is intent on applying them in all aspects of its work.

Through focusing on major management areas—strategic management of human capital, competitive sourcing, improved financial performance, electronic government, and budget and performance integration—Department employees work towards continual improvement in the programs for which they are responsible.

The President's Management Agenda (PMA) guides these improvements and the President's Management Scorecard provides a way of keeping track how agencies are doing in the management of public programs and public funds. Each quarter federal agencies set goals and establish timeframes for meeting their objectives in the major management areas that are the focus of the PMA, and each quarter the Office of Management and Budget (OMB) rates the agencies' status and progress in those areas. Green indicates success, yellow means mixed results, and red is an unsatisfactory rating. Progress ratings for each category reflect how well the Department is doing in achieving success in that category, and whether it is following through on planned actions. Status ratings indicate the degree to which the Department succeeded in reaching its ultimate goals for the management area.

The table below shows the Department's most recently published progress and status ratings for government-wide initiatives. The sections that follow provide a look at what the Department has accomplished.

DEPARTMENT OF COMMERCE RATINGS

INITIATIVE	STATUS RATINGS AS OF 9/30/05	PROGRESS RATINGS AS OF 9/30/05
Strategic Management of Human Capital	Yellow	Green
Competitive Sourcing	Yellow	Green
Improved Financial Performance	Green	Green
Electronic Government	Yellow	Green
Budget and Performance Integration	Yellow	Green

WHAT RATINGS INDICATES: *OMB assesses agency "progress" on a case by case basis against the deliverables and time lines established for the five initiatives that are agreed upon with each agency as follows:*

- **GREEN** *Implementation is proceeding according to plans agreed upon with the agencies;*
- **YELLOW** *Some slippage or other issues requiring adjustment by the agency in order to achieve the initiative objectives on a timely basis; and*
- **RED** *Initiative in serious jeopardy. Unlikely to realize objectives absent significant management intervention.*

STATUS | **Strategic Management of Human Capital** | PROGRESS

As part of its ongoing efforts to ensure that it has the right people in the right jobs at the right time, the Department has:

- Adopted a new automated hiring tool that provides automatic notification of vacancy announcements to more than 65 organizations with diverse affiliations.
- Streamlined staffing processes and procedures to reduce average hiring cycle time from 146 days in fiscal year (FY) 2001 to 31 days in FY 2004.
- Provided training and development opportunities for 100 employees enrolled in the Senior Executive Service (SES) Candidate Development Program, the Executive Leadership Development Program, and the Aspiring Leaders Development Program (ALDP). These programs include competency assessment, formal classroom training, developmental assignments, seminars, and mentors for employees at the GS-9 through GS-15 and equivalent levels.
- Launched a new skill-based Administrative Professional Certificate Program for employees at the GS-2 through GS-8 and equivalent levels. More than 120 employees are enrolled in this program.
- Offered more than 1,200 competency-based online training courses, available whenever needed at the desktops of more than 38,000 users.
- Launched a pilot for the Commerce Career Counseling Program to provide individual counseling sessions and workshops on topics such as resume-writing and interviewing skills.
- Reduced overall turnover rate from 7.28 percent in FY 2001 to 4.36 percent in FY 2004.

STRATEGIC MANAGEMENT OF HUMAN CAPITAL:
PLACEMENT AND DEVELOPMENT PROGRAMS

Special Development Program Helps Ensure Leadership for Tomorrow

In the fall of 2004, Commerce began a two-year Aspiring Leaders Development Program (ALDP) for high potential employees in the GS-9 through GS-12 or equivalent grade levels. This program is intended to develop individuals for leadership positions in occupations where high attrition among managers and executives is expected over the next several years. Throughout the course of the program, ALDP participants, who were selected through a highly competitive process, receive intensive training to enhance their leadership potential. In addition to coursework focused on leadership, the training involves one-on-one interviews with successful leaders throughout the Department, short-term assignments targeting the development of particular skills, and shadowing effective leaders as they go about their work.

One of the candidates in this year's ALDP class is Fatimot Ladipo. Fatimot joined the Department in June 2004 as a management analyst, coming to the Department from

(continued)

the office of Georgia's lieutenant governor in Atlanta. Although not yet through her first year in the program, Fatimot has already found her experiences to be very rewarding. "I really enjoyed conducting interviews with managers," she says, "you learn so much about the important work going on throughout the Department. The interviews gave me a much broader understanding of the mission of the Department and the scope of the work done." Fatimot recently completed a detail to the Census Bureau, where she did research in support of outreach efforts to allow nonprofit organizations better access to Census data.

Summing up her experiences thus far Fatimot notes, "In addition to helping me identify competency areas that I want to target for improvement, participating in the ALDP has really given me insight into how leaders think, and provided me invaluable opportunities to network with individuals with a more global perspective than I previously had."

Post-Secondary Internship and SCEP Programs Bring Department New Talent

Sydia Lopez, originally from the Los Angeles area, first came to work at the Department in June 2004 while she was a graduate student at the University of Southern California. Her appointment was made possible through one of the post-secondary internship programs the Department uses to hire promising candidates, the Hispanic Association of Colleges and Universities program. This program provides students opportunities to experience federal jobs during the summer or for a semester during their school year. During her internship, Sydia was converted to a student appointment through the Student Career Experience Program (SCEP). SCEP is a federal program that enables the Department to hire students into developmental positions in order to address its future hiring needs. Participants who complete the program can become permanent federal employees without further job competition. Once Sydia completed her masters degree in Public Policy in May 2005, she was converted to the federal competitive service, where she is now working as a human resources specialist in the Office of the Secretary's Office of Human Resources Management.

Sydia is very positive about the programs that made her aware of the opportunities within the Department of Commerce available to bright students like herself. "If I hadn't gotten the internship and had the opportunity to work for the federal government in Washington, I probably would have stayed in California, and perhaps worked for local government. But I found that a federal job at Commerce offered so much of what I was looking for in a career—an appropriate balance of the factors I value. I also realized that these programs had eased the transition from college to a permanent job—while my friends were still looking for work right before graduating, I already knew I'd be leaving for a great job in a very supportive environment."

Using these employment programs, the Department has been able to access intelligent, enthusiastic employees like Sydia who otherwise might have been missed in a very competitive market for talented workers.

STATUS	Competitive Sourcing	PROGRESS

More than half of the Department's budget is used for contracts, grants, and interagency agreements. Therefore, it is imperative that it continue to look at its operations to determine who can best do its commercial work—its own employees or other sources. The Department has examined this issue extensively, and it is working on developing the best approach for making such decisions. Throughout the year, it selects certain activities and conducts public-private competitions to identify the most cost-effective method for getting the job done.

Some of the Department's accomplishments over the past year include the following:

- The Department's Council of Senior Financial Officers reviewed the 2004 inventory of potential commercial services to ensure consistency across bureaus and promote better identification of competition opportunities in the future. In addition, the Department is briefing bureau executives to highlight the cost savings, operational efficiencies, and other benefits that competitive sourcing can bring to their organizations.
- The Departmental oversight program's work with the acquisition community has yielded positive results. For instance, the use of the Acquisition Review Board to oversee and approve competitive sourcing efforts has led to a clearer identification of requirements and an improved acquisition strategy. As a result, competitions are better managed.
- To improve the process of identifying areas for competition, the Department will use a "tiger team" approach, with headquarters and bureau staffs together participating in oversight study activities. This approach allows the Department to:
  - Develop knowledgeable staff to conduct and/or provide oversight and assistance for competitions.
  - Eliminate staffing redundancies in its bureaus.
  - Avoid over-reliance on consultants.
- The Department has revamped its competitive sourcing Web site which now features training materials, templates, and guidance to help the bureaus in their efforts. It also includes a Web-based training video (sponsored by the Chief Acquisition Officers Council) that clearly explains the entire competitive sourcing process—from the Federal Activities Inventory Reform (FAIR) Act inventory to the actual A-76 studies and outcomes. These tools are available to all Department employees, managers, and the public to better educate them on the program and its benefits. The tools will help to ensure a better understanding of the program's potential and facilitate better competition results.

STATUS	Improved Financial Performance	PROGRESS

The Department continues to make itself accountable to the taxpayer for how it spends public funds. Readily available financial information helps its managers make well-informed operational, policy, and budget decisions. The timeliness and reliability of such information is an essential aspect of this effort. Here is what the Department has accomplished in the past year, and what it plans for the future:

- The Department achieved green status in "Improving Financial Management" on the President's Management Scorecard. It is one of only nine agencies in the government to do so.
- The Department's executive information system, the Consolidated Reporting System, for the first time included performance data in addition to financial, procurement, human resources, and grants information. The performance data provide Department executives with easy access to bureaus' performance compared against established goals.
- Utilizing the integrated financial systems and improved procedures implemented over the past few years, the Department was able to fully meet the accelerated OMB deadlines for publishing audited financial statements within 45 days of the year end, and within 21 days after each quarter. Only three years ago, departments were given nearly four months after the end of the fiscal year to publish these statements, and did not have to submit quarterly financial statements that are now required.
- The Department completed a business case for leveraging the financial systems and processes in place to streamline financial management within the Department. The Department will benefit from these streamlining initiatives by reducing system infrastructure and overall financial systems costs, introducing best practices to standardize financial management processes, and positioning itself for migration to a financial management line of business center of excellence.
- On its FY 2005 financial statements, the Department received an unqualified audit opinion for the seventh consecutive year.

IMPROVING FINANCIAL PERFORMANCE: NEW SYSTEM KEEPS MANAGERS ON TOP OF PROGRAM SPENDING

CBS—the Commerce Business System—is the Department's new financial management system, and reactions from users indicates that the Department has come a long way in project cost management and reporting.

The Department's old financial management system gave managers financial reports on their projects on a monthly basis. Now that CBS is up and running, reporting is much more timely. As one Commerce official who administers CBS put it, "Times have changed considerably—previously, managers were receiving financial reports once a month, and now they're accustomed to getting information much more frequently. In fact, we'll hear complaints if they can't access their reports on a daily basis."

Because of this new system, Department managers' grasp of where their programs stand fiscally is better than ever. CBS has enhanced the performance and operations of programs across the entire Department of Commerce.

STATUS | **Electronic Government** | PROGRESS

The Department continues to use the Internet to provide massive amounts of information to the public and to enable customers to complete a variety of business transactions. More than nine million individual users access Department information on the Web each month, placing the Department consistently in the top three of all government and nongovernment Web information sources, and in the top 80 Web properties on the entire Internet. Further, users of Department Web sites return at a particularly high rate each month.

More than 100 transactions are available to the public via the Internet. You can apply for fishing permits and for patents and trademark registration, order nautical charts and environmental data, file economic census data, and research publicly available patent and trademark files through Department Web sites. Through the Internet:

- The National Institute of Standards and Technology (NIST) fulfills more than 1.5 billion automated requests per day to provide precise time information for many critical applications, such as stock exchange transactions, Internet operations, and electrical power generation.
- The National Oceanic and Atmospheric Administration's (NOAA) main National Weather Service (NWS) Web site and supporting Web sites are visited by an average of six million citizens each day to obtain information about national and local weather. In the 45-day period starting in August 2004, the NWS Web sites saw more than 1.5 billion hits as four hurricanes came ashore in the southern states.
- 730 Commerce forms are available to the public via the forms.gov Web site.
- Between September 1 and September 7, 2005, the public downloaded from the NOAA Web site about five million photos per day of the Gulf Coast area affected by Hurricane Katrina.

The Department continues to work with other federal agencies to provide the public with easy-to-find, single points of access to government services; to reduce reporting burdens on businesses; to share information more quickly and conveniently among different levels of government; and to automate internal processes to save money. Some of the Department's ongoing activities and accomplishments include:

- Significant progress in information technology (IT) security (100 percent of Department systems are covered by IT security plans and the quality of the certification and accreditation packages for many of its national critical and mission critical systems has been improved).
- Leading an interagency e-government initiative to provide the public with a single portal to export-related government services (export.gov).
- The Department is actively involved in working with other agencies as well as state, local, and private sector experts to create Web sites that improve effectiveness, efficiency, and customer service throughout the government.
    - The Department has helped to improve the public's access to the recreation-related information that the government generates by providing complete information on the Department's NOAA recreational sites and up-to-date weather information for all federal recreation facilities. Recreation One-Stop assists citizens in planning visits to federal recreation sites and making campground/tour reservations.

- Supporting major systems with developed business cases to ensure that IT funds are invested and managed wisely. As of June 2005, more than 90 percent of the Department's major IT projects met cost, schedule, and performance targets.
- Identified the use of handheld computers for the 2010 Decennial Census for field follow-up. This will significantly reduce overall costs by eliminating large amounts of paper to be processed and stored.

ELECTRONIC GOVERNMENT: INFORMATION AT YOUR FINGERTIPS

Internet Portal Puts Export Information at Businesses' Fingertips

Department of Commerce employees have contributed to creating a source of information that U.S. businesses can use in starting up or expanding international sales. Export.gov is a one-stop portal that provides U.S. businesses access to a wealth of information on foreign markets, trade relationships, shipping information, and export assistance programs. The Export.gov market research database is an electronic library that allows visitors to search and access more than 300,000 market research reports by region, country, or industry sector. Reports are added daily by commercial specialists located in U.S. embassies and consulates around the world. Companies interested in evaluating U.S. trade relationships with foreign markets can retrieve the latest annual trade data, then visualize, analyze, print, and download customized output using Export.gov's interactive tool, TradeStats Express™. Filling out the NAFTA Certificate of Origin form can be confusing and time-consuming, but now exporters can use an interactive tool that helps determine industry classifications for their products and provides step-by-step guidance. Those seeking international buyers, export financing, international trade shows, or help in shipping their products need only type www.export.gov to access a variety of federal programs at a single location.

The Export.gov portal is accessed by more than 200,000 unique visitors each month and represents a collaborative effort of the 19 federal agencies that make up the Trade Promotion Coordinating Committee (TPCC).

STATUS	Budget and Performance Integration	PROGRESS

To ensure taxpayers an appropriate return on investment, the Department looks carefully at how its programs are performing and how much they cost. As a result, it can objectively verify that taxpayers get what they're paying for. Some of the Department's past year's accomplishments include:

- Its annual performance plan is integrated with the Department's budget submission, which reflects its strategic goals and objectives and the Secretary's priorities. Consequently, Department managers routinely integrate their funding needs with their programs' goals.
- The Bureau of Industry and Security (BIS) is serving its clients more responsively and economically by issuing significantly more export licenses without an increase in staff assigned to those duties. While its program budget has remained flat over the previous three years, the number of export licenses that staff has reviewed has increased from 10,767 to nearly 14,000 in the most recent fiscal year. By becoming more efficient year-by-year, BIS demonstrates its results orientation and accountability to its customers and the taxpayers.

- The Department instituted a quarterly monitoring system which has led to greater accountability for delivering program performance. One-on-one meetings are held each quarter between the Deputy Secretary and senior leaders from each bureau to review progress in meeting performance goals and to identify new challenges.

Additional Management Achievements

INTEGRATING BUDGET AND PERFORMANCE:
LINKING PROGRAM SUCCESS TO PROGRAM BUDGETS

National Oceanic and Atmospheric Administration (NOAA) Hurricane Trackers

There is perhaps no greater job satisfaction than knowing that you played a role in saving a life. Through ever-improving weather prediction, employees of NOAA help to save lives and protect property in the course of their day-to-day work. NOAA has greatly enhanced the quality of weather information it provides to the nation's communities, and improvements in service delivery spurred by program assessments have made things even better. For example, its success at predicting hurricane tracks keeps improving, and it has set numerous records for accuracy in 2004. One way that NOAA communicates vital weather-related information is through its Web sites. The Web sites of NOAA's National Hurricane Center and National Weather Service received more than eight billion hits during August through October 2004, when conditions in the Atlantic spawned one storm after another. As the 2005 Atlantic hurricane season got underway, NOAA unveiled Storm Tracker to follow tropical storms and hurricanes. The NOAA Storm Tracker will contain live links to advisories, tracking maps, and satellite images of storms that are projected to strike the United States or other nations in their path. Storm Tracker can be re-sized and placed anywhere on your computer desktop to easily monitor tropical storms and hurricanes, and the live links will automatically update, so that you can surf the Internet while continuing to keep track of a storm.

National Institute of Standards and Technology (NIST) 9/11 Investigation

Few of us realize, in the wake of a disaster like 9/11, how important it is to examine materials, building design, and human responses involved so that the harm caused by such events can be prevented or minimized in the future. As the only U.S. organization charged with developing and promoting measurement, standards, and technology to enhance productivity, facilitate trade, and improve the quality of life, NIST employees play a key role in enhancing the nation's security. In the aftermath of the attacks of September 11, 2001, NIST is helping millions of individuals in law enforcement, the military, emergency services, IT, airport and building security, and other industries to protect the U.S. public from terrorist threats. The ultra precise technologies being advanced by NIST are proving vital in the nation's effort to develop and implement technologies to prevent, respond to, and mitigate terrorist attacks.

The standards that NIST is developing and the scientific breakthroughs for which NIST employees are responsible are giving first responders confidence that their equipment will provide adequate protection and function reliably. They are also ensuring public accountability and restoring trust by improving building and fire safety standards, as well as life safety factors.

(continued)

The Economic Development Administration (EDA) Stimulates Industrial and Commercial Growth

If Department employees ever wonder whether their efforts to use taxpayer dollars efficiently had any real impact on communities, they need look no further than EDA. One way in which EDA applies taxpayer dollars to great advantage is by investing in distressed communities to act as a catalyst for private investment. As a result of EDA investments, private sector investments in distressed communities have greatly increased. This past year, for each dollar that EDA invested, the private sector invested $39. This average ratio of public to private investment has improved fivefold since FY 2000. An example of EDA's work is its investment of $6 million in the city of Stockton, California, to help build the South Stockton industrial area. The project area is home to 200 industrial firms employing 7,500 individuals in emerging industry clusters that can reduce the area's dependence on agriculture. Total private investment here is expected to reach $848 million.

The Department's Office of Faith-Based and Community Initiatives was created to strengthen and expand the role that faith-based and community organizations play in addressing the nation's social problems. By educating these organizations about funding opportunities and helping them to apply for funding, Commerce is fostering their participation in competing for federal dollars for specific community-oriented projects.

FAITH-BASED AND COMMUNITY INITIATIVE

EDA has been awarding grants to faith-based and community groups for several years. From FY 2002-2004 EDA invested over $86 million in 100 projects involving faith-based and community organizations. These investments have leveraged over $2.5 billion in private sector investment and have created or saved over 54,000 jobs. An example of such an investment is the case of a $2.5 million investment in Goodwill Industries of South Florida, Inc., in Miami-Dade County. Goodwill renovated and expanded the manufacturing production and distribution facility for the manufacturing of military fatigues, flak jackets, and uniforms, as well as flag embroidery. EDA's investment is expected to create 400 jobs, primarily for persons with disabilities, and to stimulate an additional $2.5 million in private sector investment.

MANAGEMENT CONTROLS

FEDERAL MANAGER'S FINANCIAL INTEGRITY ACT (FMFIA) OF 1982

During FY 2005, the Department reviewed its management control system in accordance with the requirements of FMFIA, and Office of Management and Budget (OMB) and Departmental guidelines. The objective of our 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 agency 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.

The efficiency of the Department's operations is continually evaluated using information obtained from reviews conducted by the Government Accountability Office (GAO), Office of Inspector General (OIG), and specifically requested studies. It is worth noting that the list of high-risk programs issued by GAO in January 2005 does not include any programs administered by the Department of Commerce. Also, on a yearly basis, operating units within the Department conduct self-assessments of their compliance with FMFIA.

Section 2 of the FMFIA, which deals with nonfinancial controls, 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 diverse reviews that took place during FY 2005 provide a high level of assurance that Commerce systems and management controls comply with standards established under FMFIA, with the exception of one material weakness. This weakness involves the need to validate that information technology (IT) security certification and accreditation (C&A) documentation and processes for the Department's national critical and mission critical systems are of adequate quality. As stated in the Secretary's introductory letter, the Department of Commerce has made important progress in resolving this material weakness by working closely with its operating units to address concerns and to improve the overall performance of the Department's IT security program.

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

Section 2 of FMFIA

NUMBER OF MATERIAL WEAKNESSES				
	NUMBER AT BEGINNING OF YEAR	NUMBER CORRECTED	NUMBER ADDED	NUMBER REMAINING END OF FISCAL YEAR
FY 2002	2	1	0	1
FY 2003	1	0	0	1
FY 2004	1	0	0	1
FY 2005	1	0	0	1

Strengthening Information Technology Security

During the year, the Department of Commerce significantly improved its IT security posture, focusing on completing corrective actions to address prior-year IT security concerns and improving the quality of C&A processes and documentation for national critical and mission critical systems. Improved C&A packages for all national critical systems and most mission critical systems have been completed. However, only a small number of improved C&A packages were available by the Inspector General's (IG) August 31 deadline for independent evaluation under the Federal Information Security Management Act (FISMA). The OIG's review of the available packages found that the risk assessments and security plans were much improved, but three of the five improved packages reviewed had not undergone adequate certification testing. In light of the limited number of packages available for review and the testing deficiencies found, OIG concluded that the C&A process had not yet improved to the point where authorizing officials throughout the Department have sufficient information about the vulnerabilities remaining in their systems when it is time to make the accreditation decision. Corrective action related to system testing is underway and all C&A packages are scheduled to have been improved by the end of FY 2006.

Additionally, in FY 2005, the IG's independent audit of the Department's FY 2004 financial statements included security reviews of the Department's financial management systems. The audit concluded that seven operating units had weaknesses in six key IT security areas —entity-wide security program planning and management, access controls, application software development and change control, system software management, segregation of duties, and service continuity.

The Office of the Chief Information Officer (OCIO) issued a *Plan for Eliminating the Basis for the Commerce FMFIA IT Security Material Weakness,* which contains a schedule and reporting plan developed collaboratively with Commerce operating units to improve C&A documentation and processes during FY 2005 and FY 2006. OCIO closely monitored efforts in FY 2005 by operating units to improve the quality of C&A documentation and processes. OCIO completed IT security compliance reviews that included inspecting improved system C&A packages for five of the Department's national critical and 21 of its mission critical systems. It also reviewed 50 IT contracts for inclusion of IT security clauses, and reviewed secure configuration management implementation status and procedures for compliance with federal guidance and Departmental policy. It monitored on a monthly basis the status of corrective actions taken by operating units in response to these and prior-year reviews, and provided quarterly status updates to OMB on planned corrective actions and IT security performance metrics as required by FISMA.

Additionally, at the end of FY 2004, OCIO identified the following planned actions for FY 2005:

- Continue quality inspections of C&A package documentation, expanding reviews to business essential systems within the Department.
- Continue monitoring the inclusion of IT security provisions and requirements in contracts, and inspecting contractor operations to ensure adequate implementation of Commerce requirements to protect IT resources.
- Update Departmental IT security policy to reflect recent government-wide guidance.
- Improve the Department's computer incident response capability and implement mechanisms necessary to facilitate a Department-wide information sharing capability.
- Improve the Department's configuration management practices to ensure secure system configurations are implemented and maintained for IT systems.

All of these actions were completed in FY 2005, and the accomplishments and efforts taken by Commerce to strengthen its Department-wide IT Security Program are summarized below:

- The Department updated its IT Security Program Policy to align with the National Institute of Standards and Technology (NIST) Special Publication 800-53, *Recommended Security Controls for Federal Information Systems.* This major undertaking required Department-wide collaboration and extensive review.
- The Department's IT security program maturity, as measured using the federal CIO Council's 5-level IT security maturity scale, maintained 100 percent of the Commerce operating units at Level 3 (implemented policies and procedures) or higher, and recognized 64 percent of the operating units as having achieved level 4 (tested and reviewed procedures and controls). This level of accomplishment in improving the maturity of IT security management reflects the hard work of many dedicated IT security professionals within the Department to institutionalize IT security practices and develop repeatable processes.
- The Department continued its IT security compliance review program, including review of business essential systems, in which OCIO has arranged for a contractor to assess the extent to which IT security policy and guidance are implemented within the operating units and to assess the adequacy of Agency-level IT security programs. The FY 2005 compliance review included review of C&A packages for compliance with government-wide and Commerce requirements and to ensure that the quality of the documentation reflects sound security planning and processes. This year's compliance monitoring effort concluded that while all C&A packages inspected were complete, and efforts during FY 2005 to improve the quality of the documentation have resulted in raising the quality of C&A packages, still more work needs to be done.
- Direction was provided to all Commerce operating units to implement the secure system configuration management procedures recommended by NIST. By the end of FY 2005, operating units reported that more than 70 percent of all Commerce systems were under secure system configuration control.
- Through the IT security compliance review program, 60 IT contracts were reviewed for inclusion of IT security provisions and requirements, and several contractor-operated systems were reviewed.
- The Department renewed its agreement with the Office of Personnel Management (OPM) for access to online role-based IT security training. The courses include two levels of training in C&A skills for personnel involved in the C&A process, for senior managers serving as system Authorizing Officials, and for personnel participating on certification teams.
- The Department issued guidance for the development of operating procedures for Commerce computer incident response teams (CIRT). This guidance, and revitalization of communications processes and procedures for the Department's five CIRTs, has provided improved governance to ensure Department-wide consistency in handling IT security incidents.

In addition, the following activities were continued in order to maintain effective oversight of Department-wide IT security program implementation:

- The Department CIO provided input to the rating official (operating unit head or deputy head) on the performance of each operating unit CIO, a significant portion of which relates to IT security.
- The Department CIO and OCIO IT security staff have been actively involved in the review of proposed IT budget initiatives, to ensure that IT security is adequately addressed and funded and to assure sufficient planning for continuity of operations.
- The Commerce IT Review Board, chaired by the Commerce CIO, considers and evaluates the proposed IT security approach for every IT project it reviews, including new initiatives as well as continuing IT projects. This review includes examination of the adequacy of the IT security management and funding, as well as the involvement of IT project managers in leading

IT security for their project as a key part of their work. Corrective actions are identified and required of the program and project officials, as appropriate.

- The Department continued its IT security training program, leveraging capabilities available through other government agencies, especially through OPM's Government Online Learning Center. This provides cost-effective annual IT security refresher training for employees and contractors, and availability of specialized training for personnel with more intensive IT security roles and responsibilities.

Ongoing Effort to Strengthen IT Security will Continue in FY 2006

Notwithstanding these achievements during FY 2005 to resolve prior IT security issues and to maintain a strong IT security program, work still remains to ensure the implementation and management of secure system configurations and to sustain efforts to improve C&A practices and adequate quality of work products for managing system security. Specifically, actions planned for FY 2006 include:

- Completion of the use of secure system configurations to ensure that software parameters are set in a standard way to make each system adequately secure. The extent to which such secure system configurations have been implemented Department-wide will be reviewed.

- Confirming that C&A improvement efforts undertaken in FY 2005 have resulted in establishing lasting, repeatable, quality management practices for C&A documentation.

As the Department works to fully resolve this material weakness during FY 2006, the focus will be on ensuring that IT security practices are integrated throughout the Department, demonstrating further that sound, repeatable practices are implemented in a compliant and consistent manner.

Section 4 of FMFIA

NUMBER OF MATERIAL WEAKNESSES				
	NUMBER AT BEGINNING OF YEAR	NUMBER CORRECTED	NUMBER ADDED	NUMBER REMAINING END OF FISCAL YEAR
FY 2002	1	0	0	1
FY 2003	1	1	0	0
FY 2004	0	0	0	0
FY 2005	0	0	0	0

The Department has no material weaknesses relating Section 4 of FMFIA.

FEDERAL FINANCIAL MANAGEMENT IMPROVEMENT ACT (FFMIA) OF 1996

Under the Federal Financial Management Improvement Act (FFMIA) of 1996, 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 (SGL) at the transaction level. In FY 2005, 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, 2004, through May 31, 2005.

SUMMARY OF ACTIVITY ON AUDIT REPORTS
JUNE 1, 2004 - MAY 31, 2005

	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	49	$ 23,600,378	26	$ 43,206,760	28	103
New Reports	35	3,361,337	12	16,101,323	23	70
Total Reports	84	26,961,715	38	59,308,083	51	173
Reports Closed	(28)	(8,635,575)	(8)	(508,063)	(35)	(71)
Ending Balance	56	$ 18,326,140	30	$ 58,800,020	16	102

1. *Disallowed costs are questioned costs that management has sustained or agreed should not be charged to the government. The beginning balances for the number of reports and the dollar amount of disallowed costs have been corrected for duplication caused by more than one type of action having affected an audit report during the last reporting period.*
2. *"Funds to be put to better use" refers to any management action to implement recommendations that funds 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, *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 conducts a review of its fee programs biennially, with some bureaus conducting annual reviews. In the current review, the Department noted that all but one bureau adjusted their fees to be consistent with the program and with the program's purpose to maximize the recovery of goods or services provided to the public. ITA is currently implementing an OMB-approved compliance plan for Circular A-25, and plans to complete pricing for all of its products in FY 2006. The Department will keep OMB and Congress informed on its progress with the compliance plan.

IMPROPER PAYMENTS INFORMATION ACT (IPIA) OF 2002

Narrative Summary of Implementation Efforts for FY 2005

The Department has not identified any significant problems with erroneous payments; however, it recognizes the importance of maintaining adequate internal controls to ensure proper payments, and its commitment to the 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. The following are some examples of the internal control procedures used by the bureaus:

- Prepayment and post payment audit analyses are performed.
- Controlled/limited access to the financial system screens, and approval authority for changes to information in the vendor table have been implemented to prevent unauthorized diversion of funds.
- Funds control in the financial system provides reasonable assurance against overpayment or erroneous payments.
- Edit reports are programmed to identify potential items that may result in improper or duplicate payments.
- All documents submitted for payment are required to have previously gone through an approval process at several levels including initial request, subsequent budget approval, voucher examination, and Electronic Certification System review.

The Department has ensured that internal controls—manual, as well as system—relating to payments are in place throughout the Department, and has reviewed all financial statement audit findings and results of other payment reviews for indications of a breach of those controls. None of these reviews or audits has uncovered any problems with erroneous payments or the internal controls that surround disbursements.

In FY 2005, the Department continued its reporting procedures that required quarterly reporting to the Department by its bureaus on any erroneous payments, identifying the nature and magnitude of the erroneous payment, along with any necessary control enhancements to prevent further occurrence of the type of erroneous payments identified. Our analysis of the data collected from the bureaus shows that Department-wide erroneous payments were below one tenth of one percent in FY 2005, as was the case in FY 2004. As a separate effort during FY 2005, the Office of Financial Management conducted a systematic sampling process to draw and review random samples of disbursements from the Department-wide universe of FY 2005 disbursements. Results of the test revealed no significant erroneous payments or internal control deficiencies. The same results were achieved following a similar test in FY 2004. Also, in FY 2005, the Department received the results of an Office of Inspector General's (OIG) audit involving a comprehensive review of disbursements for improper payments at the Department's largest payment office. Results of this audit revealed no significant erroneous payments or internal control deficiencies. Overall, our assessments demonstrate that the Department has strong internal controls over the disbursement process, the amounts of erroneous payments in the Department are immaterial, and the risk of erroneous payments is low.

During FY 2005, in compliance with Section 831 of the Defense Authorization Act of 2002 (P.L. 107-107, Title VIII, Subtitle D, Sec. 831; 31 USC 3561-3567), which requires federal agencies to identify and recover overpayments to contractors due to payment errors, the Department contracted with a private vendor to perform recovery auditing. The audit included thorough reviews of sample invoices from two of the Department's largest payment offices, and an independent confirmation of open items with key vendors. Results of the audit and confirmation efforts revealed no significant improper payments or internal control deficiencies.

For FY 2006 and beyond, the Department will continue its efforts to ensure the integrity of its programs' payments.

THE INSPECTOR GENERAL'S STATEMENT OF MANAGEMENT CHALLENGES

We are providing the management challenges for the Department of Commerce in accordance with the provisions of the Reports Consolidation Act of 2000 (PL 106-531). Detailed information about our work is available on our website at: http://www.oig.doc.gov/

Inspector General
Johnnie E. Frazier

Challenge: Strengthen Department-Wide Information Security

Safeguarding the numerous Commerce computer systems holding nationally significant data is one of the Department's most serious challenges. OIG's evaluations under the Federal Information Security Management Act (FISMA) have revealed significant problems in the certification and accreditation (C&A) of some of Commerce's national and mission critical systems. Commerce officials have begun an intense effort to improve both C&A and policy and guidance for computer incident response. We are seeing progress, and based on the work being done to address concerns, believe the Department is on the way to developing an effective information security program. However, much remains to be done, and a Commerce-wide view of reported IT vulnerabilities should be employed.

Challenge: Effectively Manage Departmental and Bureau Acquisition Processes

Commerce spends nearly $2 billion per year procuring goods and services. The Department must pay careful attention to acquisition policies and procedures to make sure the public dollars being spent get the best value. Indeed, procurement officials at both the Department and bureau levels acknowledge that acquisition planning and management need greater emphasis.

Effective acquisition management is particularly critical in light of the upcoming 2010 decennial. Our recent review of the Census Bureau's planning for the acquisition of mobile computing devices to automate field data collection revealed substantial problems with scheduling, planning, and project management. Considering the enormity of the decennial census undertaking, it is essential that the Department adequately control and oversee the acquisition process.

Challenge: Enhance USPTO's Ability to Manage and Operate its Own Processes

As USPTO continues its transformation to a performance-based organization, it must effectively manage its budget, procurements, and personnel decisions. OIG has assessed USPTO's patent examiner production goals, performance appraisal plans and awards, and the move to its new headquarters complex. Our work has uncovered a number of problematic issues, particularly in the area of human resource management, such as questionable hiring practices and failure to properly adhere to merit system principles. USPTO has been receptive to our recommendations and has implemented significant changes to address issues raised by our reviews.

Challenge: Control the Cost and Improve the Accuracy of Census 2010

At an estimated cost of more than $11 billion, the decennial census will be one of the most costly and critical operations the Department has ever undertaken. There are two field tests and a dress rehearsal to be managed in addition to the actual census, so the Census Bureau and the Department face some formidable challenges in both controlling costs and improving the accuracy of the data collected.

OIG has conducted a review of the bureau's progress in planning and managing the automation of field data collection activities for the 2008 dress rehearsal and the 2010 decennial. Although Census estimates that automation will reduce the decennial's costs by as much as $900 million, we raised concerns regarding the acquisition of the automation, and we made several recommendations for Census to improve management of the project. In addition, we will assess the 2006 Census test to follow up on issues we identified in the 2004 test, such as problems with data transmissions, technical field support, and limitations of handheld computers. We will also evaluate Census' progress in improving the accuracy of address lists and maps and closely examine its budget and spending plan as part of our review of the 2006 test.

Challenge: Monitor the Effectiveness of NOAA's Stewardship of Ocean and Living Marine Resources

The National Oceanic and Atmospheric Administration's (NOAA's) responsibilities to protect the nation's coastal and ocean resources are vast and likely to expand in the future. Our recent review of the National Marine Fisheries Service's biological opinion for the California Central Valley Project, conducted at the request of 19 members of Congress, revealed a number of serious problems, including the agency's failure to (1) follow its established process for issuing the opinion, (2) obtain a required legal review, and (3) ensure the quality of the opinion. OIG made several recommendations for improvement, and NOAA has promised to reevaluate its policies and directives for issuing biological opinions in the next 6 months. NOAA has already initiated some changes in response to our review.

Challenge: Promote Fair Competition in International Trade

As the primary agency charged with promoting trade, opening overseas markets for American companies, and protecting U.S. industry from unfair import competition, the International Trade Administration (ITA) plays a key role in the federal government's attempts to make sure the field is level for the U.S. business community.

OIG will continue to assess the Department's efforts to increase U.S. market opportunities and overcome trade barriers in difficult foreign markets. Our work inspecting Commercial Service post activities is ongoing, with an inspection of ITA's Commercial Service post in China under way. ITA reports it is addressing issues identified in our recent reviews of posts.

Challenge: Enhance Export Controls for Dual-Use Commodities

Charged with advancing U.S. national and economic security interests through export controls, the Department's Bureau of Industry and Security oversees the federal government's export licensing and enforcement system. Controlling the export of technologies and materials that have both civilian and military applications to prevent their acquisition by hostile nations and terrorist groups that threaten global security is a primary goal of the system.

OIG has completed six reviews of export controls with the Inspectors General of Defense, Energy, and State as directed by the National Defense Authorization Act (NDAA) for FY 2000. To meet NDAA's FY 2005 requirement, we assessed BIS' licensing process for chemical and biological commodities to determine whether the process was timely and in compliance with statutory and regulatory requirements. We also examined the status of recommendations from prior reviews and concluded that, while some recommendations have not been resolved, Commerce has made progress on a number of them.

Challenge: Enhance Emergency Preparedness, Safety, and Security of Commerce Facilities and Personnel

The world changed forever after Sept. 11, 2001, making the safeguarding of Commerce's personnel and property one of the greatest challenge that its managers now have to meet. OIG first identified the Department's emergency preparedness weaknesses in a 2002 review that revealed some serious security vulnerabilities.

Our most recent follow-up review of Commerce's emergency preparedness found that, while the Department has made significant progress, additional improvements are needed in several areas including the risk assessment process, development and oversight of occupant emergency plans, and security for critical assets.

Challenge: Continue to Strengthen Financial Management Controls and Systems

In recent years, the Department has improved its financial management, as evidenced by achieving and maintaining unqualified opinions on its consolidated financial statements, implementing Commerce Business Systems and substantially complying with the Federal Financial Management Improvement Act.

Under the revised OMB Circular A-123, agencies must assess internal controls over financial reporting, document those controls and the assessment process, and provide an assurance statement on the effectiveness of internal control over financial reporting beginning in FY 2006. Reliable financial reporting and effective, efficient program operations depend on strong internal controls. OIG will continue to monitor a range of financial management issues, including Commerce's efforts to implement the new A-123 requirements, improve internal controls, and achieve other operating efficiencies.

Challenge: Continue to Improve the Department's Strategic Planning and Performance Measurement in Accordance with the Government Performance and Results Act

Collecting and reporting accurate performance data required by the Government Performance and Reporting Act (GPRA) is a challenge for most federal agencies, and the Department of Commerce is no exception. OIG audits of bureau performance measure reporting have repeatedly identified the need to ensure that individuals who collect and use performance data really understand what is being measured. Prior audits also have repeatedly shown a need for improved management controls over performance data, particularly where verification and validation of information is required. The bureaus we have audited have made many improvements in response to the issues raised, but the Department should remain vigilant in ensuring that the collection and reporting of performance data be thorough and, above all, accurate.

MANAGEMENT CHALLENGES AND ACTIONS

Each year, the Department's Office of Inspector General (OIG) reviews the Department's and its component bureaus' program activities to ensure that the management, financial and operational activities are sound and meet the requirements of the Chief Financial Officer's Act and the Government Performance and Results Act (GPRA).

The emphasis by the President, the Office of Management and Budget (OMB), and Congress on improved government accountability underscores Commerce's resolve to enhance transparency within the Department while promoting improved efficiency and effectiveness. Progress in these endeavors requires strong commitment from the Department's senior leadership and staff at all levels.

The following is the Department's description of its actions to address the management challenges identified by the Inspector General (IG).

MANAGEMENT CHALLENGES	
CHALLENGE	**RESPONSE**
1. Strengthen Department-wide information security	◆ Made significant progress in information technology (IT) security, with 100 percent of systems covered by IT security plans, 100 percent with tested controls, 100 percent with contingency plans, 97 percent with certification and accreditation (C&A) packages, and with much-improved C&A documentation that still needs further improvement.
2. Effectively manage departmental and bureau acquisition processes	◆ Began major communication and outreach program to acquisition and program communities focusing on acquisition planning, the training of contracting officers' representatives (COR), and development of a performance-based acquisition enterprise. Procurement Executive (PE) briefed top management at all the bureaus and the acquisition community on the criticality of a performance–based organization, acquisition planning and the role of the COR. ◆ Expanded the Acquisition Review Board to cover interagency agreements over $5 million and real property. The Board met 12 times this fiscal year and reviewed 21 cases with an estimated value of $2.4 billion. ◆ Developed and began implementing a database to track the education and training of the acquisition workforce including the CORs. Office of Acquisition Management and Financial Assistance (OAMFA), Office of Human Resources, and the Chief Information Officer's office jointly sponsored training sessions focused on program management, performance-based contracting, and contract compliance. OAMFA entered into a memorandum of understanding (MOU) with the Office of Personnel Management to use the Competency Plus skills assessment tool to identify skill gaps for Department employees in the contracting series (1102). It also standardized position descriptions of 1102s, 1105s and 1106s across the Department.

(continued)

MANAGEMENT CHALLENGES *(continued)*	
CHALLENGE	**RESPONSE**
2. Effectively manage Departmental and bureau acquisition processes *(continued)*	◆ Launched the COR program at the COR conference in October 2004 with 324 attendees. Developed a COR training program for the four levels of COR certification. Training requires expertise in four areas: business/industry, general management, project management, and procurement knowledge. The COR element must be included in the performance plan of individuals who spend more than 20 percent of their time working on contracts. ◆ Implemented the acquisition community strategy (Case for Change) for becoming a performance–based organization across the enterprise. The PE implemented a major outreach program to the acquisition community and to program officials stressing that acquisition is much broader than procurement or contracting and that the acquisition community and program officials are being transformed into business brokers for mission success. ◆ Refined Balanced Scorecard (BSC) for Acquisition by reviewing and revising surveys and beginning design of a BSC for grants which will cover the entire Department grant community. ◆ In March 2005, the Departmental PE briefed the Inspector General and his staff on progress on the above initiatives. The PE meets on a quarterly basis with the Deputy IG to discuss acquisition initiatives.
3. Enhance the U.S. Patent and Trademark Office's (USPTO) ability to manage and operate its own processes	◆ The successful implementation and ultimate operation of the USPTO as a performance-based organization is, by its very nature, a challenge filled with both risk and opportunity. USPTO's ability to issue patents efficiently has an enormous impact on the pace of technological advancement worldwide, and it is essential that USPTO use its expanded performance-based organization authority over budget, personnel, procurement, and IT operations to process patents and trademarks in an effective, efficient, and timely manner. Past Office of Inspector General (OIG) reviews have identified issues that warrant management's attention, including problems with performance appraisal plans and awards, and USPTO's human resource policies and issues surrounding patent examiner production goals. ◆ For its part, USPTO has been responsive to Department concerns and has, for example, taken action to address human resource issues. Moreover, the Department's examination of USPTO's progress on construction of its new headquarters complex found that USPTO and GSA provided adequate project management and financial oversight of the project.

(continued)

MANAGEMENT CHALLENGES *(continued)*

CHALLENGE	RESPONSE
4. Control the cost and improve the accuracy of Census 2010	◆ The 2010 Decennial Census Program re-engineering is intended to deliver a more accurate census with more timely data, reduce overall risk, and save taxpayer dollars compared to repeating the design and operations of the 2000 Census. The Census Bureau's goal is to capitalize on important technological advancements expected to save time and money while improving the accuracy of critical field operations. After a decade of research and testing, the American Community Survey (ACS) began nationwide data collection during the second quarter of FY 2005 at its full sample size of 250,000 addresses per month. Beginning in the second quarter of FY 2006, Group Quarters will be included in the sample for the first time. The Master Address File (MAF) /Topologically Integrated Geographic Encoding and Referencing (TIGER) Accuracy Improvement Project is well underway towards completion in FY 2008. Planning, development and testing for the 2010 Census also is well underway – two major tests have been completed, the 2005 test is currently in progress, one more test is planned in 2006, and a dress rehearsal will be conducted in 2008. By April 2006, two major automation contracts for the 2010 Census will be in place—the Decennial Response Integration (DRIS) contract and the Field Data Collection Automation (FDCA) contract. ◆ With respect to the OIG's specific observations about the 2004 Census Test, the Department has no substantial disagreements; in fact, they are very similar to the Census Bureau's own findings from that important first test of automating field data collection. The lessons learned from that test are being used to refine plans and methods for the 2010 Census, and the Census Bureau will conduct a second major field test in 2006. Also, as OIG notes, these test results helped the Census Bureau determine it did not have sufficient in-house technical resources needed for this program. This in turn led to the Census Bureau's decision to contract for an integrated solution for developing, testing, and deploying all the field automation infrastructure, software applications and tools, training materials, and infrastructure support. ◆ The Census Bureau is successfully testing planned innovations for the 2010 Census. This includes improving census questionnaire wording and using hand-held computers for personal visit follow-up operations. Also, the Bureau is successfully completing updates to geographic reference features for all planned counties. Testing of these innovations and improving the Census Bureau's geographic data are important in order to improve accuracy, reduce operational risk, and contain the cost of the 2010 Census. At the request of Congress, the Bureau conducted a feasibility test in France, Kuwait, and Mexico of collecting Census data from American citizens living overseas.

(continued)

MANAGEMENT CHALLENGES *(continued)*	
CHALLENGE	**RESPONSE**
5. Monitor the effectiveness of the National Oceanic and Atmospheric Administration's (NOAA) stewardship of ocean and living marine resources	◆ NOAA is developing a set of "corporate performance measures" that when fully developed, will provide NOAA program managers and decisionmakers with a more balanced approach to evaluating the health of coastal and marine ecosystems. This will also enable NOAA to better determine how effectively its resources are impacting ocean and living marine resources. ◆ NOAA has developed the National Coastal Management Performance Measurement System (NCMPMS) to track indicators of the effectiveness of the Coastal Zone Management Program and the National Estuarine Research Reserve System. When fully implemented, the NCMPMS will result in improved understanding of the Coastal Zone Management Program accomplishments and needs at the national level to assist the Office of Ocean and Coastal Resource Management (OCRM) in shaping national program priorities. NOAA is evaluating the effectiveness of the National Marine Sanctuary Program (NMSP) through a number of measures, including whether water quality and/or habitat is maintained or improved. ◆ The Pacific Coastal Salmon Recovery Fund (PCSRF) supplements existing federal, state, and tribal programs to foster development of partnerships and promotes efficiencies and effectiveness in recovery efforts through enhanced sharing and pooling of capabilities, expertise, and information. The OIG's Office of Inspections and Program Evaluations is conducting a series of audits of recipients and sub-recipients of PCSRF. OIG has found that funded projects are consistent with the program funding criteria, performance measures were adequate, and recipients are making sufficient progress on their projects. However, OIG found that some recipients have not kept records in accordance with federal cost principles and uniform administrative requirements. In those cases, the IG recommended recipients return a portion of their grant funds to the government. NOAA concurs and has taken the following actions to ensure improvements in the future: ● NOAA is strengthening and revising the memorandum of understanding (MOU) with each recipient to more clearly delineate requirements and goals. ● NOAA is encouraging grant and subgrant recipients to attend training in federal cost principles. ● Through the MOU's with each recipient, NOAA is requiring recipients to enter detailed information on projects and accomplishments into the PCSRF database on a regular basis. ● NOAA will work more closely with recipients to assure that grant administration questions are answered quickly and that any potential problems are resolved as quickly as possible.

(continued)

MANAGEMENT CHALLENGES *(continued)*

CHALLENGE	RESPONSE
6. Promote fair competition in international trade	◆ The Import Administration (IA) oversaw the United States' Anti-Dumping/Countervailing (AD/CVD) laws and its subsidy enforcement activities during FY 2005 thereby providing U.S. companies with appropriate remedies to address unfairly traded imports consistent with U.S. law and our international obligations. The agency's work at the World Trade Organization (WTO) has helped ensure that access to these needed remedies is not weakened or undermined. ◆ ITA helped ensure that U.S. exporters subject to foreign AD/CVD proceedings receive fair treatment in proceedings that adhere to that country's obligations under the WTO. ◆ The IA Unfair Trade Practices Team confronted unfair foreign competition by monitoring economic data from U.S. global competitors and has vigorously investigated evidence of unfair subsidization and production distortions. ◆ IA's China Compliance office continued to devote more resources to China cases and issues unique to non-market economies, such as intellectual property rights violations affecting the U.S. textile industry. ◆ ITA's Market Access and Compliance (MAC) program helped to ensure that over 120 compliance cases were concluded in FY 2005. ◆ ITA has readily worked to reconstruct Iraq and Afghanistan and has expanded regional opportunities through advancing the completion of several significant free trade agreements (FTA) in FY 2005. This included FTA's of significant commercial value such as the recently passed Central American Free Trade Agreement–Dominican Republic (CAFTA-DR) and FTA's of strategic importance such as the FTA's completed in FY 2005 with Morocco, Bahrain, and Singapore.
7. Enhance export controls for dual-use commodities	◆ While this challenge addresses the need to strengthen export controls, it cites the need for a new, comprehensive legislative authority to replace the expired Export Administration Act of 1979. The Administration strongly supports a streamlined and strengthened export control system that effectively promotes both U.S. national security and U.S. economic interests. The Bureau of Industry and Security (BIS) continues to work on export control reforms that facilitate legitimate global trade while reducing illicit traffic in dual-use items and targeting export control resources on transactions of greater risk. ◆ IG's interagency review to assess whether the current deemed export control program and regulations adequately protect against the illegal transfer of controlled U.S. technologies and technical information by foreign nationals to countries and entities of concern determined that some areas, such as the outreach program, are greatly improved. BIS is taking steps to strengthen the rest of the program, such as conducting extensive outreach to the exporting community and government and academic research laboratories to explain deemed export control requirements. BIS also plans to initiate a pilot program for post-shipment verifications on the most sensitive deemed export licenses to determine compliance with license conditions and to detect any violations.

(continued)

MANAGEMENT CHALLENGES *(continued)*	
CHALLENGE	**RESPONSE**
8. Enhance emergency preparedness, safety, and security of Commerce facilities and personnel	◆ The Office of Security has aggressively worked to enhance the emergency preparedness, safety, and security of Department facilities and personnel. ◆ Efforts to provide for the safety of National Security Information (NSI) have been improved by briefing 2,350 of 4,376 cleared employees in the last year on the proper handling of classified information. ◆ In the current four-year cycle, anti-terrorism risk assessments based on criticality, threat, and vulnerability have been conducted for 223 of 747 Department facilities, with countermeasure upgrades being recommended to mitigate the identified risks. ◆ In-depth reviews of all bureau Continuity of Operations Plans (COOP) were conducted, as well as assessments of 146 of the Department's 747 Occupant Emergency Plans (OEP). ◆ The Office of Security continues to remain attentive to key issues central to mission success and to focus on the services necessary to make the Department a safer work environment for all.
9. Continue to strengthen financial management controls and systems	◆ The Department completed implementation of the Commerce Business System (CBS) in all planned bureaus in October 2003. The Department now plans to implement CBS at ITA. The Office of Financial Management (OFM) ensures that CBS is Federal Financial Management Improvement Act (FFMIA)-compliant by further supporting integrated financial management through the use of the Corporate Database for consolidated financial statement reporting and the Consolidated Reporting System (CRS) for merging financial, acquisition, human resources, and performance data for executive decision-making. The Department continued to improve financial management processes by conducting a financial management business case to examine IT and finance best practices and migrating CBS to Web-based technology. Departmental teams have begun implementing recommendations from these business cases. See the Financial Management and Analysis section starting on page 151 of this report for additional information. ◆ The Department has developed a Department-wide plan for implementing OMB's revised guidance on internal controls, and has established a senior management council to oversee the implementation process. The scope of financial reports has been determined and the materiality analysis for planning, design, and assessment has been completed. Managers throughout the Department are in the process of determining which major programs will be included in the scope. Existing documentation is being identified and reviewed for sufficiency, and documentation shortfalls will continue to be filled in. During FY 2006, the Department will issue its first management assertion and internal controls report resulting from the new A-123 requirements.

(continued)

MANAGEMENT CHALLENGES *(continued)*	
CHALLENGE	**RESPONSE**
10. Continue to improve the Department's strategic planning and performance measurement in accordance with the Government Performance and Results Act (GPRA) of 1993	◆ The Office of Budget began a process of quarterly validating and verifying the data bureaus provide for their performance measures in FY 2005. ◆ The Office of Budget instituted quarterly performance reviews between bureau heads and the Deputy Secretary. These reviews serve four purposes: (1) identify the planned bureau accomplishments and performance targets of each bureau within the priorities set by the Department, (2) ensure that managers and senior Departmental officials are kept abreast of bureau performance, (3) determine how the program activity is performing, and (4) where targets are not being met, determine steps that need to be taken to ensure meeting the targets, or explain/justify why the targets will not be met.

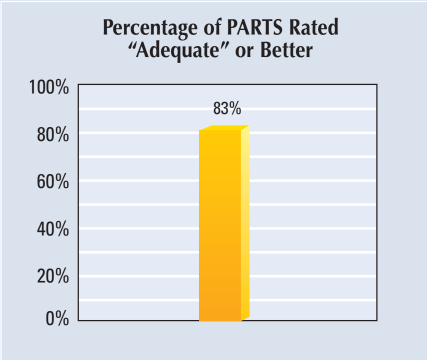
PROGRAM ASSESSMENT RATING TOOL (PART) STATUS

The Program Assessment Rating Tool (PART) is a component of the President's Management Agenda (PMA) that the Office of Management and Budget (OMB) developed to assess and improve program performance so that the federal government can achieve better results. A PART review helps identify a program's strengths and weaknesses to inform management decisions aimed at making the program more effective.

OMB conducted the following PART reviews during fiscal year (FY) 2004 with results reported in FY 2005. The results of previous PART reviews are reported in the FY 2004 Performance and Accountability Report (PAR). The results of these reviews are used to inform the participants in the planning and budgeting process and are published in the annual President's Budget and Performance Plan, submitted to Congress. No programs in Strategic Goal 2 or the Managment Integration Goal were PART'ed during FY 2004.

TABLE 1: RESULTS OF THE OMB PART PROCESS[1]

RATING	RESULTS
Effective	6
Moderately Effective	7
Adequate	6
Results Not Demonstrated	4
Totals	23*



*Amount reflects the total number of Commerce PART'ed programs to date.

PROGRAM	RATING AND SCORE
Economic Census (Census)	Effective – 90%
Current Demographic Statistics (Census) – re-part	Effective – 87%
Economic Development Assistance Programs (EDA) – re-part	Moderately Effective – 77%
Export Administration (BIS)	Adequate – 63%
Climate Research (NOAA)	Moderately Effective – 78%
National Marine Sanctuary Program (NOAA)	Adequate – 68%

1 *Source: Office of Managment and Budget - http://www.results.gov*

TABLE 2: PART SUMMARIES BY STRATEGIC GOAL

STRATEGIC GOAL 1: PROVIDE THE INFORMATION AND TOOLS TO MAXIMIZE U.S. COMPETITIVENESS AND ENABLE ECONOMIC GROWTH FOR AMERICAN INDUSTRIES, WORKERS, AND CONSUMERS

PROGRAM NAME	ECONOMIC CENSUS
Score and Rating	◆ Effective – 90%
Lead Bureau	◆ Census Bureau
Major Findings/ Recommendations	◆ Pursue additional independent evaluations of the economic census. ◆ Implement a plan to improve electronic response rates in the 2007 Economic Census.
Actions Taken/ Planned	◆ Contracted with a certified public accounting (CPA) firm to provide expert advice on economic census forms design to ensure proper use of accounting terminology and ability to collect the requested data. ◆ Devoted spring 2005 Census Bureau Advisory Committee (AEA subcommittee) meeting to an evaluation of the 2002 Economic Census with an eye towards making improvements in the 2007 Economic Census. ◆ Send letters to government agencies and trade associations inviting them to comment on proposed 2007 Economic Census report forms. ◆ Complete plan to improve electronic response rates in the 2007 Economic Census that includes a newly designed electronic reporting instrument.

PROGRAM NAME	CURRENT DEMOGRAPHIC STATISTICS
Score and Rating	◆ Effective – 87% (re-part, previous – 84%)
Lead Bureau	◆ Census Bureau
Major Findings/ Recommendations	◆ Continue to improve long-term goals for the Survey of Income and Program Participation (SIPP) by including an ambitious data release schedule. ◆ Develop ways to improve managerial accountability for SIPP release schedules. ◆ Pursue additional independent evaluations of the SIPP to demonstrate that results are being achieved.
Actions Taken/ Planned	◆ A SIPP Data Products Team was established in FY 2003 to make recommendations on implementing OMB's findings. ◆ As a result, several actions have already been implemented: ● Improvements in managerial accountability. ● An outside study by Mathematica Policy Research, Inc. ● The program has sought advice from the federal policy community on the data that will be collected by the 2004 SIPP Panel. ● An external evaluation of the usefulness of SIPP to data users. ◆ Also, the following action is planned: ● Early SIPP releases will begin in FY 2006.

(continued)

STRATEGIC GOAL 1: *(continued)*	
PROGRAM NAME	**ECONOMIC DEVELOPMENT ASSISTANCE (EDA) PROGRAMS**
Score and Rating	◆ Moderately Effective – 77% (re-part, previous – 75%)
Lead Bureau	◆ Economic Development Administration (EDA)
Major Findings/ Recommendations	◆ EDA continues to meet or exceed performance targets, which are based on three, six, and nine-year reviews of private sector investment and job creation. ◆ EDA's reauthorization now provides new authority to reward outstanding performance by grant recipients who excel in carrying out projects that create jobs and generate private investment. ◆ A cross-cutting review of federal community and economic development programs revealed that no Administration-wide approach guides these development efforts.
Actions Taken/ Planned	◆ The Administration proposes a new economic development program within the Department of Commerce that streamlines federal assistance and targets funding to economically distressed communities and regions.
PROGRAM NAME	**EXPORT ADMINISTRATION (EA)**
Score and Rating	◆ Adequate – 63%
Lead Bureau	◆ Bureau of Industry and Security (BIS)
Major Findings/ Recommendations	◆ The program currently operates under an Executive Order. It would benefit from an updated, reauthorized Export Administration Act (EAA) to clarify some outdated control requirements, increase penalties for violations, and specify interagency licensing processes. Due to increases in workload and changes in technology, the program also requires additional technological and analytical ability to maintain effective dual-use export controls. ◆ The program's long-term performance goals are under development. It does have adequate annual performance goals that emphasize both the timeliness of the license process and updates to its regulations. The program also should consider an accuracy measure of the license process.
Actions Taken/ Planned	◆ The EA program is developing long-term measures by: (1) working with the appropriate agencies to measure the interagency dual-use export control program's ability to protect national security, and (2) obtaining information on the market impact on U.S. companies of applying for an export license. ◆ The budget requests increases for an Office of Technology Evaluation to enhance the program's analytical ability to systematically evaluate its control list, identify sensitive technologies for inclusion on the control list, and conduct evaluations of the multilateral regimes.

STRATEGIC GOAL 3: OBSERVE, PROTECT, AND MANAGE THE EARTH'S ENVIRONMENT TO PROMOTE ENVIRONMENTAL STEWARDSHIP	
PROGRAM NAME	**CLIMATE RESEARCH**
Score and Rating	◆ Moderately Effective –78%
Lead Bureau	◆ National Oceanic and Atmospheric Administration (NOAA)
Major Findings/ Recommendations	◆ NOAA has implemented a matrix management process to coordinate climate programs across the Agency and has established a quarterly review process to assess performance and budget issues. Additional steps are needed to better integrate performance into budget decisions. ◆ NOAA will evaluate options for lab consolidation and other management changes to address recommendations of the NOAA Research Review Team.
Actions Taken/ Planned	◆ The NOAA Climate Program is implementing a trackable performance measure database that will be used in development of future budget requests. ◆ NOAA is implementing in FY 2006 a laboratory and headquarters reorganization to address recommendations of the NOAA research review team.
PROGRAM NAME	**NATIONAL MARINE SANCTUARY PROGRAM (NMSP)**
Score and Rating	◆ Adequate – 68%
Lead Bureau	◆ National Oceanic and Atmospheric Administration (NOAA)
Major Findings/ Recommendations	◆ The NMSP and Marine Protected Areas (MPA) Center have clear purposes and are well managed, though integration between the two, as well as with other coastal and marine area management programs, could be improved. ◆ The NMSP has begun collecting long-term monitoring data within sanctuaries to allow the program to better evaluate changes in ecological conditions and assess progress in achieving positive results.
Actions Taken/ Planned	◆ The NMSP will continue to ensure that targets and timeframes for performance measures are ambitious. ◆ NOAA will establish review processes at the appropriate level and frequency to evaluate effectiveness and relevance of coastal and ocean area management programs. ◆ NOAA will work to enhance integration of area-based management programs.

Performance Section

INTRODUCTION TO THE PERFORMANCE SECTION

In fiscal year (FY) 2005, the Department accomplished its mission through three strategic goals and an overarching management integration goal that articulate long-term outcomes, as well as performance goals that represent shorter-term outcomes and priorities. Performance goals include specific targets designed to achieve specific performance results within a given fiscal year.

The Performance Section of the report comprises subsections for each of the strategic goals and is organized in the following manner:

SUBSECTION	PURPOSE
Strategic Goal	Overall summary of the strategic goal.
Strategic Objective	Overall summary of outcomes, program obligations and performance goals fall under each objective. The information contained in the objective provides the performance goals and the activities associated with them. At the end of the performance goal, discussions of the Challenges for the Future for the strategic objective will conclude the section.
Performance Goal	Performance Goal Description, Achievements, Program Evaluations, Strategies, and Future Plans. The information contained in each performance goal is designed to provide the reader with the overall achievements of the performance goal and how those achievements support the objective, and in the larger-scale, how they support the furthering of the Department's Strategic Goals.

Within each Strategic Goal section there are summary charts that provide the historical trend data for financial and full-time equivalents (FTE) resources, and overall performance results, using a stoplight coding system. At the beginning of each strategic goal section and each objective section is a table summarizing the performance goals. A goal is said to have been met if 100 percent of the targets of its corresponding measures were achieved, significantly met if 75 percent to 99 percent of its targets were achieved, and not met if less than 75 percent of its targets were achieved. The performance chart includes a quick summary of the status of the performance measures associated with Strategic Goal, Strategic Objective, or Performance Goal. The chart is color coded: red to indicate performance was not met, yellow to indicate that performance was slightly below target, and green to indicate that performance was met or exceeded. The numbers under the colors indicate the number of performance measures (or results) associated with the goal.

The same summary resource charts and performance results charts are used for each objective and performance goal under each strategic goal.

Details on each performance result are located in Appendix A, which provides individual measurement results and descriptions of actions to be taken if the measure does not achieve positive results. It includes explanations and strategies to address performance deficiencies.

Strategic Goal 1

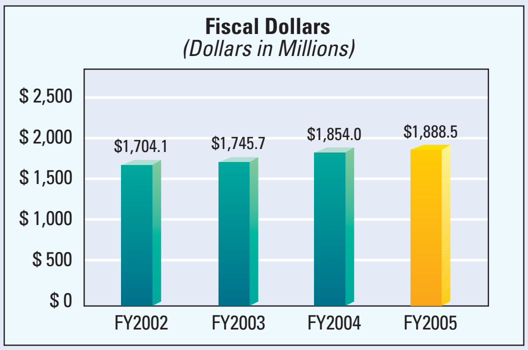
PERFORMANCE GOAL	STATUS*
Increase private enterprise and job creation in economically distressed communities (EDA)	🟢
Improve community capacity to achieve and sustain economic growth (EDA)	🟢
Strengthen U.S. industries (ITA)	🟢
Expand U.S. exporter base (ITA)	🟡
Increase access to the marketplace and financing for minority-owned businesses (MBDA)	🟡
Ensure fair competition in international trade (ITA)	🟢
Advance U.S. national security, foreign policy, and economic interests by enhancing the effectiveness and efficiency of the export control system (BIS)	🟢
Ensure U.S. industry compliance with the Chemical Weapons Convention (CWC) agreement (BIS)	🟢
Prevent illegal exports and identify violators of export prohibitions and restrictions for prosecution (BIS)	🟢
Enhance the export and transit controls of nations seeking to improve their export control system (BIS)	🟢
Meet the needs of policymakers, businesses, non-profit organizations, and the public for current and benchmark measures of the U.S. population, economy, and governments (ESA/Census)	🟢
Promote a better understanding of the U.S. economy by providing the most timely, relevant, and accurate economic data in an objective and cost–effective manner (ESA/BEA)	🟢

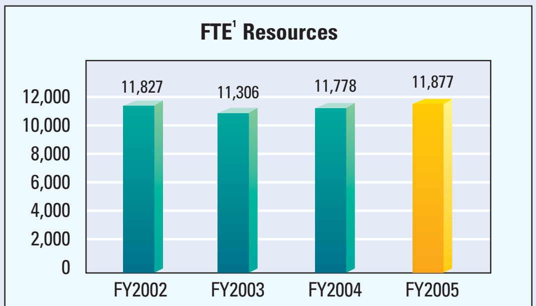
* 🟢 = MET (100%)   🟡 = SIGNIFICANTLY MET (75% - 99%)   🔴 = NOT MET (< 75%)

STRATEGIC GOAL 1

Provide the information and tools to maximize U.S. competitiveness and enable economic growth for American industries, workers, and consumers

STRATEGIC GOAL 1 TOTAL RESOURCES





[1] *FTE — Full-Time Equivalent*

The Department is committed to opening and expanding foreign markets for U.S. goods and services and improving the nation's export performance. The Department through the International Trade Administration (ITA) will promote U.S. export growth through the implementation of the Trade Promotion Coordinating Committee's (TPCC) National Export Strategy, ensuring that policies and priorities are consistent with national security and U.S. foreign policy objectives. The Department will enhance cooperation with its partnership organizations so that U.S. businesses can benefit from global business through free market trade negotiations and through identified priority markets. The Department will continue to focus on fostering a level playing field for U.S. firms through development of trade policy positions, advancement of negotiating positions, and through effective execution of U.S. trade laws intended to curb and combat predatory trading practices.

Number of Reported Results		
Below Target	Slightly Below Target	On Target
2	0	43

See Appendix A: Performance and Resource Tables for individual reported results.

The Department through the Bureau of Industry and Security (BIS) ensures that export controls do not place U.S. firms at a competitive disadvantage in world markets by eliminating outdated controls and streamlining the process for obtaining export licenses for products that remain under export controls. These continual improvements are being made while being mindful of the dual-use nature of some commercial technologies and the national security implications of those technologies.

The Department, through the Economics and Statistics Administration (ESA), provides decisionmakers with timely, relevant, and accurate economic and statistical information related to the U.S. economy and population. For example, responding to a request from Congress, ESA prepared a study on the economic impacts of rising natural gas prices on energy intensive industries in the United States. Through the work of the Bureau of Economic Analysis (BEA) and its partner agencies such as the Census Bureau, the accuracy of the gross domestic product (GDP) and international trade in goods and services measures have been improved. Improved economic and demographic statistics are essential to sound business forecasting and understanding the strength and direction of the nation's economy. The Department is at the forefront of national efforts to continually improve these statistics. With this in mind, the Department is endeavoring to fundamentally change the way the federal government conducts the Decennial Census.

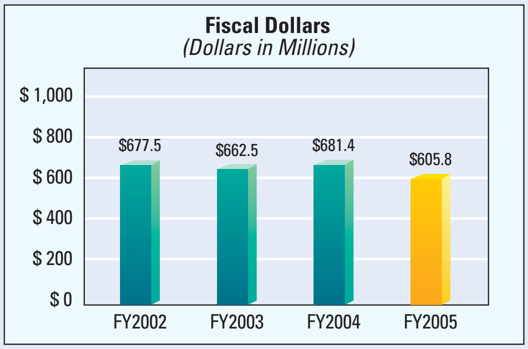
In support of disadvantaged individuals and communities, the Department, through the Economic Development Administration (EDA), promotes private enterprise and job creation in economically distressed communities and regions by investing in projects that produce jobs and generate private capital investment. Likewise, the Department, through the Minority Business Development Agency (MBDA), promotes private enterprise and investment within minority communities.

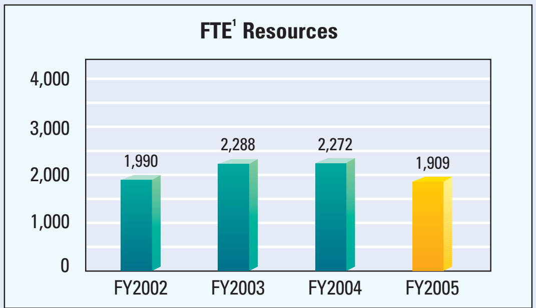
The Department successfully moved this strategic goal forward in FY 2005. Bureaus with programs supporting this strategic goal are EDA, ITA, MBDA, BIS, and ESA's Census Bureau and BEA.

STRATEGIC OBJECTIVE 1.1

Enhance economic growth for all Americans by developing partnerships with private sector and nongovernmental organizations

TOTAL RESOURCES





[1]FTE — Full-Time Equivalent

This objective is important to the nation as it increases private enterprise and job creation in economically distressed communities and regions; improves community capacity to achieve and sustain economic growth; increases trade opportunities for U.S. firms to advance U.S. international commercial and strategic interests, expands U.S. exporter base, improves customer and stakeholder satisfaction, improves the U.S. competitive advantage through global e-commerce, and increases opportunities and access for minority-owned businesses to the marketplace and financing.

Number of Reported Results		
Below Target	Slightly Below Target	On Target
2	0	19

See Appendix A: Performance and Resource Tables for individual reported results.

The Department assists economically distressed communities and regions by promoting a favorable business environment through its strategic investments in public infrastructure and technology. These investments help attract private capital investment and jobs that address problems of high unemployment, low per capita income, and severe economic challenges. For example, an EDA investment to Florence-Darlington Technical College in South Carolina

PERFORMANCE GOAL	STATUS*
Increase private enterprise and job creation in economically distressed communities (EDA)	MET
Improve community capacity to achieve and sustain economic growth (EDA)	MET
Strengthen U.S. industries (ITA)	MET
Expand U.S. exporter base (ITA)	SIGNIFICANTLY MET
Increase access to the marketplace and financing for minority-owned businesses (MBDA)	SIGNIFICANTLY MET

* (green) = MET (100%) (yellow) = SIGNIFICANTLY MET (75% - 99%) (red) = NOT MET (< 75%)

during fiscal year (FY) 2005 will provide training for workers in advanced manufacturing technologies such as robotics, computer technology, and other modern manufacturing techniques necessary to sustaining industry cluster survival and competitiveness in the global marketplace. Twenty-six employers have committed to creating 764 new jobs, saving 417 existing jobs, and generating over $317 million in private investment as a result of this investment. An EDA investment to Pamlico Community College near Grantsboro, North Carolina, will result in the construction of a 21,284 square foot Workforce Training Center. The center is expected to result in the creation of over 2,000 new jobs and generation of private investment in the region of over $400 million in private investment. Another EDA investment in Washington County, Pennsylvania, will address the lack of developable land in that region through earthwork and infrastructural improvements. This investment is expected to result in the creation of 4,000 new jobs and $171 million in private investment.

The Department also supports effective decision-making by local officials through its capacity-building programs. The Comprehensive Economic Development Strategy (CEDS) program, supported by EDA through its support of partnership planning programs, has proven particularly effective in this regard. For example, the CEDS process of the First District Association of Local Governments in South Dakota resulted in 136 new initiatives of which 16 were related to infrastructure, three to building construction and rehabilitation, and 90 to technical assistance efforts.

Enhancing economic growth through partnering with other government agencies and the business community to increase exports is a key approach to implementing the Department's Objective 1.1.

Export expansion is an important driver for U.S. economic growth since export related jobs pay significantly higher wages. At present, one of every 10 dollars in the U.S. economy is linked to exports. For example, the Small Business Administration (SBA), Export-Import Bank, and ITA partner together with the business community to assist individual exporters by bringing small business services, export services, and finance assistance under one roof, in ITA's U.S. Export Assistance Centers (USEAC).

It often takes more than a great product to build global success. Good contacts, knowledge of international business practices, and exposure in foreign markets are all prerequisites for companies hoping to succeed worldwide. For small companies without an entire international sales force, this can prove quite a hurdle. With some timely help from ITA, Daniel Wallek, International Marketing Director of Mediafour Corporation, a Des Moines, Iowa-based information technology (IT) company, learned this from experience. Mediafour has signed agreements with exclusive distributors in 15 countries and has shipped its product to 64 countries.

Mediafour used a combination of ITA's U.S. and Foreign Commercial Service (US&FCS) products and services to build a worldwide distributor network. The company credits the US&FCS's Gold Key Service with helping Mediafour find a distributor in Finland and the Baltic countries. For a nominal fee, US&FCS officers arranged appointments with prescreened foreign companies, and also provided transportation and translation services. Mediafour also took part in a telecom/IT Matchmaker trade mission to Belgium to find a distributor there. Matchmaker missions help businesses explore overseas trade opportunities through receptions, site visits, and face-to-face meetings with prescreened contacts.

The Department helps minority-owned businesses obtain access to public and private debt and equity financing, market opportunities, and management and business information to increase business growth in the minority business community. Some examples:

- The Los Angeles Metro Minority Business Development Center (MBDC) assisted its client Pacific Shore Hotels, LLC, owned by Mr. Vasant Ganatra, an Asian Indian minority business enterprise (MBE), in securing a loan for $5,525,000 with Nara Bank. The MBDC also assisted the firm in an acquisition/merger with another hotel valued at $8,500,000.

- The New Mexico Native American Business Development Center (NABDC) assisted Flintco Companies West in obtaining a $10,481,796 construction contract with the University of New Mexico. Flintco West is the largest Native American construction firm in the state of New Mexico. Through quality work and attention to the needs of customers, Flintco West has continually expanded throughout New Mexico and North America in industrial and commercial construction. Flintco West provides a complete range of services to meet a wide array of commercial and industrial construction needs. Some 80 individuals, mostly Native Americans, are employed with Flintco West.

- Roger Trevino, Sr. started Twang Inc. in 1987 to manufacture flavored salts, including its most popular product, a lime flavored salt used with margaritas and other ethnic mixed drinks. Through the assistance of the San Antonio MBDC, Mr. Trevino obtained a $1.1 million loan to expand and purchase a new facility. As a result, the company has received additional contracts from Anheuser Busch, Clamato, and Mr. & Mrs. T brand of products. This increased sales by $3.0 million for 2005.

***Performance Goal:* Increase private enterprise and job creation in economically distressed communities (EDA)**

Working with economically distressed communities and regions to create jobs and expand the economy.

Number of Reported Results		
Below Target	Slightly Below Target	On Target
0	0	2

See Appendix A: Performance and Resource Tables for individual reported results.

Preliminary data collected through the Government Performance and Results Act (GPRA) process for investments made in FY 1999 and FY 2002 indicates that these EDA investments have helped generate more than $3.57 billion in private sector investment and create and retain 67,046 jobs. EDA anticipates that as these investments continue to mature and more data become available, these numbers will continue to grow. EDA anticipates that FY 1999 and FY 2002 investments will generate more jobs as time progresses so that at the nine year (FY 1999 investments) and six year (FY 2002) reporting time, these amounts will be significantly greater. EDA performance targets for long-term program outcomes are based on nine-year projections for private dollars invested and jobs created. Performance data are obtained at three and six-year intervals to provide snapshots of current progress in achieving the full nine-year performance projection. The private investment targets for FY 1999 and FY 2002 EDA investments were $1,040 million after six years and $390 million after three years. Data reported in FY 2005 shows that EDA exceeded those projections by 72 percent and 459 percent, respectively. Similarly, jobs created or retained in distressed communities as a result of EDA investments in the same years exceeded projections by 67 percent and 71 percent and totaled 47,374 and 19,672, respectively.

EDA is continuing to work with its partners to implement its Results-Driven Performance initiative launched in 2004 to focus on economic development initiatives that achieve the highest rate of return on the taxpayers' investment. Specific efforts include implementing the revised Investment Policy Guidelines and focusing EDA funding effective investments that would not be eligible under other federal programs and that attract private capital investment and create higher-skill, higher-wage jobs.

All EDA investments are compliant with EDA's Investment Policy Guidelines to ensure that an investment will be part of an overarching, long term strategy that enhances a region's success in achieving a rising standard of living, and will demonstrate a high degree of commitment by exhibiting strong cooperation between the business sector; relevant regional partners; and local, state, and federal governments. Peer reviews are conducted every three years for each of the Economic Development District (EDD) Partnership Planning investment recipients, and the EDA regional offices continue to monitor the performance of all investment recipients.

Performance Goal: ***Improve community capacity to achieve and sustain economic growth (EDA)***

Support local planning and long-term partnerships through technical assistance to help distressed communities.

EDA continues to build upon its partnerships with local development officials; EDDs; University Centers (UC); faith-based and community-based organizations; and local, state, and federal agencies. EDA's approach is to support local planning and long-term partnerships with state and regional organizations that can assist distressed communities with strategic planning and investment activities. This process helps communities set priorities, determine the viability of projects, leverage outside resources to improve the local economy, and sustain long-term economic growth.

Number of Reported Results		
Below Target	**Slightly Below Target**	**On Target**
0	0	6

See Appendix A: Performance and Resource Tables for individual reported results.

EDA is in the process of implementing a three-year competition cycle for UC funding. In FY 2004, EDA's Denver and Austin regional offices conducted open competitions for UC funding. During FY 2005, EDA held similar competitions in its Chicago and Philadelphia regions, and for FY 2006 will hold competitions in its Seattle and Atlanta regions. In FY 2007, the cycle will be restarted with competitions in Denver and Austin. These competitions will help to ensure that EDA and the nation's taxpayers will realize the maximum returns on their investments from the UC program resources.

The data used to evaluate the effectiveness of performance goal achievements are reviewed carefully and the Department attests to the accuracy and reliability of the data. For jobs created and retained, the regional offices screen data reported by recipients for reasonableness, and the Budget and Performance Evaluation Division analyzes the data for the presence of "outliers" and works with regional offices to verify actual data reported that appears to be atypical. In addition, headquarters and regional staff validate reported impacts by visiting randomly chosen recipients each year.

Two EDA program evaluations were initiated for EDA programs this year, of which one was completed. The study completed addressed the Economic Adjustment program, and the general conclusion was that this program was valuable and useful. Another study addressing the effectiveness of all EDA was initiated during FY 2005 but not completed. Evaluation studies of EDA programs can be found on EDA's Web site at *http://www.eda.gov/Research/ResearchReports.xml*.

Performance Goal: ***Strengthen U.S. industries (ITA)***

Ensure that U.S. small and medium-sized enterprises (SME) and manufacturers can compete and win in the global economy.

ITA's Market Access and Compliance (MAC) program addresses numerous challenges faced by U.S. exporters, and supports critical compliance and market access trade policy issues in areas like international standards setting, currency, and intellectual property, as well as trade compliance policy issues involving transparency, good governance, and rule-of-law requirements. MAC uses a range of techniques to advocate on behalf of U.S.

Number of Reported Results		
Below Target	**Slightly Below Target**	**On Target**
0	0	1

See Appendix A: Performance and Resource Tables for individual reported results.

business and intervene with other governments to ensure foreign compliance with existing trade agreements and to eliminate trade barriers. Trade agreement compliance and foreign trade barriers have been a continuous problem for U.S. exporting firms, large and small. Many companies, especially small and medium sized firms, do not have the resources, knowledge, or leverage to influence foreign governments' laws, and regulatory regimes.

ITA's Manufacturing and Services (MAS) program advances and strengthens the competitiveness of U.S. industry by researching and analyzing U.S. business sectors and the competitive impact these sectors have on domestic and international business environments.

ITA identified several key priorities that it has addressed during FY 2005. These priorities include:

- **Trade Relations with China** – China's trade has been growing rapidly, with imports into China from nearly all trading partners growing at double digit rates. Imports from Asia to China in U.S. dollar terms increased by 43 percent in 2003, while imports from Europe and the U.S. to China increased by 31 percent and 24 percent as reported by BEA. The U.S. imports from China were $196.7 billion in 2004 (an increase of 29 percent over 2003), making China the second largest exporter of goods to the United States, behind only Canada's $256 billion export total. At current rates of growth, China will surpass Canada and become the largest supplier of U.S. imports in 2006. Trade with China continues to present a number of challenges for U.S. companies. Until World Trade Organization (WTO) accession is completed in 2017, aspects of the Chinese economy will still be still organized under principles that are inconsistent with the WTO rules; and, since it is a non-market economy, these issues impact our trading relationship. ITA, in close coordination with the U.S. Trade Representative (USTR) and other agencies, has adopted an aggressive and multi-pronged approach to ensure that China honors its WTO commitments and that U.S. companies benefit from these opportunities.

  Additionally, ITA is focusing and sharpening expertise in China through the China Compliance office that devotes more resources to China and cases/issues unique to non-market economies. The Department's ability to verify whether China is in compliance with its WTO subsidy obligations is severely hindered by an overall lack of transparency in China. This limits the Department's ability to obtain detailed information on actual subsidy programs. Both bilaterally and at the WTO, the Department, in concert with the USTR, has been increasing pressure on China to improve transparency of its subsidy practices, including making its required annual notifications to the WTO Subsidies Committee, a responsibility China has failed to meet every year. ITA will remain vigilant on all trade compliance issues with China.

- **Manufacturing in America** – *Manufacturing in America, A Comprehensive Strategy to Address the Challenges to U.S. Manufacturer* (available at *www.manufacturing.gov*), published in January 2004, acknowledges that manufacturing is vital to the nation's economy, recognizes the unprecedented challenges to U.S. global leadership, and recommends reforms to strengthen manufacturing competitiveness. ITA has completed 32 of 57 recommendations and is working closely with its partners and stakeholders, through the interagency process, to implement the remainder of the recommendations contained in the report. This effort is critical for U.S. commerce to ensure ITA is fostering an environment in which U.S. firms can compete and succeed in manufacturing.

- **Expanding Global Intellectual Property Rights (IPR) Enforcement** – IPR protection leads to improvements in productivity, and helps trigger new ideas and pushes inventors to improve existing technologies. IPR protection is an essential component of an economic foundation. In FY 2005, the Department, through ITA, has focused resources to enforce U.S.-negotiated trade agreements, uphold the U.S. Strategy Targeting Organized Piracy (STOP), and combat violators of IPR around the world. ITA has implemented a strategy to pursue perpetrators along the entire supply chain, including manufacturers and importers, and has

exerted pressure on countries where problems are found. ITA continues to work with U.S. industry and coordinate with other U.S. agencies, including the U.S. Patent and Trademark Office (USPTO) and the U.S. Food and Drug Administration (USFDA), to investigate allegations of piracy and to help resolve market access and trade compliance cases.

Performance Goal: *Expand U.S. exporter base (ITA)*

Support jobs and foster economic growth by expanding the number U.S. exporters, especially SMEs.

Number of Reported Results		
Below Target	**Slightly Below Target**	**On Target**
1	0	4

See Appendix A: Performance and Resource Tables for individual reported results.

One of ITA's key objectives is to place primary emphasis on the promotion of goods and services from the U.S., particularly by SMEs, and on the protection of U.S. business interests abroad. Within ITA, the US&FCS seeks to increase export opportunity awareness among U.S. companies. The US&FCS program proactively identifies potential exporters and existing exporters who need assistance and provides a range of export assistance programs. These products and services are supported by systems that leverage electronic and traditional media, centralize and manage relationships with US&FCS customers, and develop alliances and partnerships with other export support organizations to deliver export results. ITA's Advocacy Center recorded a 12 percent advocacy success rate with an estimated value of $6.5 billion in U.S. export content.

ITA's US&FCS facilitated 12,518 export transactions. ITA helped 4,888 U.S. companies enter a new market and helped 620 U.S. companies export for the first time. The latter representing 89 percent of its goal of 700 companies. External factors have impacted this effort. Although the weak dollar has increased exports overseas, rising energy costs, market uncertainties, and trade disruptive externalities such as hurricanes have impacted many companies seeking to expand to new markets overseas. ITA continues to encourage U.S. exporters to enter new markets in regions of the world least impacted by stated externalities. For example, a firm currently exporting to Canada may be encouraged to enter Mexico.

During the past year, both the Inspector General (IG) and independent auditors have reviewed and found discrepancies in collected and reported US&FCS performance data. This issue has becoming increasingly critical because of the heightened emphasis that is being placed on performance results. US&FCS and ITA's Chief Financial Officer (CFO) have initiated actions to ensure effective performance-measure oversight through close coordination with ITA measure owners and through a program of independent verification and validation (IV&V) reviews.

In FY 2005, ITA's Planning and Performance Management Staff, in conjunction with ITA Program "Measure Owners," will have conducted IV&V reviews of selected performance measures. This includes reviews in ITA's Import Administration (IA) program, ITA's MAC program, ITA's US&FCS program, including two US&FCS USEACs in the domestic field (Rosslyn, VA and Chicago, IL), a detailed review of the US&FCS Export Transaction Measure completed in conjunction with Department staff, and a review of export successes at the US&FCS overseas posts in Brussels. In the spirit of the President's Management Agenda (PMA), these reviews have enabled ITA to verify and measure data that highlights/conveys progress toward achieving ITA strategic goals. The IV&V reviews have addressed data collection and reporting issues, inconsistencies, and accountability weaknesses identified in IG Inspection reports completed for Chicago, Philadelphia, Turkey, India, and the Pacific Northwest; and follow through on ITA's resulting Action Plans. The IV&V review in IA addressed weaknesses regarding statutory deadlines. These IV&V reviews reinforce ITA's and the Department's credibility on planning and performance management and provide an opportunity for ITA to strengthen internal controls and to clarify and harmonize performance data reporting standards worldwide.

In addition to the areas described above, ITA has focused on two key priorities under this performance goal in FY 2005:

- **Strengthen Federal Trade Promotion Programs and Cooperation** – ITA has a given mandate to increase and improve trade promotion activities for U.S. businesses, especially SMEs that rely on federal and other assistance programs to successfully compete in the global marketplace. Utilizing the 2005 National Export Strategy, the Secretary of Commerce announced a multi-year national trade promotion agenda to better leverage federal trade promotion programs and initiatives and to ensure greater cooperation under the TPCC.

- **The Security and Prosperity Partnership of North America (SPP)** – On March 23, 2005, President Bush, Prime Minister Martin of Canada, and President Fox of Mexico announced the SPP. Through the SPP, the United States, Canada, and Mexico seek to establish a cooperative approach to advance the three nations' common security and prosperity through the development of a common security strategy led by the Department of Homeland Security (DHS), and by the development of a complementary prosperity strategy for economic growth, competitiveness, and quality of life lead by the Department. Through cooperation and information sharing, the SPP prosperity strategy has started to work towards improving productivity; reducing the costs of trade; and enhancing the joint stewardship of the environment, facilitating agricultural trade while creating a safer and more reliable food supply, and protecting people from disease. Commerce Secretary Gutierrez chairs prosperity working groups. ITA has been engaged in several of these key working groups including the working groups on manufactured goods, energy, business facilitation, e-commerce and information and communications technologies (ICT), transportation, financial services, and rules of origin.

Performance Goal: Increase access to the marketplace and financing for minority-owned businesses (MBDA)

Achieve entrepreneurial parity for minority businesses enterprises (MBE) by actively promoting their ability to grow and to compete in the global economy.

Number of Reported Results		
Below Target	Slightly Below Target	On Target
1	0	6

See Appendix A: Performance and Resource Tables for individual reported results.

MBDA's mission is to achieve entrepreneurial parity for MBEs by enhancing their ability to grow and compete in the global economy.

MBDA has targeted its strategic goals and performance measures to ensure the efficient and effective allocation of its resources. Programs focused on providing access to capital and markets will continue to be the prime components of MBDA's minority business development initiatives. The success of these results-oriented initiatives is measured by their impact on minority MBEs and the U.S. economy. These outcomes are carefully tracked and verified through electronic and manual performance reporting systems.

MBDA is successfully implementing an Agency Strategic Growth Policy designed to focus its resources on medium to large sized MBEs that have the greatest impact on the minority community and the U.S. economy. This strategic direction ensures that MBDA's resources help to achieve entrepreneurial parity for minority businesses, particularly as it relates to gross receipts and job creation. As a result of the Agency Strategic Growth Policy, a Strategic Growth Initiative has been implemented within all agency programs.

New strategic public and private sector partnerships help MBDA leverage its resources and add value to the services provided by the MBDCs and the Minority Business Opportunity Committees (MBOC).

New strategic partnerships have led to many successful opportunities, providing value-added resources to support the services of the MBDCs and MBOCs. Specifically, partnerships with the National Urban League, USDA, Microsoft, Forbes, and the Kauffman Foundation will strengthen minority participation by leveraging resources and providing valuable assistance to grow firms. Likewise, a training program conducted by the Amos Tuck Business School at Dartmouth College provided a curriculum to service medium and large size minority firms in meeting the challenge of a fast growing minority population.

The MBDA Portal has successfully become a Virtual Business Center offering new tools, services, and a message board for information exchange for MBEs to better compete in the worldwide economy. Continuous improvements provide new enhancements and sources of information and technology to improve the services available. The portal serves as an information clearinghouse and the center for referral of opportunities and resources to registered minority firms.

On September 11-14, 2005, MBDA held its annual National Minority Enterprise Development (MED) Week conference. It is the premier conference empowering MBEs to succeed. The theme for MED Week 2005 was "*The Art of the Deal: Making It Happen*." The conference featured exceptional speakers who shared best practices for successful deal making in today's business landscape. Attendees benefited from valuable dealmaking techniques and tactics in a structured networking environment, which in some cases resulted in new business relationships. MED Week 2005 provides critical information to the minority business community, and to corporate America, which increasingly recognizes that minorities are the fastest growing segment of the nation's population and a significant economic force.

MBDA's Office of Performance and Program Evaluation continues to review agency programs to improve efficiency and productivity. In FY 2005, an evaluation of the MBDC and NABDC program has made recommendations to improve the design and implementation of the program to meet objectives and performance targets. As a result, current policies are being revised and a new BDC competitive solicitation will be prepared for advertisement next year.

MBDA is one of the first agencies in the Department to establish a Customer Relations Management System throughout the agency and its funded network. A delivery model that will improve client services and operations has been implemented. This further supports the PMA and will strengthen accountability.

MBDA plans to incorporate the recently approved Central American Free Trade Agreement (CAFTA) into its outreach and advocacy activities in partnership with ITA.

During 2005, MBDA established two new offices of operation, namely, the White House Initiative for Asian Americans and Pacific Islanders and the Office of Native American Business Development. They will focus services on the special needs of these ethnic groups to improve business participation and capacity.

The number of clients receiving services will fall short of the expected target. The Strategic Growth Initiative seeks larger prime contracts with higher dollar values. Larger awards are being obtained for clients to impact jobs and growth. Due to the Strategic Growth Initiative, MBDA is now assisting larger firms with growth potential. Several small minority-owned businesses are being referred to SBA, local non-profit partner organizations, and other resources available from state and local governments. Therefore, the total number of firms assisted is decreasing.

In the coming year, MBDA is committed to the following strategies for improving its performance:

- MBDA will make electronic improvements to the Phoenix-Opportunity Online Bid Matching system to allow multiple batch entry opportunities that will facilitate more awards.

- MBDCs and NABDCs are selecting and utilizing more strategic partners who can add value to the program, assist clients, and support agency performance measures.

- The MBOC program has been upgraded to include recommendations from the recent evaluation that will focus more on relationships with minority beneficiaries.

- Results from the 2005 MBDC / NABDC program evaluation will improve the delivery of services and redesign work requirements to impact the bottom line for performance.

STRATEGIES AND FUTURE PLANS

EDA's "Results-Driven Performance" initiative has reached many communities and regions across the United States through satellite telecasts, forums, e-newsletters, magazines, and other means. Communities target their economic development strategies to attract private sector investments and higher-skill, higher-wage jobs using their EDA-funded CEDS process, Trade Adjustment Assistance Center (TAAC) activities, and UC assistance. EDA brings all these capacity-building resources together to provide communities with innovative and entrepreneurial talent that will achieve and sustain economic growth where it is most needed.

ITA has a strategy to address the challenges posed by changing economic, technological, and global business conditions to help U.S firms expand and conduct business abroad. ITA has made much progress in expanding U.S. exports while supporting U.S. government foreign policy initiatives; both the Iraq and Afghanistan task forces have helped generate export sales in those countries while supporting the U.S. foreign policy goal of regional stability. By generating U.S. exports, ITA simultaneously supports the development of a stronger market-oriented economic system in areas of the world (Africa, Middle East), contributing both to U.S. economic goals and global stability.

Large portions of ITA's resources are directed toward ensuring that U.S. SMEs, service industries, and manufacturers can compete and win in the global economy. ITA supports the President's economic program of export expansion by reasserting leadership in international trade through negotiations, through compliance, and by seeking the removal of non-tariff trade barriers. ITA assists in the development of commercial infrastructure in target markets such as China, Turkey, and India.

The health of the U.S. economy depends on its SMEs. The US&FCS program's mandate is to create an environment in which all U.S. firms, including SMEs, can flourish. In order to achieve this, the US&FCS program seeks to increase export opportunity awareness among U.S. companies by identifying potential exporters who need assistance, leveraging electronic and traditional media, centralizing relationships with customers, and developing alliances and partnerships to deliver export assistance. A unique global network of trade professionals located in more than 250 offices covering 80 countries and 47 states, plus Puerto Rico, capitalizes on high export areas identified by trade patterns and as stated in the TPCC's National Export Strategy.

The US&FCS offers a large array of specialized products and services to assist U.S companies, especially SMEs. ITA's US&FCS has also initiated a rollout of revised product prices that will enable ITA to fully recover costs for specialized products and services in accordance with the Office of Management and Budget (OMB) requirements. Full implementation is pending the FY 2006 appropriation as the Senate mark instructed the Department not to move to full cost recovery.

US&FCS remains committed to opening and expanding foreign markets for U.S. goods and services and improving U.S. export performance. In FY 2005, the US&FCS continues its focus on several key program initiatives that have helped to boost the number of U.S. companies that win contracts and export. The President and Congress have mandated several of these initiatives. These initiatives are:

- The American Trading Center initiative reaches five additional large provincial markets in China.
- The Secretarial Standards Initiative incorporates training for the staff in the field to identify and help firms overcome standards barriers in international markets.
- The African Growth and Opportunities Act (AGOA) initiative expands US&FCS operations in sub-Saharan Africa.
- The Global Diversity and Rural Export Initiatives (GDI and REI) target traditionally under-served communities. GDI takes minority firms through a comprehensive export training course. Over 200 minority/women-owned firms have graduated from the course. The REI ensures better access to export-assistance programs for rural companies.
- The Business Information Center (BIC) initiative, through establishment of business centers for China and the Middle East located in Washington, D.C., provides current information and opportunities in these markets. The BICs are built on successful models established in Central and Eastern Europe and in the Newly Independent States.

ITA's customers are U.S. businesses. U.S. firms have expressed several needs for enhanced products and service offerings and service delivery capabilities from ITA to export more successfully in a fair trade environment. U.S. businesses want online customized information products and simplified access to ITA services. The success of ITA efforts depends upon effectively addressing the challenges faced by ITA's customers in foreign markets balanced with meeting the expectations and needs of its stakeholders.

ITA will continue to achieve its customer satisfaction strategies by providing high-quality services and customized solutions to help U.S. firms export and by providing services through a unique global network of knowledgeable professionals who put their clients first.

ITA continues its focus on e-commerce as a major channel to further U.S. exports. The scope of e-commerce influence is broad, covering market access, customs, services, government procurement, and other areas of export promotion. ITA's e-commerce export promotion program has four main goals: helping small businesses use the Internet to find markets overseas, helping established U.S. IT companies to expand overseas, helping emerging economies make the transition to the digital age, and ensuring that both the Internet and foreign markets are open and accessible.

ITA will increase efforts to promote U.S. companies' bids in regions with higher e-commerce export potential.

The Census Bureau is currently releasing the *Survey of Business Owners - 2002, formerly titled the Survey of Minority-Owned Business Enterprises (SMOBE) - 1997*. MBDA will conduct longitudinal research and data analysis of this survey to address the growth and changes in minority business, specifically, the number of firms by ethnic category, gross receipts changes, the increase in jobs, the business participation rates of each minority group, and geographical movements in minority business. This data will provide special profiles and support future decisions by MBDA.

CHALLENGES FOR THE FUTURE

The opportunities of the worldwide economy will be available to those communities that focus on innovation, entrepreneurship, and cooperative regional approaches to economic development. Communities and regions need to adapt to this reality. Many will require outside assistance to do so.

The Base Realignment and Closure Plan announced in 2005 and the severe hurricanes of 2005 further add to the demand for tools such as the Economic Adjustment Program.

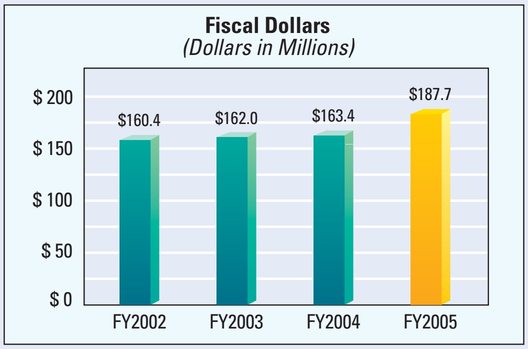
Changing economic, technological, and social conditions in the last decade have altered how international trade is conducted. This changing international trading environment presents U.S. exporters with numerous challenges and opportunities, such as domestic and international competitiveness; compliance with WTO accession requirements for nations like China; standards, currency, and intellectual property issues; as well as transparency and rule-of-law requirements.

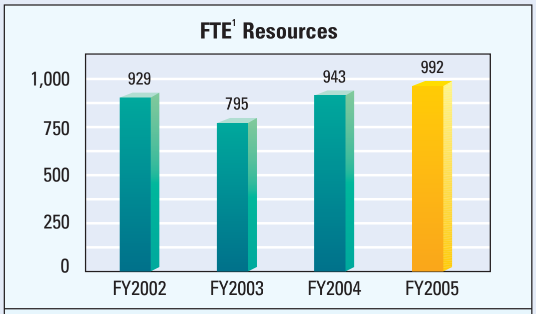
MBDA will continue to meet its challenges by sustaining the overall return on program investment; provide staff and project training in collaboration with the Amos Tuck School of Business at Dartmouth; implement phase two of the Customer Relationship Management initiative; and Re-engineer the BDC technical assistance program to better serve high growth minority firms.

STRATEGIC OBJECTIVE 1.2

Advance responsible economic growth and trade while protecting American security

TOTAL RESOURCES





[1] *FTE — Full-Time Equivalent*

This objective is important to the nation as it helps to ensure fair competition in international trade, advances U.S. national security and economic interests by enhancing the efficiency of the export control system, prevents illegal exports and identifies violators of export prohibitions and restrictions for prosecution, enhances the export and transit control systems of nations that lack effective control arrangements, and ensures U.S. industry compliance with the Chemical Weapons Convention (CWC) Agreement, and undertakes a variety of functions to support the viability of the U.S. defense industrial base.

Number of Reported Results		
Below Target	Slightly Below Target	On Target
0	0	12

See Appendix A: Performance and Resource Tables for individual reported results.

The Department is working extensively with U.S. businesses on a regular basis to help them understand U.S. trade laws related to dumping and foreign government subsidies. Appropriate actions are taken when violations have been identified. The Unfair Trade Practices Team in ITA's IA tracks, detects, and confronts unfair competition by monitoring economic data from U.S. global competitors and vigorously investigates evidence of unfair subsidization and production distortions.

PERFORMANCE GOAL	STATUS*
Ensure fair competition in international trade (ITA)	●
Advance U.S. national security, foreign policy, and economic interests by enhancing the effectiveness and efficiency of the export control system (BIS)	●
Ensure U.S. industry compliance with the Chemical Weapons Convention (CWC) agreement (BIS)	●
Prevent illegal exports and identify violators of export prohibitions and restrictions for prosecution (BIS)	●
Enhance the export and transit controls of nations seeking to improve their export control system (BIS)	●

* ● = MET (100%) ● = SIGNIFICANTLY MET (75% - 99%) ● = NOT MET (< 75%)

The Department continues to face the difficult balancing act of supporting necessary shifts in foreign policy and security goals while addressing viable opportunities to expand the U.S. market base. The Department's success in maintaining this balance stems from its ability to integrate efforts to support the President's commercial and foreign policy goals to promote freedom and liberty through free and fair trade while pursuing expanding profitable markets for U.S. goods and services. For this reason, the Department is readily working to reconstruct Iraq and Afghanistan, and to bring free trade to Africa and the Middle East.

The Department carries out this objective by administering the U.S. dual-use export control system. Dual-use items, subject to the Department's regulatory jurisdiction, have predominantly civilian uses, but could also have conventional military, weapons of mass destruction (WMD), and terrorism-related applications. The Department effectively administers the dual-use export system by: (1) writing and promulgating regulations, (2) processing license applications, (3) enforcing adherence to U.S. law and regulations, (4) conducting outreach to exporters, and (5) assuring the timely availability of industrial resources to meet national defense and emergency preparedness requirements.

1. The Department promulgates clear, concise, and timely regulations that set forth the license requirements for the export of dual-use items. Principal areas of focus include implementation of controls agreed to in the four multilateral export control regimes – the Australia Group (chemical and biological nonproliferation), the Missile Technology Control Regime, the Nuclear Suppliers Group, and the Wassenaar Arrangement (conventional arms and dual-use goods and technologies) – as well as furthering other U.S. foreign policy interests, including sanctions policies, specifying which export licensing agency has jurisdictional authority for a given item, and clarifying the rights and obligations of U.S. exporters. In the development of regulatory policy, the Department consults with industry through six Technical Advisory Committees (TAC). The TACs provide valuable input regarding industry perspectives on trends in technology as well as the practicality and likely impact of export controls. In addition, the Department often publishes significant draft rules to give the exporting community an opportunity to comment before the regulations take effect.

2. The Department effectively and efficiently processes export license applications and related requests to enable U.S. companies to compete in the international market while ensuring that U.S. national security is protected and U.S. foreign policy is advanced. Processing time for licenses has declined over the last few years. In FY 2005, the average processing time was 31 days versus 44 days in FY 2003 and 36 days in FY 2004. For the small percentage of licenses (eight percent) that are not referred to agency partners, licenses were processed on average in eight days.

3. The Department investigates and prosecutes violators of the dual-use export laws and regulations. Export Enforcement Special Agents are sworn federal law enforcement officers with authority to make arrests, execute search and arrest warrants, serve subpoenas, and detain and seize goods about to be illegally exported. Investigations are initiated on information and intelligence obtained from a variety of sources and are conducted to objectively and thoroughly gather testimony and evidence of alleged or suspected violations of dual-use export control laws. The Department works closely with attorneys in the Department of Justice (DOJ) and the Office of Chief Counsel for Industry and Security to prosecute criminal and administrative cases. The Department conducts checks before licenses are issued to ascertain the bona fides of potential end-users, and after licensed commodities are shipped to ensure that the items are being used by the appropriate end-users in accordance with the license conditions. The Department conducts analysis to target these end-use checks where they can be the most effective, focusing on destinations where there is concern of diversion and on 'chokepoint' technologies which would significantly advance the development of WMD or conventional weapons systems. The Department also conducts post-shipment verification (PSV) checks abroad to check for diversions of licensed goods and technologies.

4. The Department advances trade while promoting national security with an industry outreach program to facilitate compliance with U.S. export controls. In FY 2005, the Department conducted 39 seminars, including a major seminar in October 2004 with over 700 participants and three overseas programs. Seminars are developed to respond to a variety of exporter needs. Seminars

include one-day programs on the major elements of the U.S. dual-use export control system and intensive two-day programs that provide comprehensive presentation of exporter obligations under the Export Administration Regulations (EAR). Special topic seminars, such as exporter obligations, doing business with key trading partners, or key technologies, are also conducted. Over 100 outreach activities were conducted on deemed exports.

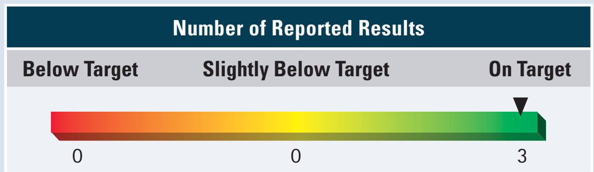
Project Guardian is a targeted enforcement outreach effort building on the Department's established relationships with the U.S. export trade community. Guardian focuses on forming key industry partnerships to develop information and leads related to specific dual-use goods and technologies related to U.S. counter proliferation, counterterrorism, or other export enforcement priorities which are known to be targeted for acquisition by hostile foreign entities. Guardian's objectives are to identify goods and technologies targeted for hostile acquisition; share appropriate information with the manufacturers, shippers, and exporters of those goods/technologies; and solicit ongoing cooperation and assistance in identifying suspicious inquiries regarding those goods/technologies and pursuing significant investigations.

5 The Department also plays a role in defense preparedness under the Defense Priorities and Allocations System (DPAS). DPAS assures the timely availability of industrial resources to meet national defense and emergency preparedness program requirements and provides an operating system to support rapid industrial response in a national emergency. This also includes offering defense trade advocacy for U.S. industry, providing U.S. government certifications for U.S. industry participation in the North Atlantic Treaty Organization (NATO) Security Investment Program, assessing the impact of defense memorandum of understanding (MOU) and sales of excess defense articles on U.S. industry, evaluating the effects on national security of imports of certain items and foreign investments in U.S. companies, and assessing the viability of various sectors of the U.S. defense industrial base.

Performance Goal: *Ensure fair competition in international trade (ITA)*

Help build a rules-based trading system in which international trade is both free and fair for U.S. firms and workers.

ITA's MAC program's overall objectives are to obtain market access for U.S. firms and workers and to achieve compliance with trade agreements that the U.S. has signed with other countries. The IA program defends U.S. industry against injurious and unfair trade practices by administering the antidumping (AD) and countervailing duty (CVD) laws of the United States and enforcing other trade laws and agreements negotiated to address such trade practices.



See Appendix A: Performance and Resource Tables for individual reported results.

ITA successfully completed 100 percent of AD/CVD cases on time in accordance with its statutory mandate. The number of AD/CVD cases completed on time is a reflection of the diligence of IA staff to complete its casework within the statutory timeframe. Domestic industry generates AD/CVD cases, and timeliness of case activity is a critical factor for delivering customer satisfaction. Timeliness of casework is also essential for upholding the integrity of the AD/CVD laws as a credible and fair legal mechanism to address unfair trade actions by foreign interests. The stated target reflects management's prioritization of adherence to statutory requirements. ITA must always complete these cases within the limits set forth in law.

ITA faces new demands as the international trade environment changes from year to year: new barriers are erected, the role of international organizations and alliances is strengthened, and other foreign regulatory measures are implemented that have a

negative impact on ITA exports. This performance measure assesses the extent of ITA's efforts to monitor trade agreements, identify and initiate MAC cases on behalf of U.S. businesses, and work to their resolution. Market access cases arise from complaints received by ITA from U.S. companies experiencing overseas barriers to U.S. exports, which are not covered by trade agreements. Compliance cases rise from complaints received by ITA from U.S. companies regarding failures by foreign governments to implement trade agreements negotiated by the U.S. and through monitoring efforts by ITA compliance officers.

ITA is in the vanguard of commerce to ensure fair competition by obtaining greater market access, and measures performance through concluded compliance cases. The number of MAC cases concluded is based on a number of cases processed by ITA where no further action by ITA is warranted, such as a case successfully resolved; complaint was groundless, i.e., no violation; industry decides not to pursue a complaint; case referred to USTR for consideration for formal dispute settlement resolution; or the problem cannot be resolved despite ITA efforts. ITA met its annual target. MAC concluded 85 market access and trade compliance cases.

Leveling the Playing Field by Removing Barriers that Hinder American Exporters

Free and fair trade is a two-way street that requires all parties to play by the rules. When the access of U.S. farmers, ranchers, workers, and businesses to foreign markets is thwarted by the failure of other governments to live up to their international commitments, the Department takes aggressive actions to remove barriers for U.S. exporters. The Administration regularly negotiates solutions to potential WTO cases and unfair trade practices that achieve timely and meaningful results for U.S. companies and workers and avoid drawn-out, costly litigation battles. The Administration's tough, practical, problem-solving approach has helped level the playing field for U.S. manufacturers, innovators, and workers, as well as farmers and ranchers. Examples include:

- **Telecommunications.** Opening Korea's closed telecommunications and wireless market to ensure that U.S. telecom companies and workers can continue to expand by selling their products in this important market.

- **Textiles.** Relaxing India's burdensome import certification requirements on U.S. textiles exported to India.

- **Auto Parts.** Removing Mexico's barriers to U.S. auto parts.

- **Patent Protection.** Settling ongoing IPR disputes with the Dominican Republic regarding patents and winning commitments for improved enforcement against piracy and counterfeiting.

- **Optical Media Protection in the Philippines.** Encouraging the Philippines to enact key legislation that will provide greater protection for the optical media industry. This legislation addresses piracy at a high level and is part of an ongoing effort to prevent piracy of U.S. intellectual property in the Philippines.

- **Updating Copyright Law in Uruguay.** Convincing Uruguay to revise its antiquated 1937 copyright law to address U.S. industry IPR losses estimated at $32 million annually.

- **Stopping Transshipment and Piracy in Paraguay.** Renegotiating an IPR Memorandum of Understanding with Paraguay to reduce transshipment, piracy, and counterfeiting challenges to U.S. industry.

Real Results Through Tough Policy Positions With China

The Department has advanced tough trade policy positions and utilized practical problem solving to level the playing field by improving access for U.S. exporters to China. As a result, China agreed to the following:

- **Soybeans and Cotton.** Reduce barriers and relax market constraints in the soybeans and cotton markets. As a result of U.S. negotiations with China, U.S. soybean exports reached an all-time high of $2.9 billion in 2003 and cotton exports were up 431 percent over 2002 and have already reached record levels ($1.3 billion) this year. China is the largest U.S. export market for both soybeans and cotton.

- **Wireless Standards.** A more open approach to developing Wireless Internet Standards in China, ensuring the free flow of information, and preserving competition for U.S. technology companies.

- **Advanced Telecommunications.** Support technology neutrality with respect to Third-Generation (3G) Mobile Phone Standards – preserving competition for U.S. telecom and equipment manufacturers.

- **Intellectual Property Rights (IPR) Protection.** Stricter enforcement and more severe penalties for piracy and counterfeiting of U.S. ideas and innovations. This includes the Department's pressing the Chinese to agree to a detailed action plan to address the piracy and counterfeiting of U.S. ideas and innovations, particularly through increased Chinese criminal penalties for violators.

- **Reducing Red Tape for Exporters.** Provide distribution rights to U.S. companies, which allow U.S. firms to engage in wholesaling and retailing U.S. products directly within China.

- **Express Delivery.** Preserve a growing market for U.S. express delivery service providers by eliminating regulations that would have protected Chinese providers.

- **Approval of Biotech Farm Products.** Reduce barriers on U.S. biotech soybeans, canola, and corn.

- **Opening Financial Services.** Reduce capital requirements for financial services and open the auto-financing sector to U.S. competitors.

- **Opening Insurance Services.** Change insurance regulations to make it easier for U.S. insurance companies to do business in China.

Performance Goal: Advance U.S. national security, foreign policy, and economic interests by enhancing the effectiveness and efficiency of the export control system (BIS)

BIS regulates the export of dual-use items that are determined to require export licenses for reasons of national security, nonproliferation, foreign policy, or short supply; ensures that approval or denial of license applications advances U.S. economic and security interests; promotes the understanding of export control regulations within the business community; represents the Department in interagency and international fora relating to export controls, particularly multilateral regimes; monitors and seeks to ensure the availability of industrial resources for national defense under the authority of the Defense Production Act; and assesses the security consequences for the United States of certain imports.

BIS processes export license applications for controlled commodities of U.S. companies engaged in international trade in accordance with EAR. An integral part of BIS's mission is to facilitate compliance with U.S. export controls by keeping U.S. firms informed of export control regulations through an extensive domestic and foreign outreach program. BIS provides timely information to U.S. industry regarding the updating of export controls and compliance with EAR.

Number of Reported Results		
Below Target	Slightly Below Target	On Target
0	0	5

See Appendix A: Performance and Resource Tables for individual reported results.

In FY 2005 BIS successfully promulgated 36 regulations that improved the ability of U.S. companies to compete internationally by streamlining export controls on less sensitive items while enhancing U.S. national security and furthering U.S. foreign policy interests by expanding export controls in key areas. Noteworthy regulations published include multilateral export control regime updates from 2004/2005 Plenary meetings, expanded license requirements for Australia Group controlled chemical/biological dual-use items to non-Australia Group members, revisions to licensing policy for exports to India, revisions to the rules for deemed exports "Technology Transfers to Foreign Nationals in the U.S.," and a rule to lift certain restrictions on items used by U.S. persons in Libya.

BIS processed over 23,350 export license applications and related requests in FY 2005 benefiting exporting companies and industries, and in turn the U.S. economy, while protecting national security and foreign policy interests.

The basic BIS licensing program that establishes licensing policy, promulgates regulations, and applies the policy and regulations in evaluating and acting on license applications for export of dual use commodities largely accomplishes its fundamental objectives.

BIS is able to fully and effectively meet its responsibility for administering the dual-use export control system using current legal authorities. However, there would be benefits in securing comprehensive dual-use export control legislation. Thus, the Administration seeks a revised, reauthorized Export Administration Act (EAA) that will increase penalties, clarify outdated control requirements, further specify interagency licensing processes, and codify procedural rights of exporters.

The following are reviews conducted by the Government Accountability Office (GAO) and the IG related to this goal:

- Cruise missiles and unmanned aerial vehicles (UAV) pose a growing threat to U.S. national security interests as accurate, inexpensive delivery systems for conventional, chemical, and biological weapons. GAO recommended that BIS assess the adequacy of EAR end-user, or "catch all" controls in addressing missile proliferation and indicate ways in which such controls

might be modified to increase their effectiveness. BIS published a revision to the EAR that expanded missile catch-all controls to further address missile proliferation by non-state actors. The regulation strengthened the controls contained in section 744.3 of EAR. BIS also conducted a review of licensing transactions with respect to UAVs/cruise missiles. BIS identified those commodities, end-uses, and destinations requiring additional scrutiny for selection of PSVs.

- To comply with the National Defense Authorization Act's (NDAA) FY 2004 requirement, the IG conducted an interagency review to assess whether the current deemed-export control laws and regulations adequately protect against the illegal transfer of controlled U.S. technologies and technical information by foreign nationals to countries and entities of concern. The IG determined that some areas of deemed-exports, such as the outreach program, are working well, and acknowledged the steps BIS has taken to strengthen the rest of the program. BIS has also been considering revisions to the deemed export rules and soliciting comments on the IG recommendations.

- In March 2005, the IG released a report on its review of the export licensing process for chemical and biological commodities. The IG said the process is generally working well, but made several recommendations, including improvements in the licensing process, timely publication of Australia Group control list updates, control of certain items on the Animal and Plant Health Inspection Service (APHIS) select agent list, and interagency coordination on Australia Group matters. BIS has already completed action on three of the 11 recommendations.

Performance Goal: *Ensure U.S. industry compliance with the Chemical Weapons Convention (CWC) agreement (BIS)*

BIS collects, validates, and aggregates data declarations from U.S. companies that produce, use, or trade certain toxic chemicals and related precursors in quantities above thresholds established by the CWC. BIS hosts international inspections at U.S. companies conducted pursuant to CWC inspection provisions. BIS also provides outreach and assistance to U.S. companies to prepare them for possible inspection and apprise them of their treaty rights and obligations.

BIS successfully conducted 12 CWC site assistance visits (SAV) in FY 2005. During SAVs, BIS helps companies comply with CWC regulations and helps companies develop measures to protect confidential business information. None of the companies receiving a SAV were selected for inspection by the Organization for the Prohibition of Chemical Weapons (OPCW) in FY 2005.

Number of Reported Results		
Below Target	Slightly Below Target	On Target
0	0	1

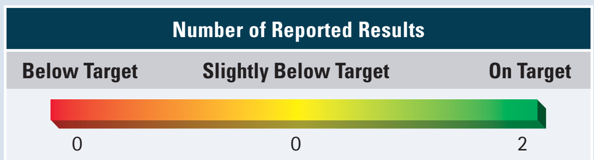
See Appendix A: Performance and Resource Tables for individual reported results.

BIS has worked closely with the Department of State to address shortcomings in overall treaty implementation, particularly State Party compliance with the CWC requirements to establish penal legislation criminalizing chemical weapons, establish a National Authority, and enact administrative measures to collect industry declarations and host industry inspections. On behalf of the Department of State and government of Romania, BIS drafted and distributed an Implementation Assistance Program (IAP) to promote universal compliance with these requirements and developed and hosted an IAP-dedicated Web site. In coordination with Department of State and OPCW Technical Secretariat officials, BIS representatives conducted assistance visits with States Parties in Africa, South America, and Asia in FY 2005 in support of the IAP. BIS also developed the concept paper for establishing State Party guidelines for CWC compliance assessments by November 2005. A U.S. government paper incorporating these concepts was distributed to OPCW States Parties by the Department of State in June 2005.

BIS did not conduct any implementation activities, (e.g., issuing regulations, collecting declarations, hosting inspections, conducting assistance visits) related to the International Atomic Energy Agency (IAEA) Additional Protocol to the Safeguards Agreement in FY 2005, since the implementing legislation has not yet been passed. However, BIS drafted forms, including forms on behalf of the Nuclear Regulatory Commission (NRC), for U.S. industry use in compiling and submitting declarations to BIS, and provided them to select companies for testing purposes. BIS also compiled a list of abandoned uranium mines that will be subject to declaration under the Additional Protocol upon entry into force, thereby avoiding the need for a data call to industry upon issuance of final regulations. BIS also completed the development of an Additional Protocol Reporting System that will process industry declarations, including those subject to NRC jurisdiction, and will compile interagency data into a combined U.S. national declaration for transmission to the IAEA.

Performance Goal: Prevent illegal exports and identify violators of export prohibitions and restrictions for prosecution (BIS)

BIS's enforcement efforts focus on sensitive exports to hostile entities or those engaged in onward proliferation, prohibited foreign boycotts, and related public safety laws. In the area of dual-use exports, BIS gives top priority to investigations and enforcement actions involving the proliferation of WMD, terrorist activities, significant exports to state sponsors of terrorism, and dual-use exports destined for unauthorized military / government uses.



See Appendix A: Performance and Resource Tables for individual reported results.

BIS engages in activities to prevent violations before they occur and to investigate and prosecute violators to dismantle illicit proliferation networks and deter future violations. Preventive activities include screening license applications for enforcement concerns; conducting end-use checks abroad to confirm the *bona fides* of parties to export transactions, confirm compliance with license conditions, and uncover diversions to unauthorized end-users/uses; and reviewing Shippers Export Declarations and foreign visitors' visa applications to identify potential export issues. Outreach activities include educating U.S. businesses on export control requirements and identifying suspicious transactions leading to successful preventative and investigative actions. Investigation and prosecution activities involve BIS Special Agents conducting cases focused on significant proliferation, terrorism and military end-use export violations, and the vigorous pursuit of criminal and administrative sanctions.

In FY 2005, BIS completed 583 investigative actions that resulted in the prevention of a violation and cases which resulted in a criminal and/or administrative prosecution. These actions resulted in 31 convictions for criminal export violations and the imposition of $7.7 million in criminal fines and the assessment of $6.8 million in administrative penalties. BIS enhanced its enforcement capabilities by implementing new procedures to focus enforcement activity on the most significant violations, reduce aging case inventories, and strengthen interagency partnerships; and implementing a new, focused outreach program to U.S. businesses manufacturing and exporting specific goods and technologies targeted for hostile foreign acquisition. In FY 2005, BIS completed over 500 PSVs, a form of end-use check to confirm export license conditions are complied with and identify any unauthorized diversions, and is working to enhance end-use checks by expanding regional responsibilities of BIS Export Control Officers overseas.

Triggered Spark Gaps: A BIS investigation prevented high speed electrical switches like that pictured here, a dual-use good that can be used for detonating nuclear weapons, from illegal export via a South African proliferation network to Pakistan.

As a part of its deemed export review, the IG recommended that BIS implement a program to verify compliance with deemed export licenses issued. BIS conducted its first pilot verification check of a deemed export license holder, and is finalizing the development of this program for implementation.

BIS also expanded its role in the Proliferation Security Initiative (PSI), an interagency, multilateral effort to prevent illicit trafficking in WMD materials. BIS successfully coordinated with PSI partners to interdict two shipments of WMD materials destined to restricted destinations and is actively pursuing two investigations of potential criminal and administrative violations based on those shipments.

In addition to dual-use export controls, BIS enforces the antiboycott provisions of the EAR. Implemented to support countries friendly to the U.S. and eliminate impediments to the U.S. economy, the antiboycott regulations direct U.S. businesses not to participate in foreign boycotts that the United States does not sanction. As well as investigating criminal and administrative violations of the antiboycott regulations, BIS actively supports the State Departments efforts to dismantle Arab governments' boycott of Israel. BIS provides guidance to the exporting community regarding the antiboycott regulations through public outreach and its telephone and e-mail advice line.

The Commission on the Intelligence Capabilities of the United States Regarding Weapons of Mass Destruction issued its report to the President on March 31, 2005. The Commission specifically sought out BIS input in its deliberations, and took particular note of the Department's significant role in U.S. counter proliferation efforts and its contributions to the intelligence community's efforts. The Commission praised BIS for its efforts in thwarting WMD networks; recommended giving BIS stronger law enforcement powers through renewal of the EAA; and urged the Intelligence Community to take advantage of BIS's unique role in export controls.

Performance Goal: Enhance the export and transit controls of nations seeking to improve their export control system (BIS)

Through a series of bilateral cooperative activities co-sponsored with the State Department, BIS helps the nations that it works with to: (1) develop the procedures and requirements necessary to regulate the transfer of sensitive goods and technologies, (2) enforce compliance with these procedures and requirements, and (3) promote the industry-government partnerships necessary for an effective export control system.

BIS assists in implementing the Department's international activities by: (1) coordinating and managing BIS participation in the U.S. government's Export Control and Related Border Security Assistance (EXBS) program, which provides technical assistance to strengthen the export and transit control systems of nations lacking effective systems that are identified as potential locations for export transshipment or transit of

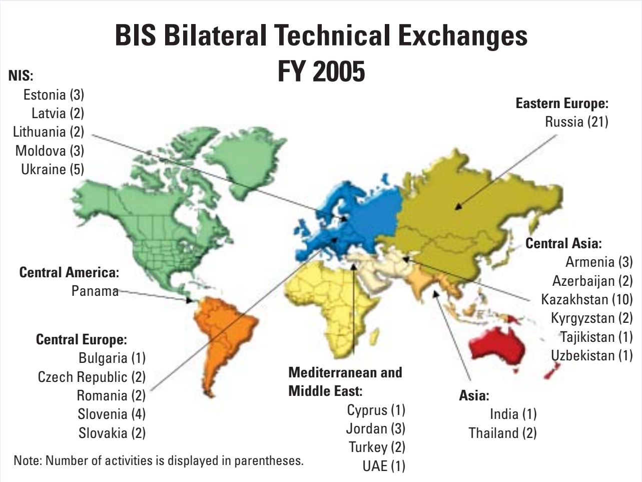
Number of Reported Results		
Below Target	Slightly Below Target	On Target
0	0	1

See Appendix A: Performance and Resource Tables for individual reported results.

nuclear, chemical, biological, or radiological weapons; missile delivery systems; or the commodities, technologies, or equipment that could be used to design or build such weapons or their delivery systems; (2) preparing input for reports and other information on BIS international cooperative programs; (3) representing the Department in ongoing interagency dialogues on international export control assistance programs and other international nonproliferation and export control issues; and (4) providing policy and implementation support for the Office of the Under Secretary for international dialogues and activities.

BIS successfully remedied 40 deficiencies in the national export control systems of countries receiving technical assistance under the EXBS program. Some highlights include: Kazakhstan and Romania passed legislation to improve their respective export control legal frameworks and bring them up to international standards; Armenia adopted a national control list that meets international standards; and more than 170 Russian customs officials from more than 70 customs posts, ports, airports, and other customs entities were trained in use of the Product Identification Tool (PIT). This tool helps customs officials identify dual-use items by sight to better monitor which products require a license and which do not. Cyprus, Turkey, and Kazakhstan made high-level commitments to work with BIS to develop and deploy an indigenous version of the PIT and to train their respective customs officials. BIS conducted industry awareness programs and deployed Internal Control Program software tools in over 400 Russian, Ukrainian, Romanian, and Kazakh enterprises.

BIS initiated an upgrade of the Performance Tracking and Results System (PTRS). New PTRS capabilities will include the ability to track program failures as well as successes and will enable the user to more easily determine the cost associated with remedying a particular deficiency in a program country's export control system. PTRS is an electronic repository of technical exchange information and supporting documentation related to each country's performance in developing an export control system.



Bureau of Industry and Security FY 2005 Bilateral Technical Exchanges.

STRATEGIES AND FUTURE PLANS

ITA will expand its analytical infrastructure to support timely and accurate assessments of: (1) the impact on U.S. industries of the growth of regional trade pacts, and (2) the impact of major competitors exporting their discriminatory technical regulations to third markets in the developing world; develop strategies to support bilateral and multilateral trade negotiations that prevent the adoption of discriminatory international standards and regulations against U.S. products; work closely with foreign governments and regulatory officials in developing strategies that address regulatory barriers, head off potentially harmful regulations, and help shape good regulations and standards; monitor economic data from U.S. global competitors and vigorously investigate evidence of unfair subsidization and production distortions; identify legal remedies available to counter unfair trade practices and ensure that they are eliminated, rather than leave these small and medium-sized manufacturers in the United States with costly trade litigation; and focus and sharpen expertise on China through the recently created China Compliance office in IA. This effort devotes more resources and dedicated experts to China for compliance issues.

BIS continues to refine U.S. export controls in light of geopolitical and global market realities. BIS also seeks to enhance the effectiveness of the EAR by educating exporters and other stakeholders in the export licensing process, thereby improving industry compliance with export control regulations. These efforts will increase the efficiency of the license processing system and thus enable exporters to be more competitive in the global economy while deterring transactions that threaten U.S. security interests.

BIS conducts outreach and educational programs to train U.S. exporters and foreign customers to identify and avoid illegal transactions. In FY 2005, BIS conducted 39 outreach programs. BIS conducted outreach programs in countries such as India, South Korea, and Singapore. In addition, BIS works with its foreign counterpart agencies to encourage other governments to implement enforcement measures to complement BIS's export enforcement efforts. BIS unveiled an outreach program that includes a new standardized outreach presentation, increased solicitation of industry feedback via surveys, and new outreach tools. Informative feedback from industry is being used to better target the critical issues that are of interest to industry. The standardized presentation will be given to industry representatives in order to educate them on BIS's enforcement activities. In addition, all BIS agents have been trained on delivering this presentation and will be reaching out to new audiences that have little experience in the export control arena.

Strong enforcement of U.S. export regulations is critical to protect U.S. national security interests. BIS will continue to focus on preventing, investigating, and prosecuting the most significant export violations involving proliferation, terrorism, and military end-uses. Focused partnerships with U.S. businesses will be maintained regarding specific goods and technologies sought for hostile acquisition, and the deemed export compliance program will be finalized and implemented.

One of BIS's primary roles in CWC activities is to ensure that confidential business information is protected during inspections of U.S. firms. In addition, with the ratification by the U.S. Senate of the Additional Protocol to the IAEA Safeguards Agreement, BIS will serve as the lead U.S. government agency in U.S. industry's compliance and will be required to carry out responsibilities similar to those imposed under the CWC. This responsibility includes facilitating domestic visits of international inspection teams to determine compliance with the multilateral treaty obligations by covered U.S. facilities and informing industry of its obligations under the treaty. Industry SAVs prepare covered facilities to receive a team of international inspectors.

U.S. national security interests can also be jeopardized if sensitive materials and technologies from other nations reach countries of concern or terrorists. For this reason, BIS's strategy includes promoting the establishment of effective export control systems by other nations.

CHALLENGES FOR THE FUTURE

Implementing an export control system that advances U.S. national security, foreign policy, and economic objectives in a dynamic technology and geopolitical environment.

Strengthening the legal foundation of the dual-use export control system. The EAA lapsed on August 20, 2001. Executive Order 13222 of August 17, 2001 (3 C.F.R., 2001 Compo 783 (2002), which has been extended by successive Presidential Notices, the most recent being that of August 2, 2005 (FR 45273, Vol. 70, 150, of August 5, 2005) continues the regulations in effect under the International Emergency Economic Powers Act (IEEPA). While BIS effectively exercises its authority under IEEPA, the legal foundation for the dual-use export control system can be strengthened. The Administration has vigorously advocated a streamlined and strengthened export control system that effectively promotes both U.S. national security and U.S. economic

interests. To address this challenge, the Department continues to work with congressional members and staff on export control reforms that enhance the Department's ability to facilitate legitimate global trade while reducing illicit traffic in dual-use items and targeting export control resources on transactions of greatest risk.

Processing export license applications and related tasks promptly and accurately. In light of evolving technologies and increasing globalization, and new threats, BIS continues to strengthen its internal processes, develop enabling technologies, and work with other license application reviewing agencies to ensure that the process is effective and efficient. BIS also continues to seek to enhance its ability to ensure that U.S. exporters and foreign customers have ready and timely access to regulatory and policy changes. BIS will expand efforts to help key transshipment countries prevent the diversion of dual-use items through their ports. Finally, BIS continues to refine enforcement targeting to ensure investigation and prosecution of the most significant dual-use export and antiboycott cases.

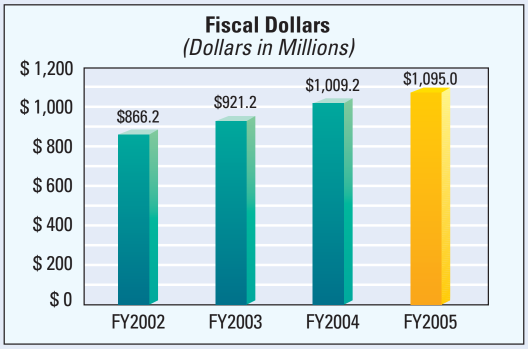
Controlling the most sensitive technologies. BIS is continually faced with the challenge of updating technology controls to reflect the current state of technology. BIS will continue to quickly update the Commerce Control List to reflect changes in the multilateral export control regimes to ensure controls do not burden U.S. industry with outdated controls. BIS is developing and plans to implement in the near future a new metric to identify the most sensitive high performance computers. This effort will include obtaining multilateral agreement on a new metric and revising the EAR to reflect the agreed-upon interagency metric. The new metric is needed to more accurately identify the most sensitive high performance computers. To meet this challenge FY 2006 budget priorities include funding for an office to monitor and assess technology developments.

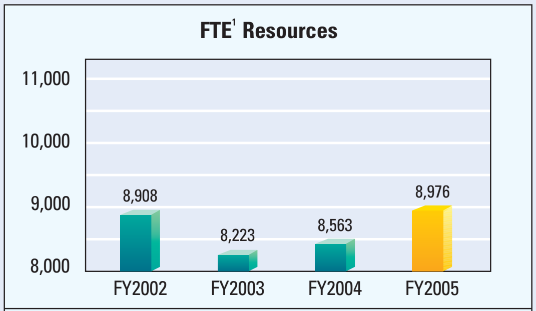
Implementing U.S. export control policy to reflect geopolitical developments. Dual-use export controls must reflect geopolitical developments and new partnerships as they evolve. For example, in late 2003 Libyan commitments to dismantle their WMD programs prompted revisions to dual-use export controls. As the situation with Libya further develops through 2005 and 2006, BIS will be challenged with how best to respond to these developments. In July 2005 India and the United States concluded the Next Steps in Strategic Partnership and formed a new partnership in several areas, including civilian nuclear cooperation. BIS will again be faced with the challenge of responding to these developments with revisions to dual-use export controls.

STRATEGIC OBJECTIVE 1.3

Enhance the supply of key economic and demographic data to support effective decision-making of policymakers, businesses, and the American public

TOTAL RESOURCES





[1]FTE — Full-Time Equivalent

This objective is important to the nation's economic well being in that it serves to meet the needs of policymakers, businesses and non-profit organizations, and the public for current measures of the U.S. population, economy, and governments, while respecting individual privacy, ensuring confidentiality, and reducing respondent burden. It also seeks to promote a better understanding of the U.S. economy by providing timely, relevant, and accurate economic data in an objective and cost-effective manner.

Number of Reported Results		
Below Target	Slightly Below Target	On Target
0	0	12

See Appendix A: Performance and Resource Tables for individual reported results.

The Department's statistical programs and services are widely used by policymakers, business leaders and the U.S. public. As a primary source for measures of macroeconomic activity, the Department provides the nation with the picture of its economic health.

PERFORMANCE GOAL	STATUS*
Meet the needs of policymakers, businesses, non-profit organizations, and the public for current and benchmark measures of the U.S. population, economy, and governments (ESA/Census)	●
Promote a better understanding of the U.S. economy by providing the most timely, relevant, and accurate economic data in an objective and cost–effective manner (ESA/BEA)	●

* ● = MET (100%) ● = SIGNIFICANTLY MET (75% - 99%) ● = NOT MET (< 75%)

Performance Goal: Meet the needs of policymakers, businesses, non-profit organizations, and the public for current and benchmark measures of the U.S. population, economy, and governments (ESA/Census)

Census Bureau collects and disseminates a wide range of current demographic and economic information and provides benchmark measures of the nation's economy and population to help decisionmakers and the public make informed decisions.

ESA's Census Bureau produces both current statistics and benchmark measures to help decisionmakers, businesses, and the public to make informed decisions. Current surveys and statistics programs provide current measures of the U.S. economy and population.

Number of Reported Results		
Below Target	Slightly Below Target	On Target
0	0	6

See Appendix A: Performance and Resource Tables for individual reported results.

The current economic statistics program provides public and private data users with annual national statistical profiles for every sector of the U.S. economy. In FY 2005 The Census Bureau released over 300 reports with information on retail and wholesale trade and selected service industries; construction activity; quantity and value of industrial output; capital expenditure information; e-commerce sales; foreign trade; and state and local government activities.

The current demographic statistics programs provide accurate, timely, and efficient information on the social and economic condition of the population. These programs include:

- The Current Population Survey (CPS) provides monthly information on labor force characteristics and provides official government estimates of annual data on work experience, income, migration, and school enrollment.

- The Survey of Income and Program Participation (SIPP) is the major source of information on the economic well-being of Americans over-time. The data are used to estimate future costs and coverage for government programs and to provide detailed statistics on the distribution and source of income in the United States.

- The Survey of Program Dynamics (SPD) provides sub-national estimates of poverty and receipt of government assistance; and the State Children's Health Insurance Program (SCHIP) provides state-based estimates of health insurance coverage of children.

Targeted response rates, which are a measure of the quality of survey data, were successfully achieved for the demographic surveys. Data products for SIPP, CPS, and the American Housing Survey (AHS) were released as scheduled.

The Census Bureau's cyclical programs provide the foundation for critical national, state, and local data. These include the Economic Census and Census of Governments, which are conducted every five years, Intercensal Demographic Estimates, Demographic Surveys Sample Redesign (DSSR), and the Decennial Census Program.

The Economic Census provides comprehensive, detailed, and authoritative facts about the structure of the U.S. economy ranging from the national to the local level. The data help build the foundation for GDP and other indicators of economic performance. The Census of Governments is the only source of comprehensive and uniformly classified data on the economic activities of state and local governments.

During FY 2005, the Census Bureau released 883 geographic area series reports from the 2002 Economic Census, two reports from the 2002 Survey of Business Owners, and preliminary data from the 2002 Business Expenses Survey. In addition, detailed project plans were developed for conducting both the 2007 Economic Census and Census of Governments.

The Intercensal Demographic Estimates program provides updated estimates of the United States population for the country, states, counties, cities, and townships in the years between the decennial censuses.

The DSSR program provides improved sampling methodologies, and updated samples of households, based on the most recent census information, for major recurring household surveys conducted by the Census Bureau. Census 2000-based samples were released, as planned and on schedule, for several demographic surveys.

The re-engineered 2010 Decennial Census Program is designed to improve the relevance and timeliness of census long-form data, reduce operational risk, improve the accuracy of census coverage, and contain costs. The program is made up of three integrated components:

- The American Community Survey (ACS), which collects and tabulates long-form data every year throughout the decade using a large household survey. The ACS was successfully expanded to it full national sample size. The target response rate was successfully achieved and data products were released as scheduled.

- The MAF/TIGER[1] Enhancement Program to modernize geographic resources and systems by enhancing and improving the Census Bureau's MAF/TIGER. TIGER features have been brought into global positioning system alignment for an additional 623 counties.

"Every survey counts." Only a small percentage of addresses receive the American Community Survey each year, which is why it is so important that each selected household respond to the survey. Photographed by the U.S. Census Bureau.

- The planning, development, and testing of short-form only census in 2010 that builds on opportunities made possible by the ACS and MAF/TIGER efforts. Critical testing and preparatory efforts for the 2010 Census were completed, including evaluations of the 2004 Census Test, preparations for the 2005 National Census Test, and design requirements and early operations for the 2006 Census Test.

The data used to evaluate the effectiveness of performance goal achievements are reviewed on a quarterly basis. In response to GAO and Office of Inspector General (OIG) requirements, the Census Bureau has also implemented an on-going internal review process, which involves collecting detailed data from programs in support of each performance goal, measure, and target. The purpose of these reviews is to validate the data and ensure that all programs have verifiable processes in place to collect, store, and calculate all performance information reported in the Annual Performance Plan (APP) and the Performance and Accountability Report (PAR). Based on Census Bureau analysis and review, the Department can attest to the accuracy and reliability of the data used to report performance results.

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[1] *Master Address File/ Topologically Integrated Geographic Encoding and Referencing system.*

Performance Goal: *Promote a better understanding of the U.S. economy by providing the most timely, relevant, and accurate economic data in an objective and cost–effective manner (ESA/BEA)*

ESA's BEA produces some of the nation's most important economic statistics, including the GDP, the broadest measures of economic activity. BEA produces economic statistics for four major program areas:

Number of Reported Results		
Below Target	Slightly Below Target	On Target
0	0	6

See Appendix A: Performance and Resource Tables for individual reported results.

- National Economic Accounts produces GDP, personal income and outlays, corporate profits, and capital stock estimates.
- Industry Accounts produces GDP by industry, input-output estimates, capital flow, and U.S. travel and tourism accounts.
- International Accounts produces U.S. balance of payments accounts, international trade in services, international investment position, foreign direct investment, and the operation of multinational companies.
- Regional Accounts produces gross state product, state and local personal income, and regional multipliers.

BEA draws on the data collection and analyses conducted by the Census Bureau, Bureau of Labor Statistics, Internal Revenue Service, Federal Reserve, and others to produce over 50 public data releases a year. By pulling together a diverse set of statistics ranging from profits to retail sales and other indicators collected by the Census Bureau and other statistical agencies, BEA provides a comprehensive and integrated measure of U.S. economic activity. These economic measures are used by policymakers, business leaders, and the U.S. public to make decisions on economic matters that are critical to the efficient operation of the U.S. economy. Without them, the nation would have no objective sense of the direction or magnitude of U.S. economic activity and would be unable to provide the government or the public with a picture of its economic health.

Measures such as the GDP, U.S. and local personal income, international trade in goods and services, and gross state product are important components to the work of government, business, academia, and other organizations. Some specific public benefits of BEA measures:

- OMB, Congressional Budget Office, Council of Economic Advisors, and the Department of Treasury use trend GDP to calculate federal budget projections.
- Federal Reserve uses real GDP and wage inflation to help set monetary policy.
- Federal programs, such as Medicaid, Foster Care, and State Children's Insurance Program, use BEA's state personal income estimates to allocate over $190 billion in federal funds.
- State and local budget offices use quarterly state personal income to estimate revenue and expenditure projections.
- U.S. trade officials use trade and other international account statistics to develop trade policy and assist in trade negotiations.

BEA has worked in the past year to make these critical measures more accessible to all users and to ease the burden of response to BEA's international surveys. In FY 2005, BEA significantly increased the accessibility and level of detail of its economic estimates. A new search engine and e-mail delivery service for its major releases was initiated, additional interactive tables on www.bea.gov were launched, and historical data were provided. During FY 2005, BEA also completed implementation of its electronic reporting system that allows all survey respondents to report online, thereby reducing their burden and improving data quality.

BEA has modernized its statistical processing systems and take on challenges such as accelerating the release of a number of major economic accounts. During FY 2005, BEA achieved a number of important data improvement goals, including:

- Improved estimates of banking, software prices, and housing.
- Continued work on research and development (R&D) satellite account.
- Provided historical GDP-by-industry estimates on NAICS (North American Industrial Classification System) basis.
- Accelerated local area industry data and prototype gross state product estimates.
- Expanded electronic survey collection.

BEA has met all six of its FY 2005 performance targets, thereby providing the U.S. public with a reliable source of accurate and comprehensive economic data. BEA has met each of its targets for all three of its long-term performance measures for the past three years. These long-term measures – reliability of release, customer satisfaction, and percent of GDP estimates correct – track the core attributes of BEA's mission. Three budget-related measures, which are tied directly to specific budget initiatives, monitor BEA's performance toward achieving the projects for which funds were provided. BEA has accomplished all the major milestones defined in the BEA Strategic Plan related to these budget initiatives; thus meeting the performance targets.

BEA programs are evaluated through a variety of means. OMB has evaluated BEA twice in as many years using the Program Assessment Performance Tool (PART). In FY 2002 and FY 2003, BEA was awarded the highest rating of effective and was ranked within the top five percent of all federal programs reviewed. BEA also conducts an annual survey of its users to monitor their satisfaction with BEA products and services. For three years running, customers of BEA products and services have indicated high levels of satisfaction. A certification and accreditation review of BEA's security plans was performed by the Department's Office of IT Security and given a green light.

The BEA 5-year Strategic Plan is the most important evaluation of BEA programs and performance. The Strategic Plan is a detailed operating plan that guides BEA's planning with more than 160 detailed milestones per year. Managers are responsible for ensuring that the milestones are met as they feed directly into the performance measures and budget requests of the Agency.

Twice a year, the blue-ribbon 13-member BEA Advisory Committee meets publicly to review and evaluate BEA statistics and programs. The Committee advises the Director of BEA on matters related to the development and improvement of BEA's national, regional, industry, and international economic accounts, especially in areas of new and rapidly growing economic activities. The committee also provides recommendations from the perspectives of the economics profession, business, and government.

STRATEGIES AND FUTURE PLANS

The Census Bureau strives to provide accurate, timely, and useful information to users in the most cost-effective manner while honoring privacy, protecting confidentiality, and conducting work openly. For the 2010 Census, the Census Bureau plans to award two contracts next year for capturing and integrating response data and for automating data collection in the field. Census Bureau economic data related to this goal allow users to gauge competition, calculate market share, locate business markets, locate distributors, design sales territories, prepare operating ratios, and analyze change in the nation's economic structure. Likewise, cost-effective and relevant demographic data provide accurate information to decisionmakers so that funds can be allocated appropriately to the U.S. public.

Census Bureau employees manage, operate, and support a variety of data collection, data capture, and data processing operations. Photographed by Ted Wathen for the U.S. Census Bureau.

The Census Bureau will continue to review performance data on a quarterly basis to ensure that they are meeting the Department's goals. Work will continue in the area of data validation and verification to ensure accuracy and relevancy of reported performance information.

Census Bureau economic benchmark data are the foundation of the nation's economic statistics programs. They provide core information on virtually all non-farm businesses and related data on business expenditures, commodity flows, minority and women-owned businesses, and other topics. The Census Bureau plans to enhance the 2007 Economic Census to ensure the usefulness and relevance of the programs; improve the timing of respondents, especially for large companies; increase response rates; improve internal processing efficiency; and improve the timeliness of statistical products.

The multi-year effort to re-engineer the census will allow the Census Bureau to meet the nation's ever-expanding needs for social, demographic, and geographic information by improving the relevance and timeliness of census long-form data, reducing operational risk, improving accuracy of census coverage, and containing costs. The strategy is to accomplish that through the use of the ACS, enhancements to the MAF and geographic database (TIGER), and the short-form only 2010 census.

BEA conducted extension outreach to its user communities in order to better understand their statistical needs. As part of the annual updates to the BEA 5-year Strategic Plan, BEA provides all its stakeholders and users an opportunity to review the 5-year plan and make recommendations. In addition, BEA senior staff have participated in conferences and meetings to share the priorities and changes at BEA in order to help users understand improvements and to get feedback on their priorities.

During 2005, BEA began a series of user conferences to invite data users into BEA and help educate them on the proper uses of BEA's economic accounts as well as provide them with access to senior BEA staff. In July of 2005, BEA jointly sponsored an important conference with the U.S. Chamber of Commerce in which leaders in business and the public sector came together to share their insights and priorities for the nation's economic accounts.

All this feedback is used by BEA senior staff to develop future plans announced in the BEA 5-year Strategic Plan. This plan is updated annually through a series of internal account meetings and a senior staff retreat. At the retreat, a review of the past Strategic Plan is conducted and a report of the successes of meeting the announced milestones is prepared and made public. Senior staff also set the directions and priorities for the agency for the next year and next five years. The directions and priorities are set out in the updated plan, which is made available to the public for comment. Through this process, BEA is able to clearly define a path that reflects the needs and interests of the U.S. public.

CHALLENGES FOR THE FUTURE

Given the major changes in overall design and methodology, the efforts involved with reengineering the 2010 Decennial Census Program will continue to present a significant management challenge for the Census Bureau and Department of Commerce.

The Census Bureau continues to address the significant management challenges of meeting user demands for reliable data, obtaining and maintaining targeted response rates for the various surveys conducted, and continuing to maintain respondent confidentiality.

BEA faces three major challenges in the near future. To tackle them, BEA has developed a detailed, public plan in its Strategic Plan for FY 2005 – FY 2009. The three major challenges facing BEA are:

A census-taker collects information from a household that did not mail in the form for the 2006 Census Test. Photographed by the U.S. Census Bureau.

Measuring a constantly changing economy. The U.S. economy is in constant flux. BEA is challenged to understand the structural changes in the economy, improve measurement methodologies, and locate and incorporate data sources to capture the changes. Its challenge is to continue to keep pace with these changes in order to provide the nation with the most timely, relevant, and accurate economic statistics possible.

Integrating federal economic accounts. The demand for greater consistency between the various economic accounts in a decentralized statistical system is growing among users of federal economic statistics. The federal agencies responsible for the production of U.S. economic accounts must continue working together to integrate the accounts by harmonizing definitions, methodologies, and analytical techniques in order to provide consistent estimates to users.

Building and developing a skilled workforce. BEA is its people. The quality of BEA statistics is dependent on the knowledge and skills of its staff. With the increasingly complex and changing economy, the demands on BEA staff to be at the leading edge of economic change and provide for innovative solutions to measurement are increasing. BEA must continue to prepare its employees for these challenges.

Strategic Goal 2

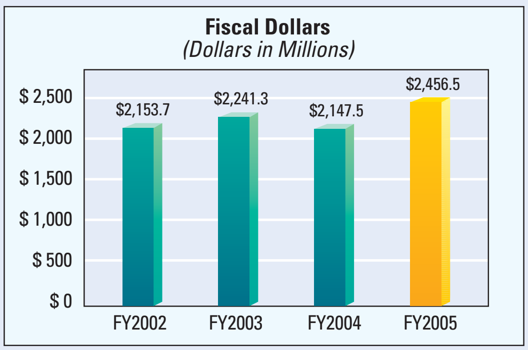
PERFORMANCE GOAL	STATUS*
Promote innovation, facilitate trade, ensure public safety and security, and help create jobs by strengthening the nation's measurements and standards infrastructure (TA/NIST)	🟢
Accelerate private investment in and development of high-risk, broad-impact technologies (TA/NIST)	🟢
Raise the productivity and competitiveness of small manufacturers (TA/NIST)	🟢
Enhance public access to worldwide scientific and technical information through improved acquisition and dissemination activities (TA/NTIS)	🟢
Improve the quality of patent products and services and optimize patent processing time (USPTO)	🟡
Improve the quality of trademark products and services and optimize trademark processing time (USPTO)	🟡
Create a more flexible organization through transitioning patent and trademark operations to an e-government environment and advancing intellectual property development worldwide (USPTO)	🔴
Ensure that the allocation of radio spectrum provides the greatest benefit to all people (NTIA)	🟢
Promote the availability, and support new sources, of advanced telecommunications (NTIA)	🟢

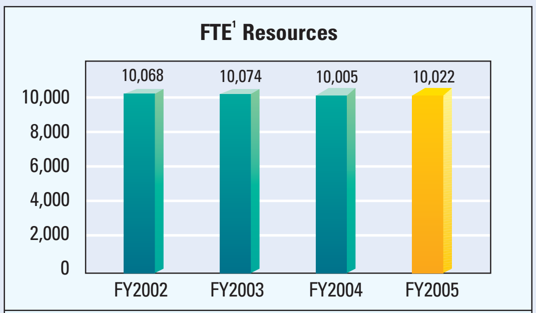
* 🟢 = MET (100%) 🟡 = SIGNIFICANTLY MET (75% - 99%) 🔴 = NOT MET (< 75%)

STRATEGIC GOAL 2

Foster science and technological leadership by protecting intellectual property, enhancing technical standards, and advancing measurement science

STRATEGIC GOAL 2 TOTAL RESOURCES





[1] *FTE — Full-Time Equivalent*

Working with U.S. industry to develop and apply technology, measurements, and standards, the Department of Commerce is focused on providing the infrastructure necessary to develop innovative breakthroughs and new technologies vital to the nation's long-term economic growth.

Number of Reported Results		
Below Target	Slightly Below Target	On Target
4	0	31

See Appendix A: Performance and Resource Tables for individual reported results.

The Department's laboratories provide the measurement capabilities needed by industry to continually improve products and services. The Department's measurement and standards work addresses a significant portion of the nation's modern technology-based economy, from the automotive to the biotechnology sector, from basic materials and manufacturing to information technology (IT), and from companies with a handful of employees to the largest multi-national firms.

Intellectual property (IP) is a potent force in, and a fundamental component of, the global economy. The Department strives to preserve the nation's competitive edge by protecting IP and encouraging technological innovation. In market-driven economic systems, innovation provides a catalyst for economic prosperity through the accumulation of scientific knowledge, introduction of new products and services, and improvements in the productivity levels of land, labor, and capital resources.

A sample of significant accomplishments that the Department achieved in fiscal year (FY) 2005 includes the following:

- **Recommendations from World Trade Center Investigation.** The Department's National Institute of Standards and Technology (NIST) made 30 recommendations for improving the way people design, construct, maintain, and use buildings, especially high-rises, based on the findings of its extensive investigation of the fires and collapses of New York City's World Trade Center towers following the terrorist attacks of September 11, 2001. The recommendations also should lead to safer and more effective building evacuations and emergency responses. Contained within 43 draft investigation reports (totaling some 10,000 pages), the recommendations—and the reports—were released for a six-week public comment period. The recommendations cover specific improvements to building standards, codes and practices; changes to, or the establishment of, evacuation and emergency response procedures; and research and other appropriate actions needed to help prevent future building failures. Organizations that develop building and fire safety codes, standards, and practices, and state and local agencies and building owners will implement these recommendations.

- **Presentation of the Malcolm Baldrige National Quality Award (MBNQA).** On July 20, 2005, Vice President Cheney and Secretary Gutierrez presented four U.S. organizations with the MBNQA, the nation's highest Presidential honor for performance excellence and quality achievement. The 2004 Baldrige Award winners are: The Bama Companies, Tulsa, OK (manufacturing category); Texas Nameplate Company, Inc., Dallas, TX (small business category); Kenneth W. Monfort College of Business, Greeley, CO (education category); and Robert Wood Johnson University Hospital Hamilton, Hamilton, NJ (health care category). The MBNQA is managed by NIST in conjunction with the private sector.

- **The United States Patent and Trademark Office (USPTO).** USPTO received 380, 955[1] Utility, Plant, and Reissue (UPR) patent applications for FY 2005, an increase of 7.2 percent[1] from FY 2004. USPTO published 291,221 pending applications and issued 165,485 UPR and Design patent grants. USPTO received 258,527 trademark applications containing 323,501 classes for registration, an increase of 8.4 percent from 2004. The Office registered 112,445 marks including 142,396 classes. Total office disposals were 205,378 including 252,275 classes. The inventory of total trademark applications under examination increased by 10.5 percent from 450,294 files with more than 590,155 classes at the start of the year, to 497,400 files including 653,000 classes at year end.

The Department has demonstrated successful progress under this strategic goal. Bureaus with programs supporting this strategic goal include the Technology Administration (TA), consisting of the Office of Technology Policy (OTP), NIST, and the National Technical Information Service (NTIS), USPTO, and the National Telecommunications and Information Administration (NTIA).

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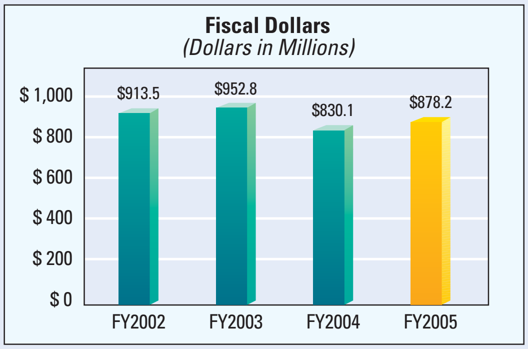
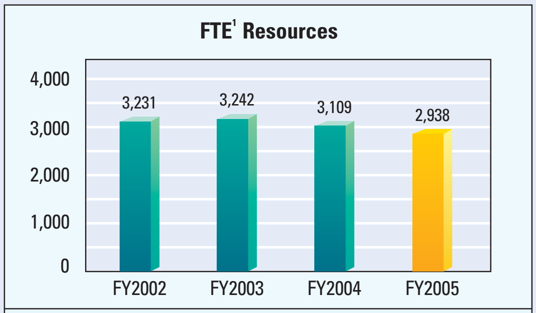
1 *This number is preliminary.*

STRATEGIC OBJECTIVE 2.1

Develop tools and capabilities that improve the productivity, quality, dissemination, and efficiency of research

TOTAL RESOURCES





[1] *FTE — Full-Time Equivalent*

The Department works with U.S. industry and other stakeholders to maximize technology's contribution to U.S. economic growth. The Department fulfills its broad responsibilities and works to foster science and technological leadership by promoting new models of technology transfer and research and development (R&D) collaboration, identifying problems and barriers to innovation, enhancing technical standards, advancing measurement science, and making scientific and technical information available to other agencies and the public.

Number of Reported Results		
Below Target	**Slightly Below Target**	**On Target**
0	0	15

See Appendix A: Performance and Resource Tables for individual reported results.

PERFORMANCE GOAL	STATUS*
Promote innovation, facilitate trade, ensure public safety and security, and help create jobs by strengthening the nation's measurements and standards infrastructure (TA/NIST)	MET
Accelerate private investment in and development of high-risk, broad-impact technologies (TA/NIST)	MET
Raise the productivity and competitiveness of small manufacturers (TA/NIST)	MET
Enhance public access to worldwide scientific and technical information through improved acquisition and dissemination activities (TA/NTIS)	MET

* ● = MET (100%) ● = SIGNIFICANTLY MET (75% - 99%) ● = NOT MET (< 75%)

Among its activities, TA accomplished the following in FY 2005:

- **Issued Standard for Employee and Contractor Identity Verification.** In February 2005, Secretary Gutierrez approved a new standard for a smartcard-based form of identification for all federal government departments and agencies to issue to their employees and contractors requiring access to federal facilities and systems. The new standard will enable federal agencies to issue more secure and reliable forms of identification to better protect federal assets against threats such as terrorist attacks. It also will help safeguard against other risks such as identity theft. The Department's National Institute of Standards and Technology (NIST) worked closely with other federal agencies, including the Office of Management and Budget (OMB); the Office of Science and Technology Policy; and the Departments of Defense, State, Justice, and Homeland Security; as well as private industry to develop the standard called for by President Bush in Homeland Security Presidential Directive #12. Federal Information Processing Standard (FIPS 201), "Personal Identity Verification of Federal Employees and Contractors," also reflects comments received from more than 80 organizations and individuals.

- **Advanced Research Toward More Powerful Computers.** Researchers at NIST made several advances that could help make powerful quantum computers a reality. They developed a practical method for automatically correcting data-handling errors in quantum computers, took an important step toward the possible use of "artificial atoms" made with superconducting materials for storing and processing data, and proposed a quantum computing architecture that could produce reliable results even if its components performed no better than today's best first-generation prototypes. With much more processing power than a conventional computer for some problems, quantum computers might be used to break today's best encryption codes, optimize complex systems such as airline schedules, accelerate database searching, develop novel products such as fraud-proof digital signatures, or simulate complex biological systems for use in drug design.

- **Developed Atom-Based Standards for Measuring Chip Features Under 50 Nanometers (nm).** A team of physicists, engineers, and statisticians at NIST, SEMATECH, and other collaborators developed new test structures to measure reliably device features on computer chips as small as 40 nm wide—less than one-thousandth the width of a human hair. The new test structures provide standard "rulers" for measuring the narrowest linear features that can be controllably etched into a chip. The test structures are replicated on reference materials that will allow better calibration of tools that monitor the manufacturing of microprocessors and similar integrated circuits.

***Performance Goal:* Promote innovation, facilitate trade, ensure public safety and security, and help create jobs by strengthening the nation's measurements and standards infrastructure (TA/NIST)**

The nation's ability to innovate, grow, and create high value jobs relies on a robust scientific and technical infrastructure, including research, measurement tools, standards, data, and models. The NIST Laboratories develop and disseminate measurement techniques, reference data and materials, test methods, standards, and other infrastructural technologies and services required by U.S industry to compete in the 21st century.

Progress on this goal is evaluated using an appropriate mix of specific output tracking, peer review, and economic impact analyses. Together, these evaluation tools, combined with continual feedback from customers provide a detailed and broad view of performance toward this long-term goal. Additional information on these evaluation methods is available at *http://www.nist.gov/director/planning/strategicplanning.htm*.

Specific achievements of this performance goal are described below:

Number of Reported Results		
Below Target	**Slightly Below Target**	**On Target**
0	0	5

See Appendix A: Performance and Resource Tables for individual reported results.

- Technical publications represent one of the major mechanisms NIST uses to transfer the results of its research to support the technical infrastructure and provide measurements and standards—vital components of leading-edge research and innovation—to those in industry, academia, and other government agencies. Each year NIST technical staff author a total of 2,000-2,200 publications with most appearing in prestigious scientific peer-reviewed journals. In FY 2005, NIST staff authored 1,148 publications in peer-reviewed journals. One recent publication highlighted an improved method for depositing nanoporous conducting polymer films on miniaturized device features. The method may be useful as a general technique for reproducibly fabricating microdevices such as sensors for detecting toxic chemicals.

- Standard Reference Materials (SRM) are the definitive source of measurement traceability in the United States; all measurements using SRMs can be traced to a common and recognized set of basic standards that provides the basis for compatibility of measurements among different laboratories. SRMs certified by the NIST Laboratories are used by customers to achieve measurement quality and conformance to process requirements that address both national and international needs for commerce, trade, public safety, and health. In FY 2005, NIST sold 32,163 SRMs and developed several new ones. One recently issued SRM will help clinical genetic labs improve the accuracy of their diagnostic tests for Fragile X Syndrome, the most common cause of hereditary mental retardation. NIST's SRM 2399, Fragile X Human DNA Triplet Repeat Standard, can be used as a check on test procedures and for quality control when testing for the genetic mutation that affects approximately one in 3,600 males and one in 4,000-6,000 females.

NIST researchers have developed an improved experimental X-ray detector that could pave the way to a new generation of wide-range, high-resolution trace chemical analysis instruments. As described in the June 2005 issue of Powder Diffraction, *the researchers used improved temperature-sensing and control systems to detect X-rays across a very broad range of energies. The detector's ability to distinguish between X-rays with very similar energies should be especially useful to the semiconductor industry for chemical analysis of microscopic circuit features or contaminants.*

Research physicist Terrence Jach prepares to analyze a sample with the NIST X-ray microcalorimeter. Improved temperature sensing and control systems allow the instrument within the gold chamber to the right to detect X-rays characteristic of specific elements over a broad range of energies with higher resolution.

- Online data represent another method NIST uses to deliver measurement and standards tools, data, and information. NIST provides online access to more than 80 scientific and technical databases covering a broad range of substances and properties from a variety of scientific disciplines. These technical databases are heavily used by industry, academia, other government agencies, and the general public with more than 70,000,000 estimated downloads in FY 2005. The NIST HIV Structural Reference Database (HIVSDB) launched in the summer of 2004 has become one of the Institute's most popular data services. An information resource for the HIV research community, the HIVSDB collects, annotates, archives, and distributes structural data for proteins involved in making HIV, the virus that causes AIDS, as well as molecules that inhibit the virus. The database is useful in developing new AIDS inhibitors by facilitating the online comparison of the existing hundreds of AIDS inhibitors on the basis of their ability to attack specific locations in the active site of the AIDS enzyme (HIV protease).

- Today's global marketplace demands rapidly conducted, highly accurate, and efficiently delivered measurements. NIST measurement services, including calibration services, are critical for ensuring product performance and quality, improving production processes, making marketplace transactions fair and efficient, and leveling the playing field for international trade. NIST calibration services provide the customer with direct traceability to national and international primary standards. NIST offers more than 500 different types of physical calibrations in areas as diverse as radiance temperature, surface finish characterization, and impedance; in FY 2005, NIST calibrated 3,145 items.

Accomplishments and applicable quantitative data used to evaluate progress on this long-term performance goal are reviewed quarterly. Quantitative data are collected and reported by NIST's Technology Services Division.

The research and measurement standards work of the NIST Laboratory Programs is evaluated annually by the National Research Council (NRC). The external and independent evaluation combined with several quantitative evaluation metrics focused on dissemination of NIST's measurements and standards work demonstrate the laboratories' contribution to the nation's measurement and standards infrastructure.

In FY 2005, the NRC Board on Assessment (BOA) conducted a series of laboratory reviews focused on:

- The technical quality and merit of the laboratory programs relative to the state-of-the-art worldwide.
- The effectiveness with which the laboratory programs are carried out and the results disseminated to customers.
- The relevance of the laboratory programs to the needs of customers.
- The ability of the laboratories' facilities, equipment, and human resources to enable the laboratories to fulfill their mission and meet customers' needs.

The NRC BOA conducts on-site annual reviews and produces a biennial report that includes findings over the two-year evaluation period. The biennial reporting process allows additional focus on the technical exchange between NIST staff and the reviewers as well as increased interactions among external reviewers. The 2004-2005 assessment report will be available online at *http://www7.nationalacademies.org/nist/* in the fall of 2005.

In addition to the peer-review process, the programmatic goals, strategic direction, and management policies of NIST as a whole, including each of its major programs, are reviewed regularly by the Visiting Committee on Advanced Technology (VCAT). The VCAT is a legislatively mandated panel of external advisors that meets quarterly to review NIST's general policy, organization, budget, and programs. See *http://www.nist.gov/director/vcat/index.htm* for additional information on the VCAT, including its most recent annual report.

Performance Goal: Accelerate private investment in and development of high-risk, broad-impact technologies (TA/NIST)

Technological innovation in U.S. industry is critical to sustaining U.S. economic growth and competitiveness, and this growth depends upon investment in long-term, high-risk research. Through the Advanced Technology Program (ATP), the federal government provides the initial investments necessary to promote the development of risky, early-stage technologies that are critical to technological innovation and widespread economic benefit.

From the beginning, evaluation has been a central part of ATP. The Program uses a variety of methods, including internal assessments, external program, and economic impact studies reviews to assess and evaluate the program. Additional information on ATP's evaluation methods is available at: *http://www.atp.nist.gov/eao/eao_main.htm*.

Number of Reported Results		
Below Target	Slightly Below Target	On Target
0	0	3

See Appendix A: Performance and Resource Tables for individual reported results.

Specific achievements of this performance goal are described below:

- Publications and patents represent major channels for the diffusion of technical knowledge that results from ATP investment in the development of new technologies. With more than 1,400 cumulative publications and more than 1,200 cumulative patents (through FY 2004), ATP-funded research continues to generate technical knowledge and disseminate research results that contribute to the nation's technical knowledge base.

- The number of ATP-funded projects with technologies under commercializaton is an indication of the extent to which ATP-funded research has either leveraged or catalyzed new products and services, which in turn improve the prospects for technology-led economic growth. Commercialization is broadly defined as any group of activities undertaken to bring products, services, and processes into commercial applications, including development of commercial prototypes, adoption of processes for in-house production, development of spin-off products and processes, and the sale and licensing of products and services derived from the technology base created by the ATP-funded project. Almost 300 ATP projects have technologies under commercialization (through FY 2004).

These data, along with other programmatic accomplishments, are used to evaluate progress on this long-term performance goal. Data are gathered from the portfolio of ATP project participants through ATP's Business Reporting System (BRS). BRS reports are reviewed by ATP's Economic Assessment Office and the individual project managers overseeing the ATP project.

The programmatic objectives and management of ATP are reviewed regularly by the VCAT and by the ATP Advisory Committee. The ATP Advisory Committee is charged with: (1) providing advice on ATP programs, plans, and policies; (2) reviewing ATP's efforts to assess the economic impact of the program; (3) reporting on the general health of the program and its effectiveness in achieving its legislatively mandated mission; and (4) functioning solely as an advisory body, in accordance with the provisions of the Federal Advisory Committee Act (FACA). Additional information on the ATP Advisory Committee, including recent annual reports, is available at *http://www.atp.nist.gov/adv_com/ac_menu.htm*.

Performance Goal: Raise the productivity and competitiveness of small manufacturers (TA/NIST)

The most significant challenge facing U.S. manufacturers continues to be coping with accelerating technological change and global competition. The firms that succeed will be those best able to manage the complexity and rapid change affecting all aspects of the manufacturing enterprise. Through the Hollings Manufacturing Extension Partnership (MEP) program's nationwide network of manufacturing centers, which are linked to state, university, community college, and private sources of technology and expertise, the nation's small and medium-sized manufacturers are supplied with high-quality, unbiased information, advice, and business assistance.

Number of Reported Results

Below Target	Slightly Below Target	On Target
0	0	4

See Appendix A: Performance and Resource Tables for individual reported results.

New Jersey MEP (NJMEP), a NIST MEP affiliate center, worked with Trek Connect, Inc. of Moorestown, NJ to implement lean manufacturing principles. The operational improvements resulting from the lean program included accelerated throughput, improved on-time delivery, maintenance of product performance levels, and an overall more competitive and profitable market position. "The lean implementation in our operations has improved visibility, throughput, accountability, and lead times. We are pleased with our progress so far, and we are ready to tackle the difficult issues related to design, quoting and maintaining continuous improvement.... Management has been able to rely on NJMEP to facilitate our commitment to Lean Enterprise, helping us to improve while still running our business day-to-day." - Harold M. Heft, General Manager

Founded in 1999, Trek Connect, Inc., a small, woman-owned, wire harness and cable assembly manufacturer has 28 employees and annual sales of $3,500 million.

MEP clients receive training, technical, and business assistance through interactions ranging from informational seminars and training classes to in-depth technical assistance in areas such as lean implementation, ISO 9000, quality improvement practices, human resources and organizational development, and industrial marketing.

Specific achievements of this performance goal are described below:

- MEP's nationwide network of manufacturing assistance centers work at the grassroots level with each center providing their local manufacturers with expertise and services tailored to their most critical needs. In FY 2004, MEP centers provided services to 16,090 clients.

- Through an annual survey of clients, the Program receives quantifiable impacts of MEP services on its clients' bottom line. MEP demonstrates the impact of its services on three key quantitative business indicators that, as a set, suggest the presence of business changes that are positively associated with productivity, revenue growth, and improved competitiveness: (1) increased sales attributed to MEP assistance; (2) increased capital investment attributed to MEP assistance; and (3) cost savings attributed to MEP assistance. The most recent survey results from services provided in FY 2004 show increased sales of $2,025 million, increased capital investment of $1,023 million, and cost savings of $754 million all attributed to the services received from MEP centers.

MEP's data collection process is designed to obtain actual client impacts and, as a result, client survey data lag by approximately one year. The survey process, coupled with the time line for producing the Performance and Accountability Report (PAR), precludes the reporting of actual FY 2004 data. The data reported in the PAR represent a combination of three-quarters of actual client reported impacts and one-quarter of estimated client impacts. The estimate is based on the final quarter of FY 2003 survey data

and has been adjusted to reflect the number of clients anticipated in the final FY 2004 survey quarter. Final FY 2004 data will be available in December 2005.

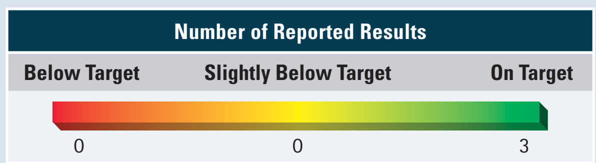
These data, along with other programmatic accomplishments, are used to evaluate progress on this long-term performance goal. MEP's Client Impact Survey is administered by a private firm. Each quarter, data are reviewed by NIST MEP staff and Center staff. Based on defined criteria, impacts are selected by NIST MEP for confirmation and verification by Center staff.

As with other NIST programs, the programmatic objectives and management of MEP are reviewed regularly by the VCAT and MEP's National Advisory Board, which was established by the Secretary of Commerce in October 1996. The Board meets three times a year to: (1) provide advice on MEP programs, plans, and policies; (2) assess the soundness of MEP plans and strategies; (3) assess current performance against MEP program plans; and (4) function solely in an advisory capacity, and in accordance with the provisions of FACA. Additional information on MEP's National Advisory Board, including its most recent annual report, is available at *http://www.mep.nist.gov/about-mep/advisory-board.html#annualreport*.

Performance Goal: *Enhance public access to worldwide scientific and technical information through improved acquisition and dissemination activities (TA/NTIS)*

Bringing scientific and technical information to U.S. business and industry.

NTIS, a component of TA, seeks to promote innovation and economic growth for U.S. business by: (1) collecting, classifying, coordinating, integrating, recording, and cataloging scientific and technical information from whatever sources, foreign and domestic; (2) disseminating this information to the public; and (3) providing information management services to other federal agencies that help them interact with and better serve the information needs of their own constituents, and to accomplish this without appropriated funds.



See Appendix A: Performance and Resource Tables for individual reported results.

The Office of the Inspector General (OIG) contracted with KPMG LLP to audit NTIS's FY 2004 Financial Statements, to release a report (FSD-16698-5-0001) on November 8, 2004 indicating that NTIS established an internal control structure that facilitated the preparation of reliable financial and performance information. OIG issued an unqualified opinion.

STRATEGIES AND FUTURE PLANS

NIST uses a variety of methods, including hosting conferences and workshops, participating on standards committees, and ongoing interactions with trade organizations to interact with and assess the needs of its diverse customers. NIST hosted a number of conferences and workshops in FY 2005 ranging from telecommunications to biometrics to quantum communications. Through these types of engagements, NIST, working with its customers, assesses next-generation infrastructural needs. In addition, NIST is leading a comprehensive assessment of the U.S. measurement system. Through this private-public partnership, priority measurement needs from across industry and the economy will be identified, along with potential solutions and viable solutions providers.

Broader stakeholder input is critical to the development of a strategic plan for the next generation MEP that clearly integrates the impact of globalization and the roles that both innovation and technology deployment play in the competitiveness of the nation's small manufacturers. MEP's planning process is increasingly based on input from a stakeholder list that includes small manufacturers; state representatives; economic development partners; manufacturing related associations; interested universities, community colleges, center managers and professional staff; as well as national stakeholders in the Departments of Commerce, Labor, and Defense, legislators and members of the Administration. This broader input will provide a more complete understanding of manufacturing needs, the manufacturing infrastructure in which the MEP centers operate, and the priorities of the broader community.

In FY 2005, there was no funding appropriated for a new competition for ATP awards. The President's FY 2006 budget proposal includes no funding for ATP due to higher priority needs. However, ATP will continue to assess and respond to the needs of its existing award recipients through surveys, outreach efforts, and workshops throughout the life of ATP-funded projects.

Based on current results, NTIS is developing a new strategic plan in an effort to meet most efficiently the challenge of permanent preservation of and ready access to the taxpayers' investment in R&D through the acquisition, organization, and preservation of the titles added annually to the permanent collection. Initiatives to use technologically advanced global e-commerce channels for dissemination have been a major success, thus providing the U.S. public with increased access to government information. Because NTIS offers the NTIS bibliographic database (from 1990 to the present) via the Internet free of charge, users can now download any item in the NTIS collection that is in electronic format for a low fee. This is one accomplishment supporting this initiative.

Consistent with its statutory mandate to develop new methods for disseminating information and to focus on electronic means, NTIS will continue to look for opportunities to develop electronic subscription products and harness the Internet as a means of providing information dissemination services to other agencies, such as providing a platform to meet e-learning needs.

The U.S. technology sector operates in a dynamic global environment that has changed radically since the end of the Cold War. The emergence and the strength of new economies in countries such as China and India, as well as the dramatic increase in the pace of innovation around the world, have resulted in a transformation of the technological and competitive landscape for the U.S. technology sector. The results are newer, larger global market opportunities, and more and stronger global competitors. Because the United States cannot generally compete in the area of low-cost manufacturing and labor, technological innovation will remain a key differentiator for the United States. OTP will continue to work to identify barriers to and foster the U.S. technological innovation process for rapid development, deployment, and commercialization of new and emerging technologies with broad economic and social potential.

To address these priorities and fulfill its mission, OTP engages and works with industry, Commerce bureaus and federal agencies, and other stakeholders in the innovation community to help maximize the contribution of technological innovation to the growth of the U.S. economy. Through its analytical policy focus, OTP helps frame and explore key issues related to emerging technologies, the innovation infrastructure, technology transfer, general business climate, economic security, and market opportunities that affect our nation's innovative capacity, competitiveness, and economic growth. OTP identifies problems and barriers to technological innovation, promotes new models of technology transfer and research and development collaborations, offers policy recommendations to address challenges posed by technological change, and examines other concerns related to technological innovation. By engaging key stakeholders in dialogue and through rigorous analysis of collected data and information, OTP provides new knowledge and intelligence about the innovative capacity of U.S. firms and workers that inform the actions of the Secretary of Commerce, policymakers, and stakeholders.

Analytical findings are delivered and disseminated through a variety of media and products, including congressional testimony, briefings, reports, and the OTP Web site; advocacy in the federal interagency policy process and appropriate international fora; workshops and conferences; and other channels. Through the dissemination of OTP's analysis, U.S. policymakers, leaders, and decisionmakers are provided with increased knowledge and a deeper understanding of trends and policy implications brought about by rapid advancement of new and emerging technologies and the globalization of technological innovation. OTP's portfolio of policy work adapts and evolves in alignment with the dynamic, fast-paced, and increasingly more technology-driven, knowledge-based global economy.

CHALLENGES FOR THE FUTURE

The role of technological change in generating economic growth, wealth, and jobs has taken center stage in the 21st century global and increasingly knowledge-based economy. Globalization and the integration of the world's national economies have accelerated through advancements in communications and transportation and the liberalization of commercial policy and free trade agreements. Rising competitors including China, India, Russia, and Central and Eastern European countries have large and rapidly growing pools of skilled and educated workers. These and other countries have come to recognize the strong relationship between technology, knowledge, and economic growth, and they are pursuing policies and strategies to exploit this relationship by increasing R&D investments; establishing the necessary infrastructure to support technological innovation and modern business enterprise; training millions of workers in science, engineering, and technical skills; fostering a climate that promotes and rewards talent and creativity; and attracting global investment in technology-related industries. In addition to establishing a science and technology base, many of these nations will develop the management capabilities to exploit new technologies for their own benefit. This growing globalization and increasingly competitive playing field have significant implications for U.S. technological leadership and the economic growth and jobs it generates; the location of R&D and high-tech manufacturing; competition for high-skilled workers; and the climate for attracting global investment.

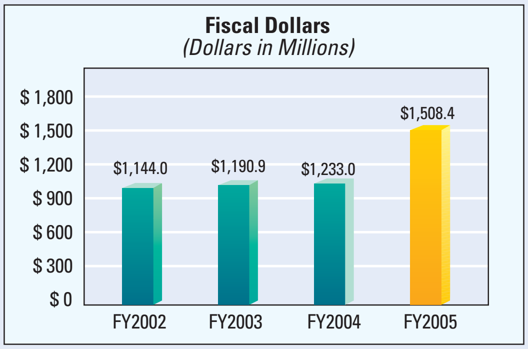
Added to this complexity is the appearance of new and emerging technologies (e.g., biotechnology, radio frequency identification (RFID) technology, nanoscale technologies, advanced computing and telecommunication technologies, alternative energy and power generation technologies, and advanced electronics and control systems) and the convergence of these technologies, which promise to radically alter products and services, manufacturing processes, business models, productivity, and our daily lives. These technologies have implications for a range of government policies and action. Countries that are prepared to quickly capitalize on the advances that flow from these emerging, inter-connected technologies can be expected to enjoy substantial opportunities for growth, formation of new industries, job creation, and increased wealth. The United States must adapt to this new environment and effectively harness the economic potential of new and emerging technologies for the nation's benefit.

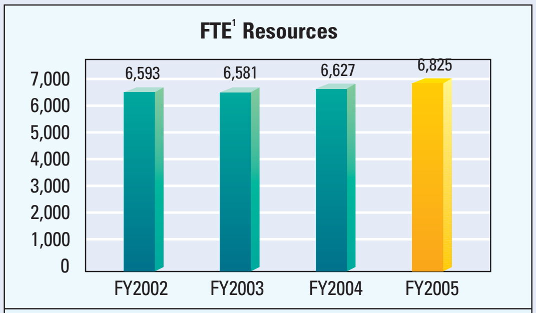
Given these two major unfolding forces of change, and technology's fundamental role in economic growth and job creation of knowledge-based economies, federal policies must reflect and respond to this dynamic landscape, and create a supportive environment for entrepreneurship, technological innovation, and technology investment in the United States. OTP can help the Department and other federal agencies to respond to and capitalize on the changes that are taking place in the competitive international landscape by adding value to the national debate and discussion on how best to promote innovation, entrepreneurship, competitiveness, and stewardship of our science, technology, and innovation assets in order to sustain U.S. leadership in the global marketplace and raise the standard of living and quality of life for all Americans.

STRATEGIC OBJECTIVE 2.2

Protect intellectual property and improve the patent and trademark system

TOTAL RESOURCES





[1] *FTE — Full-Time Equivalent*

This objective is important to the nation as it serves to ensure that the intellectual property (IP) system contributes to a strong global economy, encourages investment in innovation, and fosters entrepreneurial spirit.

Achievement of this objective will protect individual rights and innovation in a timely, efficient manner. A discussion of each performance goal within this objective will further describe the outcomes of the objective.

Number of Reported Results		
Below Target	**Slightly Below Target**	**On Target**
4	0	11

See Appendix A: Performance and Resource Tables for individual reported results.

The Department promotes the IP system through the protection of inventions or creations via patent, trademark, trade secret, or copyright laws. U.S. innovators and industry have flourished under this multifaceted system of protection as new products are invented and employment opportunities are created for millions of Americans. The strength and vitality of the U.S. economy depends directly on effective mechanisms that protect new ideas and investments in innovation and creativity.

PERFORMANCE GOAL	STATUS*
Improve the quality of patent products and services and optimize patent processing time (USPTO)	Significantly met (yellow)
Improve the quality of trademark products and services and optimize trademark processing time (USPTO)	Significantly met (yellow)
Create a more flexible organization through transitioning patent and trademark operations to an e-government environment and advancing intellectual property development worldwide (USPTO)	Not met (red)

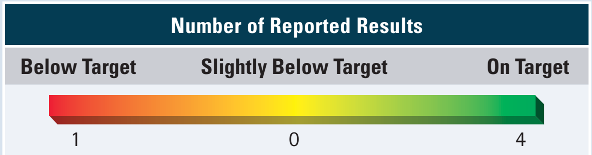
* (green) = MET (100%) (yellow) = SIGNIFICANTLY MET (75% - 99%) (red) = NOT MET (< 75%)

The primary services provided by the Department within this objective are examination of patent and trademark applications and dissemination of patent and trademark information. Through issuing patents, the Department encourages technological advancement by providing incentives to invent, invest in, and disclose new technology. Through registering trademarks, the Department assists businesses in protecting their investments, promoting quality goods and services, and safeguarding consumers against confusion and deception in the marketplace by providing notice of marks in use. By disseminating both patent and trademark information, the Department promotes a global understanding of IP protection and facilitates developing and sharing new technologies worldwide.

***Performance Goal:** Improve the quality of patent products and services and optimize patent processing time (USPTO)*

A more efficient and streamlined patent process resulting in high quality products and services.

The core process under this goal is the examination of an inventor's application for a patent by comparing the claimed subject matter of the application to the existing body of technological information to determine whether the claimed invention is new, useful, and non-obvious to someone knowledgeable in that subject matter. A quality review of the examination process includes reviewing a random sample of both in-process and allowed applications for errors.



See Appendix A: Performance and Resource Tables for individual reported results.

PATENT QUALITY

Quality is the most important component of *The 21st Century Strategic Plan*. USPTO has in place several quality initiatives called for by the *Strategic Plan*, including an enhanced Quality Assurance Program for end product reviews, in-process reviews, and enhanced "second pair of eyes" reviews. The feedback from these reviews is used to identify and develop training modules and other quality enhancements. Additionally, to ensure that the primary patent examiners maintain the knowledge, skills, and abilities (KSA) necessary to perform a high quality examination, USPTO implemented a re-certification program, with primary examiners re-certified once every three years. A certification program was also implemented for junior examiners to ensure they have the required KSAs prior to promotion to the level where they are given legal and negotiation authority.

New USPTO examiners attend class during the Patent Examiner Initial Training program.

The Office did not meet its FY 2005 patent allowance error rate target of 4.0. The percent of allowed applications with a material defect was 4.6 percent for the fiscal year. An allowance error is defined as at least one claim within the randomly selected allowed application under quality review that would be held invalid in a court of law, if the application were to issue as a patent without the required correction. The allowance error rate is measured by the ratio of the number of applications containing an allowance error to the total number of allowed applications reviewed.

The patent in-process review program is employed to assess examination quality prior to final examiner determination. An in-process compliance rate is measured by the ratio of Office actions that do not include a deficiency that has a significant impact on the ability of the applicant to advance the prosecution on the merits of the application to the total number of Office actions reviewed. FY 2004 was the baseline year, with an in-process compliance rate of 82 percent as of June 30. The Office met its FY 2005 target of 84 percent with a patent in-process compliance rate of 86.2 percent.

PATENT PENDENCY

Under *The 21st Century Strategic Plan*, USPTO has a goal to reduce patent application pendency and substantially cut the size of the work backlog. The two primary measures of patent application processing time are: (1) first action pendency, which measures the average time in months from filing until an examiner's initial determination is made of the patentability of an invention; and (2) total pendency, which measures the average time in months from filing until the application issues as a patent or the application is abandoned by the applicant. The Office continues to strive to meet its goals through hiring sufficient numbers of new patent examiners, exploring work sharing with other patent offices, competitive sourcing of PCT (Patent Cooperation Treaty) application searches, and the implementation of variable, incentive-driven fees.

The Office met its target of 21.3 months for first action pendency and met its target of 31.0 months for total pendency.

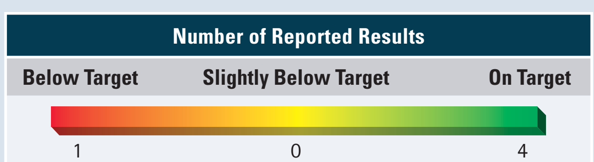
PATENT EFFICIENCY

Patent efficiency measures the degree to which the program can operate within planned costs relative to patent examiner outputs. The Office met its 2005 efficiency target of $4,122. The measure is calculated by dividing total annual USPTO expenses associated with the examination and processing of patents, including associated overhead and support expenses, by annual production units. For the current and budget years, targets are estimated using the budgetary request in place of actual expenses, and all projected production units. It should be noted that out year calculations are subject to change, depending upon the level of funding actually authorized and spent.

Performance Goal: *Improve the quality of trademark products and services and optimize trademark processing time (USPTO)*

A more efficient and streamlined trademark process resulting in high quality products and services.

The core process under this goal is the examination of applications for trademark registration. As part of that examination, trademark examining attorneys make determinations of registrability under the provisions of the Trademark Act of 1946, as amended, including searching the electronic databases for any pending or registered marks that are confusingly similar to the mark in a subject application, preparing letters informing applicants of the attorney's findings, approving applications to be published for opposition, and examining Statements of Use in applications filed under the Intent to Use provisions of the Trademark Act.



See Appendix A: Performance and Resource Tables for individual reported results.

TRADEMARK QUALITY

Identification of the criterion for assessing the quality of an office action is a crucial aspect of the USPTO priority for improving the quality of examination. Trademark quality is determined through an evaluation of current, in-process first and final examiner search results and actions to create a more comprehensive, meaningful, and rigorous review of what constitutes quality of examination. This review includes a review and an analysis of over 350 items to determine "excellent", "satisfactory", and "deficient" work with regard to the overall writing and evidence in the Office actions and the decision-making of every aspect of the application examination. The review also includes an analysis of all aspects of the examining attorneys' handling of every substantive and procedural issue. Quality has been measured using the more rigorous criteria for the past two years. The results show that quality of the examiner's first action on an application is improving. Quality as measured for final Office actions, which includes a complete review of the quality of all the actions throughout the course of examination, has not met the target goal.

The first action deficiency target of 8.3 percent was revised to 7.5 percent based on the FY 2004 performance results that exceeded the target originally set for FY 2005. Trademark first action deficiency error rate results for FY 2005 were 4.7 percent, or 2.8 percent below the revised 7.5 percent deficiency target. The final action deficiency error rate was 5.9 percent, or .9 percent above the 5.0 percent target.

The in-process review evaluation has been structured to provide feedback on performance and is the basis for developing training materials to ensure that examiners are well qualified to perform their jobs at the highest level. As part of this effort, the Office released three new e-learning training modules covering issues related to §2(d) of the Trademark Act. Examiners were required to take the self-paced tutorial as part of USPTO's commitment to improve the quality of examination.

TRADEMARK PENDENCY

Trademark first action pendency target is 6.4 months from date of filing to the date that the examiner's first office action is processed. First action pendency is based on the average time from filing to first action as reported for the month of September. First action pendency results for FY 2004 were 6.6 months. The Office met its FY 2005 target by achieving a first action pendency of 6.3 months.

Trademark disposal pendency target for this fiscal year is 17.5 months excluding suspended and inter partes cases, and 20.3 months including all cases, based on the average number of days from date of filing to notice of abandonment, notice of allowance, or registration for applications based on use. Disposal pendency results for FY 2005 were 17.2 months and 19.6 months, respectively. The Office met its FY 2005 target.

TRADEMARK EFFICIENCY

The trademark efficiency measure is calculated by dividing total USPTO expenses associated with the examination and processing of trademarks (including related overhead and support expenses) by office disposals or outputs. The measure is a relative rather than absolute indicator of the efficiency of trademark processes. It provides a means for assessing actual expenses against plan and changes in costs relative to performance results over time to determine if improvements in operating efficiencies are achieved. The FY 2005 target of $701 is based on planned budget obligations whereas the final results are based on actual expenses, which include non-budget costs.[2]

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[2] *Note that after the FY 2005 target was set there was a change in how the overhead costs were allocated for the Office. This change in methodology resulted in a greater amount of overhead attributed to the trademark operations.*

The Office met its trademark efficiency target. Total costs averaged $170,900,919 based on office disposals of 252,275 for a unit cost of $677.

Performance Goal: ***Create a more flexible organization through transitioning patent and trademark operations to an e-government environment and advancing intellectual property development worldwide (USPTO)***

Making patent and trademark information readily available.

Number of Reported Results		
Below Target	**Slightly Below Target**	**On Target**
2	0	3

See Appendix A: Performance and Resource Tables for individual reported results.

Under *The 21st Century Strategic Plan*, USPTO continues to work with its IP partners to improve the efficiency of its processing systems. The number of applications and communications received and processed electronically has continued to increase and has resulted in more coordinated and streamlined work processes. The transition to greater reliance on electronic systems will position USPTO for the globalization that characterizes the 21st century economy and will increase the efficiency of operations.

USPTO continues to make progress in the transition of its patent and trademark operations; applicants are able to electronically file for patents and trademark registration and can review the current status of those applications as needed. USPTO has replaced paper files with electronic copies of patent and trademark applications. Examiners and the public may now access the same version of the file contents electronically.

Anyone with Internet access anywhere in the world can use USPTO's Web site (*www.uspto.gov*) to track the status of a public patent application as it moves from pre-grant publication to final disposition, allowing review of the documents in the official application file, including all decisions made by patent examiners. This system, known as Public PAIR (Patent Application and Information Retrieval), offers the public an advanced electronic portal for PDF viewing, downloading, and printing an array of information and documents for patent applications not covered by confidentiality laws. Public PAIR also offers a quick-click feature for ordering certified copies of patent applications and application files.

The Trademark Document Retrieval (TDR) System allows for online public access to the official trademark application file, including all decisions made by trademark examining attorneys and their reasons for making them. This system allows access to the full file contents of all pending and some registered files in an electronic PDF format, including downloading and printing of an array of information and documents. Public access improves USPTO's ability to provide timely and useful information to business owners as they develop their marks and prepare to file trademark applications.

Significant progress has been made in transitioning both patent and trademark operations to an e-government environment. USPTO met its target for managing 99 percent of trademark and 90 percent of patent applications electronically by having all applications available in an electronic format. As USPTO continues to make progress in this transition, Americans may more easily gain access to information as well as apply for patents and trademark registration and obtain information about the status of their applications online. All federally registered and pending trademarks are available to the public on USPTO's Web site where status information is also available. The trademark data includes nearly two million pending and registered trademarks dating back to 1885 and represents more than 100 years of marketing creativity.

USPTO has established three fee levels for filing an application for registration of a trademark consistent with the objectives of *The 21st Century Strategic Plan* to create financial and market-based incentives and encourage greater participation in the trademark system. Trademark owners now have alternatives that allow them to select the option that best meets their needs with higher fees for filing on paper and lower fees for filing electronically. The lowest fee requires electronic filing of a complete application that permits USPTO to reduce time required to determine registrability.

USPTO revised its target goal for electronic filing to 70 percent of trademark applications filed based on 2004 results and still exceeded the revised target with 88 percent of applications received electronically. USPTO has continued to enhance its trademark electronic filing system by expanding the number and type of transactions that can be completed online and by offering reduced fees to encourage electronic communications. Twenty-six electronic forms are now available through the award winning Trademark Electronic Application System (TEAS). Just as electronic filing has become the preferred way to initially transact business with USPTO, options for reduced fees, system enhancements, and the availability of forms that permit more transactions have encouraged greater use and acceptance among trademark customers to the point where electronic filing is now the preferred method for communicating on trademark matters.

In FY 2005, the Office received 2.2 percent of patent applications electronically and managed 96.7 percent electronically. During FY 2005, the Office continued its efforts to increase the number of electronically filed applications and held several e-filing customer outreach forums to hear applicants' concerns and to promote the benefits of filing applications electronically. Acting on their suggestions, USPTO will deploy a user-friendly PDF-format system early in FY 2006.

In the past year, USPTO increased the number of notices by 10 that are sent electronically through "Tpostal", the Agency's electronic bulk mailing system for trademark related notices. Thirteen types of notices are sent electronically through the U.S. Postal Service's Web-based NetPost Mailing Online system to print, stamp, and mail post card notices to trademark filers within 24 hours of receipt by the U.S. Postal Service. Using postcards rather than letters not only saves time but also reduces labor, materials, and postage costs, resulting in considerable savings.

STRATEGIES AND FUTURE PLANS

USPTO will continue to eliminate paper documents from the examining process. Delivery of Web-based text and image search systems will encourage more applicants to do business electronically. Significant progress has been made in improving e-government operations, as the Office now exclusively uses trademark data submitted or captured electronically to support examination, publish documents, and print registrations.

Completing implementation of *The 21st Century Strategic Plan* will continue at USPTO. In order to more effectively serve an increasingly larger, global client base, USPTO relies on electronic communications to improve the availability of patent and trademark information. E-government initiatives allow customers to conduct an electronic search to determine the status of pending and registered trademarks and view public patent applications; conduct a preliminary search prior to filing an application; access general information, examination manuals, treaties, laws and regulations; obtain weekly information on marks published, registered, and renewed, and patents issued and patent applications published; and file patent and trademark applications. Internet access increases the opportunity for filing for patent protection and for federal registration.

While *The 21st Century Strategic Plan's* long-term patent pendency goal remains 18 months, this goal will not be achieved in the near future because of the higher priority placed on quality and patent e-government initiatives. However, USPTO plans to

produce, on average, a first office action for first-filed U.S. non-provisional applications at the time of 18-month publication with a patent search report for other patent applications that will be issued in the same time frame.

USPTO has implemented legislation to change its current fee schedule, and will provide the means to streamline the patent system. The Agency plans to control patent pendency and reduce the time to first office action by hiring additional patent examiners to address the growing backlog of pending applications, exploring work sharing with other patent offices, and competitive sourcing of PCT application searches.

USPTO will continue efforts to enhance quality in FY 2006 by certifying patent examiners before the delegation of legal competency, recertification of primary examiners once every three years, and reviewing of work product throughout prosecution to ensure compliance with examination practice and procedures standards. Hiring people who make the best patent examiners, certifying their knowledge and competencies throughout their careers, and focusing on quality throughout the patent examination process will ensure continued quality. By bolstering confidence in the quality of U.S. patents, USPTO will enhance the reliability in the quality of products and services resulting in improved efficiencies and better services for applicants. Additionally, an online pre-employment screening tool will identify potential patent examiner candidates who possess the competencies that are best suited for effective patent examination. These quality initiatives will improve patent and trademark quality by providing review of work product, feedback to examiners on areas for improvement, targeted training, and safeguards to ensure competencies.

CHALLENGES FOR THE FUTURE

USPTO must address the continuing challenges of rising workloads and the shift of applications from traditional arts to more complex technologies.

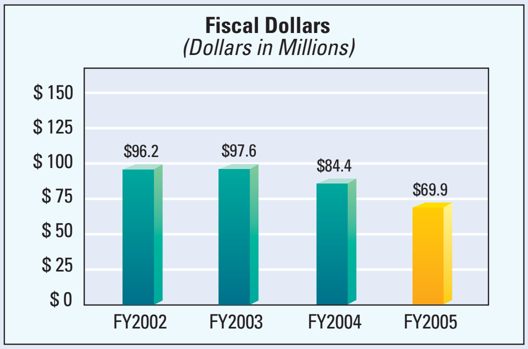
The demand for higher quality products and services has grown as technology has become increasingly complex. Demands for products and services have created substantial workload challenges in the processing of patents at USPTO. Congress, the owners of IP, the patent bar, and the public-at-large have all told the Department that it must address these challenges aggressively and promptly.

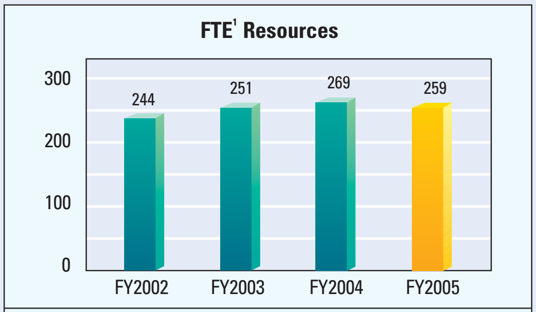
Implementation of USPTO's *21st Century Strategic Plan* initiatives will address these challenges and transform USPTO into a quality-driven, highly-productive, and cost-efficient organization that promotes expansion of business opportunities, stimulates R&D, and expands U.S. businesses globally.

STRATEGIC OBJECTIVE 2.3

Advance the development of global e-commerce and enhanced telecommunications and information services

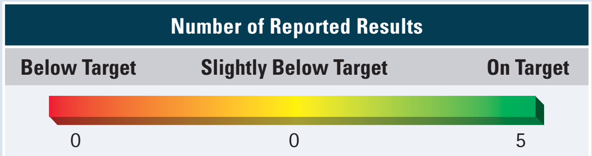
TOTAL RESOURCES





[1]FTE — Full-Time Equivalent

This objective is important not only to the nation, but to the international community as it has a role in radio frequency (RF) spectrum management and communications on a national level, to the President as an advisor on communications policy matters, on Internet domain names, and for cellular phones and dial-up and high-speed Internet services.



See Appendix A: Performance and Resource Tables for individual reported results.

Achievement of this objective will continue to further the technological advances for cellular, Internet services, domain name issues, and other advances in technology. A discussion of each performance goal supporting this objective will further describe the outcomes of this objective.

PERFORMANCE GOAL	STATUS*
Ensure that the allocation of radio spectrum provides the greatest benefit to all people (NTIA)	MET
Promote the availability, and support new sources, of advanced telecommunications (NTIA)	MET

* = MET (100%) = SIGNIFICANTLY MET (75% - 99%) = NOT MET (< 75%)

The Department through 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.
- Conducts telecommunications technology research, including standards-setting in partnership with business and other federal agencies.
- Awards grants through the Public Telecommunications Facilities Program (PTFP).

The Agency's expertise encompasses every aspect of telecommunications, including domestic policy, international policy, spectrum management, and technical telecommunications research and engineering.

- In a "Memorandum for the Heads of Executive Departments and Agencies" dated November 30, 2004, the President directed that an Implementation Plan be developed in FY 2005 for the recommendations contained in a two-part series of reports released by the Secretary of Commerce in June 2004, under the title *Spectrum Policy for the 21st Century—The President's Spectrum Policy Initiative Reports*. The purpose of the Initiative is to promote the development and implementation of a U.S. spectrum policy that will foster economic growth; ensure U.S. national and homeland security; maintain U.S. global leadership in communications technology development and services; and satisfy other vital U.S. needs in areas such as public safety, scientific research, federal transportation infrastructure, and law enforcement.
- Among its broadband-related activities, NTIA provided technical guidance to the Federal Communications Commission (FCC) for the responsible deployment of broadband over power line (BPL) systems, contributing significantly toward fulfillment of the President's vision for universal affordable broadband Internet access for all Americans by 2007.
- NTIA also is leading Commerce Department activities in the areas of next-generation Internet Protocols, ultrawideband (UWB) technology, wireless broadband applications, wireless sensor technologies, and child-friendly Internet content.

Performance Goal: Ensure that the allocation of radio spectrum provides the greatest benefit to all people (NTIA)

Advancing broadband and third generation (3G) wireless services.

NTIA examined an array of spectrum management policy issues in FY 2005 dealing with innovative approaches to spectrum management and the effectiveness of current processes. The availability of the RF spectrum is key to the development and implementation of innovative telecommunications technologies.

Number of Reported Results		
Below Target	Slightly Below Target	On Target
0	0	2

See Appendix A: Performance and Resource Tables for individual reported results.

NTIA prepared and coordinated with federal agencies in the OMB clearance process a Spectrum Reform Initiative implementation plan with 54 milestones to be completed over the next five years. This initiative will fundamentally change the business of spectrum management over the next five years. The purpose of the initiative is to promote the development and implementation of a U.S. spectrum policy that will foster economic growth; ensure our national and homeland security; maintain U.S. global leadership in communications technology development and services; and satisfy other vital U.S. needs in areas such as public safety, scientific research, federal transportation infrastructure, and law enforcement. One result will be the first National Strategic Spectrum Plan. NTIA also took steps to establish the Department of Commerce Spectrum Management Advisory Committee, consistent with the Federal Advisory Committee Act and the NTIA Organization Act. This Committee will be comprised of a broad range of stakeholders including representatives from state, regional and local sectors, industry, academia, and consumer groups.

NTIA and the FCC launched online registration for high-speed wireless links sharing spectrum in the 70-80-90 GHz bands. These fiber-speed wireless communications links may now be coordinated and approved for non-federal use in a matter of minutes. These extremely large "millimeter wave" bands were once used exclusively by the federal government and radio astronomers. Commercial users can now establish high-speed, point-to-point data links through a Web-based registration process first activated this year. Federal agencies will use the same process to apply for and obtain frequency assignments in the 71-76 GHz, 81-86 GHz, 92-94 GHz, and 94.1-95 GHz bands. In terms of bandwidth, the bands span nearly 13 GHz, which is at least five times larger than the aggregate amount of spectrum used by AM and FM radio, television broadcasters, and cellular telephone carriers combined.

The achievements of this performance goal are described below:

- NTIA has improved the timeliness of processing frequency assignment requests from a target of 12 business days to less than 10 days. This has been accomplished through business process reengineering and IT improvements. These frequency assignments satisfy the near-term and future spectrum requirements of the 63 federal agencies to operate radio communications that provide the public with national and homeland security, law enforcement, transportation control, natural resource management, and other public safety services during peacetime and emergencies. NTIA's long-term goal is to improve spectrum management processes throughout the federal government so that time for spectrum assignments can be reduced from more than 15 days to three days or fewer by 2008, and ultimately to near instantaneously, supporting long-term goals for efficiency and effectiveness of spectrum use. NTIA's research efforts directly support this goal. The Spectrum Initiative for the 21st Century Implementation Plan, developed in coordination with other federal agencies, provides targets for specific NTIA spectrum management and spectrum policy activities, which serve to advance both of the Agency goals. NTIA adopted a new measure of the percent of milestones completed annually to measure progress in achieving these goals.

- NTIA's Institute for Telecommunication Sciences (ITS) completed a Land Mobile Radio (LMR) Channel Occupancy report, assessing this frequency band in the Washington, D.C. area. The report provides specific traffic loading information needed to help design future alternative systems for the Washington, D.C. area, and provides information about the current state of crowding in the federal LMR bands.

***Performance Goal:* Promote the availability, and support new sources, of advanced telecommunications (NTIA)**

Performing research to improve both the performance of telecommunications networks and the availability of digital content on the Internet.

Number of Reported Results		
Below Target	Slightly Below Target	On Target
0	0	3

See Appendix A: Performance and Resource Tables for individual reported results.

NTIA participated on behalf of the Administration in FCC and congressional proceedings on telecommunications policies, including the development of appropriate regulatory treatment for broadband services deployment. A number of Internet related policy issues required NTIA action, including ICANN (Internet Corporation for Assigned Names and Numbers) reform and continuing Internet privatization, domain name management both domestically and internationally, next generation Internet Protocols, and the combination of Internet and telecommunications addressing (ENUM). NTIA pursued policies promoting international trade in telecommunications products and services, promoting consistent international approaches to telecommunications policies, and improving relations with Western Hemisphere neighbors. All of these activities required substantial coordination among NTIA's program offices, as well as interagency coordination to develop the Administration's positions.

The achievements of this performance goal are described below:

- The President's National Strategy to Secure Cyberspace directed the Secretary of Commerce to form a task force to examine the issues implicated by the deployment of Internet Protocol version 6 (IPv6) in the United States. As co-chairs of that task force, NIST and NTIA have conducted an inquiry into a variety of IPv6-related issues including the benefits and possible uses of IPv6; current domestic and international conditions regarding the deployment of IPv6; economic, technical, and other barriers to deployment of IPv6; and the appropriate role for the U.S. government in the deployment of IPv6. NIST and NTIA have prepared and coordinated with federal agencies in the OMB clearance process a report of the findings of this inquiry.

- NTIA awarded $21.4 million in funding from the Public Telecommunications Facilities Program (PTFP) to assist public radio, public television, and nonbroadcast (distance learning) projects across the country. $11.7 million will go to 33 grantees to assist in the digital conversion of public television facilities; $7.4 million will fund 73 radio grants; $383,000 is for five television equipment replacement grants; $1.5 million is for 11 distance learning grants; and one grant was made to the University of Hawaii for $499,415 for the PEACESAT (Pan Pacific Educational and Cultural Experiments by Satellite) project. The total amount awarded by PTFP in FY 2005 is $21.4 million for 123 grants. NTIA also awarded an emergency grant to Louisiana Educational Television Authority to fund equipment damaged by Hurricane Katrina. The award will replace a television transmitter at WLPB-TV in Baton Rouge, which is the flagship station of the statewide network. The WLPB-TV transmitter is operating at 20% power due to hurricane damage. With this emergency grant, the transmitter will be replaced to restore full power and enable WLPB-TV to provide educational and public broadcasting services to southeast Louisiana including the city of New Orleans.

- NTIA filed comments with the FCC examining issues related to the development and deployment of cognitive radio (CR) technology. NTIA believes that CR technology has the potential to provide more innovative, flexible, and comprehensive use of the radio frequency spectrum, while at the same time minimizing the risk of interference to other spectrum users. CRs can be developed that have the technical capability to adapt their use of the spectrum in response to information external to the radio. As a result of this technical and operational flexibility, CR technologies may also make it possible to use spectrum that

may be available in a particular geographic location or during a particular period of time and would otherwise go unused. NTIA has also prepared a series of technical reports examining the interference potential of ultra wideband signals.

- NTIA's ITS published technical reports on Bandwidth Dependence of Emission Spectra of Selected Pulsed-CW Radars, Comparison of Radar Spectra on Varying Azimuths Relative to the Base of the Antenna Rotary Joint, Interference Potential of Ultrawideband Signals, Radiation Pattern Analysis of a Four-Element Linear Array, Analysis of the Markov character of a general Rayleigh fading channel, and Measurement Procedures for the Radar Spectrum Engineering Criteria (RSEC). ITS also entered into five Cooperative Research and Development Agreements (CRADAs). ITS has participated for a number of years in CRADAs with private sector organizations to design, develop, test, and evaluate advanced telecommunication concepts.

The data used to evaluate the effectiveness of performance goal achievements are reviewed quarterly and the Department attests to the accuracy and reliability of the data. Data on the timeliness of processing frequency assignment requests is maintained by the Office of Spectrum Management. All other data is published on the NTIA Web site.

NTIA will be restructuring its performance measures for FY 2006 and beyond as a result of an exercise with OMB and the Program Assessment and Rating Tool (PART).

STRATEGIES AND FUTURE PLANS

The bulk of NTIA's resources will be directed toward achieving the President's goal of spectrum management reform. NTIA will facilitate a modernized and improved spectrum management system and facilitate economic incentives for more efficient and beneficial use of spectrum. NTIA's other spectrum management activities include (1) identifying and supporting new wireless technologies that promise innovative applications for customers of the federal and private sectors; (2) providing the 63 federal agencies with the spectrum needed to support their missions for national defense, law enforcement and security, air traffic control, national resource management, and other public safety services; (3) developing plans and policies to use the spectrum effectively; (4) satisfying the United States' future spectrum needs globally through participation with the 190 other countries of the International Telecommunication Union in establishing binding treaty agreements through world radio-communication conferences; and (5) improving, through telecommunications research and engineering, the understanding of radio-wave transmission thereby improving spectrum utilization and the performance of radio-communications systems.

NTIA will also work with the Department of Homeland Security (DHS) on the development of standards for the interoperability of public safety systems and on the implementation of Spectrum Relocation Fund legislation. NTIA will work with the Department of Transportation (DOT) on implementation of the Enhanced 911 Act. NTIA will continue work with the ICANN on the management of the Internet domain names system. NTIA anticipates that it will participate on behalf of the Administration in a congressional examination of the Telecommunications Act focusing on telephony subsidy reform and the classification of advanced broadband services. NTIA will also participate on behalf of the Administration in Digital TV transition policy-making and implementation of IPv6.

CHALLENGES FOR THE FUTURE

In today's era of modern communications, RF spectrum is critical. Current spectrum management policies are under increasing strain as the demand for existing spectrum-based services grows and new spectrum-related technologies and applications emerge. Working with all affected parties in the federal government and the private sector, NTIA and the Department of Commerce must find ways to implement the recommendations developed through the President's Spectrum Policy Initiative to foster economic growth; ensure U.S. national and homeland security; maintain U.S. global leadership in communications technology development and services; and satisfy other vital U.S. needs in areas such as public safety, scientific research, federal transportation infrastructure, and law enforcement. Also, NTIA and the FCC must coordinate the development of a National Strategic Spectrum plan.

NTIA and the Department of Commerce must also respond to the President's call to clear the regulatory hurdles that stand in the way of broadband deployment and create the regulatory certainty necessary to meet the President's goal of universal and affordable broadband access by 2007. Some of the most promising new broadband technologies are wireless. By expanding the amount of spectrum available for commercial uses, the Department will increase high speed Internet access. In an era of rapidly changing new technologies like mobile wireless, high-speed fiber optics, and expanded broadband deployment, government policies should favor customer choice. Regulatory stability in the telecommunications sector will promote both competition and investment. Developing these policy frameworks to support these goals is the challenge facing NTIA and the Department.

Strategic Goal 3

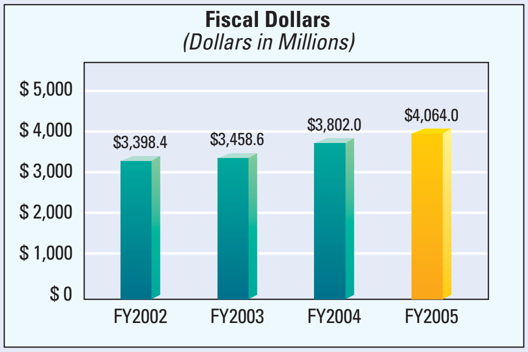
PERFORMANCE GOAL	STATUS*
Serve society's needs for weather and water information (NOAA)	
Understand climate variability and change to enhance society's ability to plan and respond (NOAA)	
Protect, restore, and manage the use of coastal and ocean resources through an ecosystem approach to management (NOAA)	
Support the nation's commerce with information for safe, efficient, and environmentally sound transportation (NOAA)	

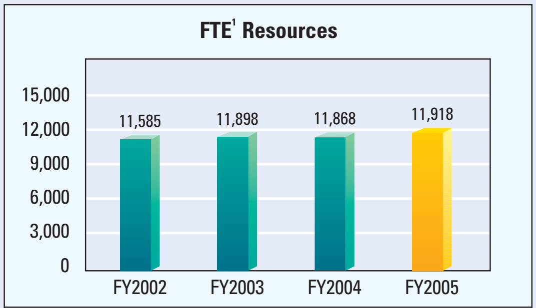
* = MET (100%) = SIGNIFICANTLY MET (75% - 99%) = NOT MET (< 75%)

STRATEGIC GOAL 3

Observe, protect, and manage the Earth's resources to promote environmental stewardship

STRATEGIC GOAL 3 TOTAL RESOURCES





[1]*FTE — Full-Time Equivalent*

The Department is a future-minded environmental science agency whose mission is to understand and predict changes in the Earth's environment and manage coastal and marine resources to meet the nation's economic, social, and environmental needs. The Department has responsibilities for the environment, ecosystems, safety, and commerce of this nation that span oceanic, coastal, and atmospheric domains. Understanding the oceans and atmosphere is essential to sustaining the United States' environmental and economic health. The Department provides products and services that are a critical component of the daily decisions made across the United States. From satellite imagery to tornado warnings, navigational charts to fish stock assessments, hurricane tracking to El Niño and harmful algal bloom predictions, severe weather forecasts to coastal zone management—Commerce's science, service, and stewardship touch the life of every citizen in this country and in much of the world every day.

Number of Reported Results		
Below Target	**Slightly Below Target**	**On Target**
2	3	21

See Appendix A: Performance and Resource Tables for individual reported results.

Together Commerce and its partners provide weather and climate services; manage and protect fisheries and sensitive marine ecosystems; conduct atmospheric, climate, and ecosystems research; promote efficient and environmentally safe commerce and transportation; and provide emergency response and vital information in support of homeland security. The breadth and scope of these services require the Department to be responsive to both short-term and long-term societal needs.

In fiscal year (FY) 2005 the National Oceanic and Atmospheric Administration (NOAA) accomplished some major bureau-wide successes:

NOAA Provided Critical Information and Support Before and After Hurricane Katrina: Within 48 hours of landfall on the central Gulf coast, all NOAA National Hurricane Center forecasts indicated that Katrina would come ashore in southeastern Louisiana with a hurricane intensity of at least a level four. NOAA accurately predicted the path of this hurricane well in advance of landfall, enabling governments to initiate mass evacuations. During Katrina, NOAA collected accurate tide and current information on storm surge that will be invaluable to engineers planning the recovery and rebuilding of the coasts according to standards safe for people and the environment. NOAA provided thousands of before and after Katrina images using high-resolution aerial photography that provided critical help to damage assessment teams and emergency recovery operations. Google Earth and GlobeXplorer companies integrated the imagery into their Web services allowing the public to use these images to begin assessing impacts and damages and the insurance industry to expedite claims disbursements. NOAA's mapping and charting services acted immediately after the storm to find navigation obstructions that might impede maritime commerce and delivery of critical supplies to stricken populations. NOAA analyzed satellite imagery of the area to determine coastal impacts (e.g., amount of land inundated and wetland loss.) NOAA assisted the State of Louisiana Department of Wildlife and Fisheries Enforcement agents in security and safety matters involving marine rescues through the provision of NOAA enforcement agents and vessels. NOAA determined a commercial fishery failure and a fishery resource disaster in the Gulf of Mexico which will enable additional assistance to be delivered. Further, NOAA helped provide emergency response for more than 200 hazard incidents, including several Superfund hazardous waste sites.

The Department Led the Advancement of Integrated Earth Observations Systems: The Department led the approval and is leading the implementation of the *Strategic Plan for the US Integrated Earth Observation System* through the U.S. Group on Earth Observations (USGEO). USGEO, a standing subcommittee of the White House Committee on Environment and Natural Resources composed of 15 federal agencies and three White House offices, created the plan released in April 2005. The Department then led a U.S. Public Engagement Workshop in May 2005 to discuss the plan and its implementation. On a parallel track, the Department continued to provide international leadership in Earth observations and helped to facilitate international agreement on the Global Earth Observation System of Systems (GEOSS). The 10-year implementation plan was adopted at the Third Global Earth Observation Summit, held in February 2005 in Brussels. By adopting the plan, the nations have accomplished the first phase of realizing the goal of a comprehensive, integrated, and sustained Earth observation system. The Department also played a vital role in the establishment of the permanent Group on Earth Observations (GEO) through membership on its Executive Committee and in the successful transition of its Secretariat from the United States to Geneva, Switzerland.

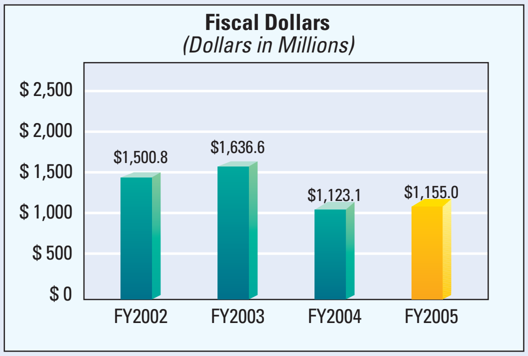
NOAA Created its First-ever Corporate 20-Year Research Vision and 5-Year Research Plan in FY 2005: Documents to guide the long and short-term direction of NOAA's research enterprise were developed and widely distributed through an extensive stakeholder outreach campaign. The 20-Year Research Vision adopts a longer-term perspective of ecological challenges and the scientific advances that can be expected to help meet those challenges, while the 5-Year Research Plan includes milestones for NOAA's research that are aimed at improving NOAA's products and information services in the near term.

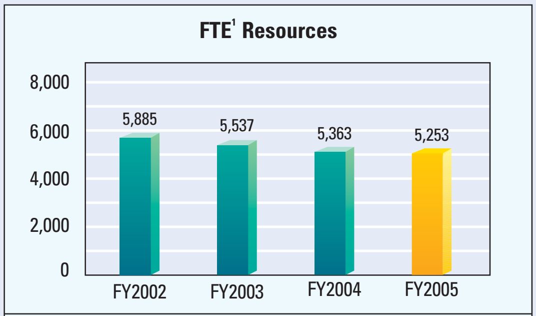
NOAA's Successful Satellite Launch Ensures Continuity and Improved Collection of Data: NOAA-N was successfully launched from Vandenberg Air Force Base, California on May 20, 2005. Upon achieving orbit NOAA-N became NOAA-18 and was declared operational on August 30, 2005 as the primary afternoon satellite in the Polar Operational Environmental Satellite (POES) constellation. NOAA-18 marks the beginning of the NOAA and European Organization for the Exploitation of Meteorological Satellites (EUMETSAT) Initial Joint Polar System (IJPS) agreement. The IJPS project comprises two NOAA polar satellites (NOAA-18 and NOAA-N Prime) and two EUMETSAT satellites (Metop A and Metop B). This gives NOAA and EUMETSAT the ability to share satellite instrument data and products.

STRATEGIC OBJECTIVE 3.1

Advance understanding and predict changes in the Earth's environment to meet America's economic, social, and environmental needs

TOTAL RESOURCES





[1]FTE — Full-Time Equivalent

The Department's role in understanding, observing, forecasting, and warning of weather events is expanding. The Department is strategically positioned to conduct sound, scientific research and provide integrated observations, predictions, and advice for decisionmakers who manage environmental resources, ranging from fresh water supplies to coastal ecosystems to air quality.

Number of Reported Results

Below Target	Slightly Below Target	On Target
0	1	13

See Appendix A: Performance and Resource Tables for individual reported results.

Realizing that the Department's information and services bridge both weather and climate timescales, the Department will continue to collect and analyze environmental data and issue forecasts and warnings that help protect life and property and enhance the U.S. economy. Commerce is committed to excellent customer service and depends on its partners in the private sector, academia, and government to add value and help disseminate critical weather and climate information. Commerce will expand services to support evolving national needs, including those associated with space weather, freshwater and coastal ecosystems, and air quality prediction.

PERFORMANCE GOAL	STATUS*
Serve society's needs for weather and water information (NOAA)	
Understand climate variability and change to enhance society's ability to plan and respond (NOAA)	

* = MET (100%) = SIGNIFICANTLY MET (75% - 99%) = NOT MET (< 75%)

Performance Goal: Serve society's needs for weather and water information (NOAA)

Floods, droughts, hurricanes, tornadoes, tsunamis, and other severe weather events cause $11 billion in damages each year in the United States. Weather is directly linked to public safety, and nearly one-third of the U.S. economy ($3 trillion) is sensitive to weather and climate. With so much at stake, NOAA's role in understanding, observing, forecasting, and warning of environmental events is expanding. Private and business sectors are also getting more sophisticated about how to use NOAA's weather, air quality, water, and space weather information to improve operational efficiencies, to manage environmental resources, and to create a better quality of life.

In FY 2005 NOAA continued its leadership in weather and water science and technology by expanding sources of observational data, advancing numerical models, and improving the accuracy of its forecasts and warnings. In addition, NOAA responded to society's evolving needs for forecast services by leveraging its partnerships in the public, private, and academic sector.

Number of Reported Results		
Below Target	Slightly Below Target	On Target
0	1	8

See Appendix A: Performance and Resource Tables for individual reported results.

Some highlights from FY 2005 include:

NOAA Begins Expansion of U.S. Tsunami Warning Program; Accurately Predicts West Coast Tsunami: In response to the December 26, 2004 Indian Ocean tsunami, NOAA has taken actions to expand the U.S. Tsunami Warning Program. The multi-year implementation plan, developed after NOAA received supplemental funding in FY 2005, will improve the Tsunami Warning and Mitigation System and Tsunami Forecast System. Among the steps taken in FY 2005, NOAA now provides 24 hours a day, seven days a week (24/7) operations at NOAA Tsunami Warning Centers, seismic monitoring, and improved community preparedness through the Tsunami Ready program. NOAA also utilized the experimental Tsunami Forecast System to accurately predict a tsunami just off the coast of Oregon following an approximately 7.2 magnitude earthquake off of the northern California coast in June. The accurate forecast and measurement of the resulting tsunami enabled NOAA's Alaska Tsunami Warning Center to cancel its warning for the Oregon coast, which was issued five minutes after the earthquake struck.

National Digital Forecast Database (NDFD) Adds Additional Forecast Elements and Expands: Two new experimental elements, relative humidity and apparent temperature, were added to the NDFD for the lower 48 states, Puerto Rico, Hawaii, and Guam the week of June 20, 2005. This is the first expansion of NDFD. The elements were added in response to land management, emergency response, and public health officials who requested relative humidity, wind chill, and heat indices be added to the digital database. The National Weather Service (NWS) also upgraded six experimental elements to operational status for Puerto Rico and Hawaii in June. These six forecast elements are already operational for the lower 48 states and will be operational for Guam later in 2005. NOAA customers continue to be excited about these products and are utilizing the NDFD in decision-making and as part of business operations.

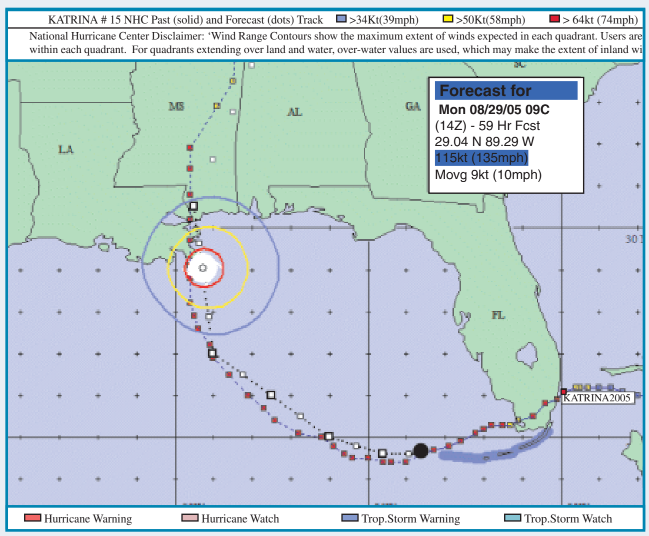
NOAA Deploys Seven New Hurricane Buoys: Following the active 2004 Atlantic hurricane season, the NOAA National Data Buoy Center, part of NWS, received $1.8 million in supplemental funding from Congress for the new buoy stations. NOAA launched six new weather data buoy stations (and re-established a seventh) designed to help the Tropical Prediction Center/National Hurricane Center (NHC) more accurately determine formation or dissipation, extent of wind circulation, maximum intensity, and center location of the tropical cyclones.

Improving Understanding and Prediction of Hurricane Intensity Change: NOAA began the Intensity Forecasting Experiment (IFEX), a multi-year project. IFEX is intended to improve NOAA's understanding and prediction of hurricane intensity change by collecting observations that will aid in the improvement of current operational models and the development of the next-generation operational hurricane model, the Hurricane Weather Research and Forecasting model (HWRF). NOAA aircraft will be flown into hurricanes to take observations at different stages in their lifecycle, from formation and early organization to peak intensity and subsequent landfall or decay over open water.

NOAA's Central Computer System (CCS) Runs with Full Backup: NOAA's National Centers for Environmental Prediction (NCEP) computer operations were moved to the new Weather and Climate supercomputer. The planned system upgrade to the computer, under the $180 million nine-year contract, provides the necessary computational power to operate higher resolution numerical weather prediction models, coupled ocean-atmosphere models, operational climate models, and improved ensemble models. The new CCS, for the first time, is comprised of two identical, geographically separate systems, which will provide full backup capability for the entire suite of over five million numerical guidance products.

Observing Monsoons to Improve Predictions: NOAA successfully completed the North American Monsoon Experiment (NAME) field campaign in collaboration with other U.S., Mexican, and Central American agencies and academic institutions. NAME provides an unprecedented collection of detailed atmospheric, oceanic, and land-surface observations in the core region of the North American Monsoon over northwest Mexico, southwest United States, and adjacent oceanic regions. It better documents the evolution of the monsoon convection and precipitation and helps to outline the key physical processes that must be parameterized for improved simulations and predictions with climate models.

NOAA and the Environmental Protection Agency (EPA) Extend Reach of Air Quality Forecasts and Promote Awareness: Air quality forecasts produced by NOAA and EPA were enhanced and expanded to serve better more regions of the United States. Forecast information for ground-level ozone that has been available for the northeastern United States will now include areas from just east of the Rocky Mountains to the Atlantic and Gulf coasts. Hour-by-hour forecasts, through midnight the following day, are available online, providing information for the onset, severity, and duration of poor air quality to more than 180 million people. State and local air quality forecasters use this information as another tool in issuing next-day alerts for poor air quality to more than 300 communities. Also in 2005, NOAA and the EPA urged Americans to "Be Air Aware" through an air quality awareness days campaign.



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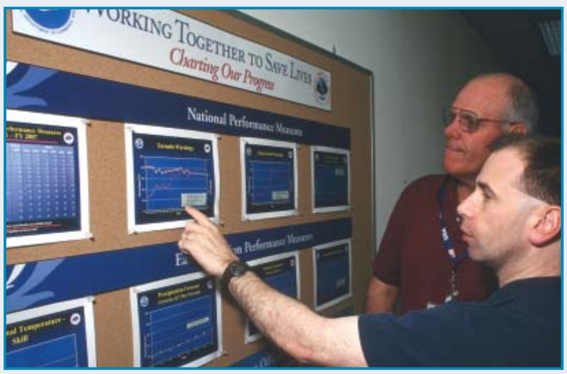
Researchers Demonstrate Radar Helps NOAA's NWS Forecasters Save Lives: The June 5 issue of *Weather and Forecasting*, a journal of the American Meteorological Society (AMS), was published which included a study concluding that tornado warnings have improved significantly since NOAA's NWS installed a network of Doppler weather radars a decade ago. Researchers examined the impact of Weather Surveillance Radar-

1988 Doppler (WSR-88D), also known as NEXRAD, which was installed in the 1990s during the NWS's $4.5 billion modernization. They also found the warnings from the radars have lowered the number of tornado casualties nationwide. This provided indirect evidence of the life-saving effects of tornado warnings.

NOAA Debuts New Heat/Health Watch Warning System in the Seattle Area: Seattle, WA, implemented a new Heat/Health Watch Warning System in the Spring of 2005, joining 14 other metropolitan areas using the Heat/Health Watch Warning System as guidance for issuing Excessive Heat Watches, Excessive Heat Warnings, and Heat Advisories. When unseasonably hot conditions do arise, the Seattle NWS office will issue a Heat/Health Watch Warning System message, alerting people in the region that precautions need to be taken against the hot weather. Based on NOAA NWS data from 1994 to 2003, excessive heat is the top weather-related killer.

FY 2005 GOVERNMENT ACCOUNTABILITY OFFICE (GAO) REPORTS ISSUED

GAO-05-253: Freshwater Programs: Federal Agencies' Funding in the United States and Abroad (Final Report March 2005 - no recommendations for NOAA) *http://www.gao.gov/new.items/d05253.pdf*



Blacksburg, Virginia, Warning Coordination Meteorologist Mike Emlaw, right, explains NWS performance goals to Pulaski County, Virginia, Emergency Manager Stan Crigger. All NWS office display the agency's performance measures similarly.

GAO conducted a review to determine for FYs 2000 through 2004 how much financial support federal agencies provided for freshwater programs in the United States and abroad. This review involved 32 agencies including NOAA. NWS provided the largest portion of the Agency's budget for freshwater programs. The hydrology program supports watershed management and flood control activities, such as forecasting water availability on rivers, lakes, and streams and inland water research.

GAO-05-927: Managing for Results: Enhancing Agency Use of Performance Information for Management Decision Making *http://www.gao.gov/cgi-bin/getrpt?GAO-05-927*

NWS participated in a GAO study of how federal agencies use performance information and how selected federal agencies have used performance information to manage for results and what practices have contributed to their use of that information. Performance information can be used to trigger corrective action (e.g., change an existing program approach or adopt a new one), identify and disseminate successful practices, set job expectations for staff, and plan and budget. A final report was issued in September 2005 using NWS as an example for successful and effective use of performance measures.

FY 2005 OFFICE OF INSPECTOR GENERAL (OIG) REPORTS ISSUED

IPE-17259: The Northeast River Forecast Center Is Well Managed, But Some Improvement Are Needed (eight recommendations – Final Report) *http://www.oig.doc.gov/oig/reports/audit_inspection_and_evaluation_reports/index.html*

This review concluded that financial and administrative operations are generally well managed, and management and oversight are adequate. OIG found the use of Geographic Information System should be expanded and NWS should be prepared to meet

increased hydrology products demands and better document its plan for improving river forecast verification. While external partners are mostly satisfied, OIG found that some additional Weather Forecast Office and River Forecast Center coordination would be beneficial. OIG also touched on facility maintenance problems that need to be addressed. NOAA concurred with all recommendations, and a final action plan is being drafted.

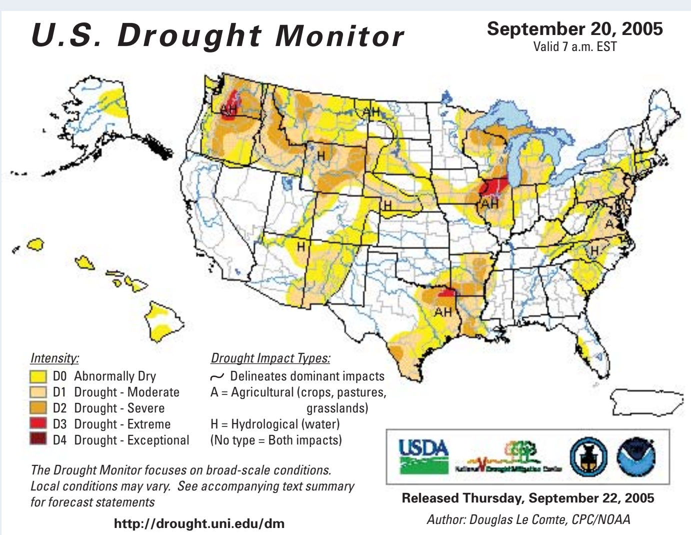
Performance Goal: Understand climate variability and change to enhance society's ability to plan and respond (NOAA)

One of NOAA's mission goals is to understand climate variability and change to enhance society's ability to plan and respond by employing an end-to-end system comprised of integrated environmental observations leading to a scientific understanding of past and present climate and enhanced climate predictive capabilities, and enhanced service delivery methods that continuously assess and respond to stakeholder needs.

Number of Reported Results		
Below Target	Slightly Below Target	On Target
0	0	5

See Appendix A: Performance and Resource Tables for individual reported results.

Society exists in a highly variable climate system, with conditions changing over the span of seasons, years, decades, or even longer. Seasonal and interannual variations in climate, like El Niño, led to economic impacts on the order of $25 billion for 1997-98, with property losses of over $2.5 billion and crop losses approaching $2.0 billion. Given such stresses as population growth, drought, and increasing demand for fresh water it is essential for NOAA to provide reliable observations, forecasts, and assessments of climate, water, and ecosystems to enhance decisionmakers' ability to minimize climate risks. This information supports decisions regarding community planning, business management, and natural resource and water planning. In the U.S. agricultural sector alone, better forecasts can be worth more than $300 million in avoided losses annually.



The week of September 20th, 2005 Drought Monitor, jointly produced by NOAA, USDA, and the University of Nebraska.

In FY 2005 NOAA continued its efforts to obtain the best science through the Climate Change Science Program (CCSP) and NOAA Climate Program. NOAA accomplished this through its continuing role as lead agency of the interagency CCSP. In addition, NOAA increased the production of climate information and services for decisions, including Synthesis and Assessment Reports, implementation of the National Integrated Drought Information System (NIDIS), and completion of initial climate scenario runs for the Intergovernmental Panel on Climate Change (IPCC).

NOAA Assists the IPCC Fourth Assessment Report on Climate Change: NOAA's new state-of-the-art coupled climate model (CM2) provided massive amounts of data to the world's research communities for the IPCC Fourth Assessment Report on Climate Change (2007). The CM2 model

was evaluated and revealed as one of the best in the world by a variety of measures. This accomplishment represents the culmination of an intensive effort by the Geophysical Fluid Dynamic Laboratory (GFDL) scientists over the last several years to construct this climate model. The experiment was begun using two initial conditions: one representing present-day climate, and one from 1860. To assess the effects of global warming, two scenarios were created; the first ran increasing atmospheric carbon dioxide (CO_2) concentrations one percent per year until it reached twice the concentration relative to present day and the second was run increasing atmospheric concentrations of CO_2 one percent per year until it reached four times the concentration relative to present day. Nearly 500 gigabytes of data have been shipped to the Program for Climate Model Diagnosis and Intercomparison (PCMDI) on a large computer disk. NOAA/GFDL is the first organization to ship nearly 500 gigabytes of model data from a state-of-the-art model.

Kuroshio Extension Observatory Buoy has Stunning First Year: Outstanding buoy performance drives improved ocean models that underpin NOAA's understanding of the role of the oceans in climate. The moored buoy located in the Kuroshio current in the north Pacific returned 100 percent of surface data, including winds, air temperature, relative humidity, rain rate, downwelling solar and longwave radiation, sea surface temperature, and salinity. It also returned 90 percent of subsurface temperature and salinity data. The mooring is located in international waters, where the currents can be strong and deep, winds high, and the sea state rough. The buoy survived the record 2004 typhoon season and a full season of winter storms, providing unprecedented data for analyzing air-sea interaction in the western boundary region of the north Pacific.

Presidential Award given to NOAA Research Scientist: Dr. Daniel Cziczo, currently a research scientist at the Institute for Atmospheric and Climate Science at the Swiss Federal Institute of Technology, and formerly a research scientist at NOAA's Aeronomy Lab and Cooperative Institute for Research in Environmental Sciences, was awarded a 2004 Presidential Early Career Award for Scientists and Engineers. He was awarded the nation's highest award for young scientists for pioneering research and leadership in climate studies that have made the first unambiguous identification of the atmospheric particle types that are effective seeds for cloud formation in the atmosphere.

NOAA Advances Global Ocean Observing System (GOOS) with Deployment of Global Drifter 1250: In cooperation with interagency and international partners, NOAA advanced the global component of the GOOS past the 50 percent milestone in February 2005. A major earth observation milestone was also achieved on September 18, 2005 when NOAA ceremonially deployed Global Drifter 1250 near Halifax, Nova Scotia. With this deployment, the global surface drifting buoy array achieved its design goal of 1250 data buoys in sustained service and became the first component of the GOOS to be fully implemented. This milestone also represented the first element of GEOSS to be completed.

AgClimate Decision Support Tool: NOAA-supported university scientists introduced AgClimate, a prototype decision support Web site (*http://www.agclimate.org/*) which includes several decision support tools. The current version of AgClimate includes (1) a tool which allows users to learn about risks associated with climate variability and El Niño/Southern Oscillation (ENSO) for their county; (2) crop risk tools for peanut, tomato, and potato to enable users from selected counties to learn how climate variability and ENSO affect these crops, as well as to view probabilities of how these crops will perform for a climate forecast; and (3) wildfire risk forecast for the forested areas of the Southeast.

Release of the Annual Greenhouse Gas Index (AGGI): NOAA developed and released for the first time this year its AGGI.. The AGGI is a readily understood measure of the status of long-lived, human-influenced greenhouse gases. The NOAA AGGI is designed to enhance the connection between scientists and society by providing a normalized standard that can be easily understood and followed. The contribution of long-lived greenhouse gases to climate forcing is well understood by scientists and has been reported by NOAA through a range of national and international assessments. Nevertheless, the language of scientists (for example, watts per square meter per year) often eludes policymakers, educators, and the general public. This index is designed to help bridge that gap.

NOAA Develops a Plan for a National Integrated Drought Information System (NIDIS) Implementation Office: NIDIS answers the call for a national drought policy that must provide for the development of a comprehensive monitoring system to collect, analyze and disseminate available data and products in a usable manner. Following the recommendation of the Western Governors' Association, NOAA will host the NIDIS Implementation Office, which will manage and oversee the broad-based NIDIS Implementation Team (interagency, states, tribes, and other partners). A plan for the Office was completed this year.

STRATEGIES AND FUTURE PLANS

Weather

The Department utilizes several strategies, identified in the five year NOAA strategic plan, to improve accuracy and timeliness of weather and water information. Improved weather and water information can have a profound impact on the economy. The Department strives to ensure that reliable, accurate, and timely weather and water information is available for informed and reasoned decision-making. Strategies to achieve this end state include:

National Hurricane Center Director Max Mayfield previews Hurricane Michelle's track for (from left) Jim Lushine, Warning Coordination Meteorologist, WFO, Miami; Chuck Lanza, Director, Emergency Management, Miami-Dade County; and an unidentified aide.

- Improve the reliability, lead-time, and understanding of weather and water information and services that predict changes in environmental conditions.
- Integrate an information enterprise that incorporates all stages from research to delivery, seeks better coordination of employee skills and training, and engages customers.
- Develop and infuse research results and new technologies more efficiently to improve products and services, to streamline dissemination, and to communicate vital information more effectively.
- Build a broad-based and coordinated education and outreach program by engaging individuals in continuous learning toward a greater understanding of the impacts of weather and water on their lives.
- Employ scientific and emerging technological capabilities to advance decision support services and to educate stakeholders.
- Work with universities, industry, and national and international agencies to create and leverage partnerships that foster more effective information services.

One of NOAA's top priorities is to effectively and efficiently deliver information and services to customers when they need it and in standardized formats. NOAA strives to support a safer, healthier, and economically stronger U.S. through reliable, timely, and accurate weather and water information. NOAA-wide information such as all-hazards warnings and a wide range of environmental information from an expanding customer base must be available in digital formats with the necessary supporting infrastructure.

NOAA will continue to provide critical services to the nation, including (1) advancing science to improve water resource forecasting and service delivery; (2) accelerating NOAA's tsunami detection, warning and mitigation capabilities and expanding its scope from the Pacific to the Atlantic and Caribbean; (3) accelerating research to yield improvements in the accuracy of one-day to two-week high-impact weather forecasts; (4) improving international efforts to address medium range forecasting and climate variability; (5) accelerating the expansion of national ozone air quality forecasts; and (6) improving operational atmospheric, ocean, and coastal modeling capabilities.

NOAA must continue to refine its Earth observing architecture and data management infrastructure in order to increase its capacity to meet the information requirements of NOAA's four mission goals. NOAA's mission goals are directly related to the "nine societal benefit areas" identified by the intergovernmental GEO and the USGEO. As such, NOAA will continue to be an active participant on both the USGEO, which is charged with developing the U.S. Integrated Surface Observing System (ISOS), and the GEO, which is developing GEOSS.

Climate

The Department utilizes several strategies identified in the five year NOAA strategic plan to assist customers in better understanding the impacts of climate change and variability. Like weather, improved climate information can have a profound impact on the economy, and the Department strives to ensure that reliable, unbiased climate information is available for informed and reasoned decision-making. Strategies to achieve this end state include:

- Improving the number and quality of climate observations and analyses.
- Quantifying the forces and feedbacks from human-induced changes in atmospheric gases (e.g. greenhouse gases).
- Advancing climate predictions from sub-seasonal to decadal time scales and beyond.
- Developing the ability to predict the consequences of climate change on ecosystems.
- Developing and contributing to routine state-of-the-science assessments of the climate system for informed decision-making.
- Effectively delivering timely climate services and products to climate-sensitive sectors (e.g. health, safety, energy, and resource management).
- Supporting educational efforts to create a more climate-literate public.

The Department's Climate Program is aligned with the five goals of the CCSP in an effort to ensure optimal partnerships with other federal agencies and to advance the state of the science, while also enabling society to understand and respond to changing climate conditions. The program is working to improve the linkages among planning, budgeting, and performance management

activities. The Climate Goal is also striving to develop more outcome- and impact-oriented performance measures representative of the diverse research, development, and operational activities conducted within the Department. As these efforts are realized, the Department's performance measures will be adjusted to evolve with the needs of the program.

CHALLENGES FOR THE FUTURE

The 21st century poses complex challenges for the Department. As the new century unfolds, new priorities for NOAA action are emerging in the areas of climate change, freshwater supply, and ecosystem management. In recent years, extreme drought and flooding conditions in large regions of the nation have combined to make improved water resources prediction an urgent requirement for the Department's future weather and climate mission. Human health linkages with weather, climate, and ecosystem goals are also priorities and directly relate to the Administration's focus on a healthy and growing economy. In 2003, the U.S. government formed the CCSP to facilitate the creation and application of knowledge of Earth's global environment through research, observations, decision support, and communication. The Department, working with 12 other federal agencies, leads this nationwide effort. In response to last year's devastating Indian Ocean tsunami, a new tsunami detection and warning network is planned. This network will be an integral part of GEOSS and the United States will play a key role in this effort.

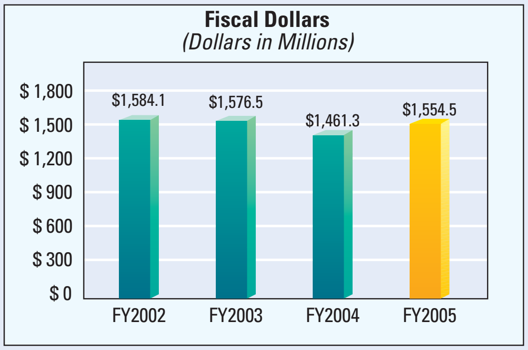
A NOAA scientist aboard a DC-3 aircraft studies a real-time display of ozone and aerosol data for the New England Air Quality Study.

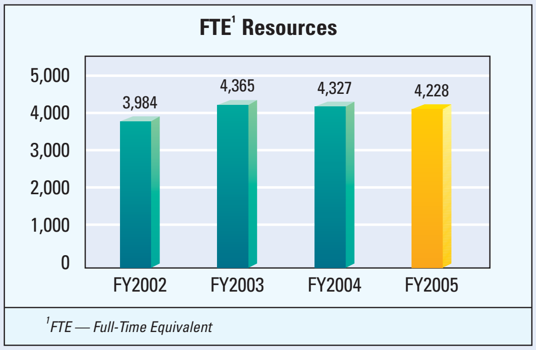
The climate, weather, and water challenges that face the nation continue to grow as trends such as just in-time production, globalization, and increased travel amplify the impact of climate, weather, and water information services on the economy. Substantial population and business growth in coastal and arid regions increases the sensitivity to climate, weather and water conditions as well. This interdependence means climate, weather, and water events in one geographic area can have national and international economic impact.

STRATEGIC OBJECTIVE 3.2

Enhance the conservation and management of coastal and marine resources to meet America's economic, social, and environmental needs

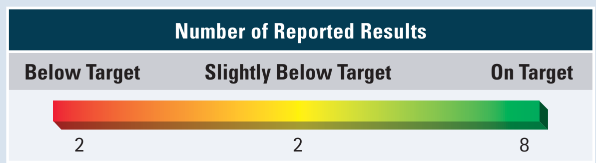
TOTAL RESOURCES





[1] *FTE — Full-Time Equivalent*

The Department works to protect, restore, and manage ocean and coastal resources. To meet this mandate, the Department maintains a world-class expertise in oceanography, marine ecology, fisheries management, conservation biology, and risk assessment. To achieve balance among ecological, environmental, and social influences, the Department has adopted an ecosystem approach to management––an approach that is deliberate, incremental, and collaborative. Within the Department of Commerce, NOAA's mission "to protect, restore, and manage fisheries and coastal and ocean resources" is critical to the health of the U.S. economy. To the extent it is possible to balance sustainable economic development and healthy functioning marine ecosystems, Commerce seeks to provide an example for the rest of the world in how to protect, restore, and manage resources of the world's oceans and coasts.



See Appendix A: Performance and Resource Tables for individual reported results.

In addition, NOAA's mission to support safe and efficient transportation systems is crucial to the U.S. economy. Department information improves transportation efficiency and safety on roads, rails, and waterways. The Department supports commerce through marine, aviation, and surface weather forecasts; the availability of accurate and advanced Electronic Navigational

PERFORMANCE GOAL	STATUS*
Protect, restore, and manage the use of coastal and ocean resources through an ecosystem approach to management (NOAA)	
Support the nation's commerce with information for safe, efficient, and environmentally sound transportation (NOAA)	

* = MET (100%) = SIGNIFICANTLY MET (75% - 99%) = NOT MET (< 75%)

Charts (ENC); and the delivery of real-time oceanographic information. The Department provides consistent, accurate, and timely positioning information that is critical for air, sea, and surface transportation. The Department responds to hazardous material spills and provides search and rescue location support routinely to save lives and money and to protect the coastal environment. The Department works with port and coastal communities and with federal and state partners to ensure that port operations and development proceed efficiently and in an environmentally sound manner. The Department works with the Federal Aviation Administration (FAA) and the private sector to reduce the negative impacts of weather on aviation without compromising safety. Finally, the Department enforces regulations, reviews applications, and supports U.S. government interests in policy coordination on commercial remote sensing.

Performance Goal: Protect, restore, and manage the use of coastal and ocean resources through an ecosystem approach to management (NOAA)

NOAA's mission to conserve, protect, manage, and restore fisheries and coastal and ocean resources is critical to the health of the U.S. economy. The Department has a responsibility for stewardship of the marine ecosystem and for setting standards to protect and manage the shared resources and harvests of the oceans. The Department strives to balance sustainable economic development and healthy functioning marine ecosystems, and to conserve, protect, restore, and better manage resources.

Number of Reported Results		
Below Target	Slightly Below Target	On Target
2	2	3

See Appendix A: Performance and Resource Tables for individual reported results.

Coastal areas are among the most developed in the nation, with over half the population living on less than one-fifth of the land in the contiguous United States. At over 230 persons per square mile, the population density of the near shore is three times that of the nation as a whole. That portion of the U.S. economy that depends directly on the ocean is also large, with 2.3 million people employed and over $117 billion in value added to the national economy in 2000. Approximately 89 million people vacation and recreate along U.S. coasts every year. The amount added annually to the national economy by the commercial and recreational fishing industry alone is over $43 billion with an additional $1 billion of marine and freshwater aquaculture sales. With its Exclusive Economic Zone of 3.4 million square miles, the U.S. manages the largest marine territory of any nation in the world. Within this context, NOAA works with its partners to achieve a balance between the use and protection of these resources to ensure their sustainability, health, and vitality for the benefit of this and future generations and their optimal contribution to the nation's economy and society.

In FY 2005, NOAA provided national and international leadership for the U.S. Ocean Action Plan by co-leading the development of the U.S. Ocean Research Priorities Plan and Implementation Strategy and by supporting the establishment of the coordinated Ocean Governance Structure. NOAA continued rebuilding fisheries and reducing capacity to improve food security, increase economic benefits, and improve stability of marine ecosystems. NOAA also promoted greater use of market-based systems for fisheries management and regional collaboration on Oceans, Coasts, and Great Lakes Policy in partnership with leadership of states, local, and tribal leadership.

Some highlights from FY 2005 include:

U.S Ocean Action Plan: In December 2004, the Administration released the "U.S. Ocean Action Plan," a response to the U.S. Commission on Ocean Policy's report entitled, "An Ocean Blueprint for the 21st Century." NOAA worked with the Council on Environmental Quality and other federal agencies to develop the action plan. NOAA is playing a key role in implementing many of

the new ocean policy measures, including supporting a coordinated ocean governance structure and co-leading the development of the Ocean Research Priorities Plan and Implementation Strategy due December 31, 2006. NOAA has worked to engender ecosystems-based management in ocean policy, improved ocean governance, and a stewardship ethic toward marine and coastal environments.

Recovering Threatened and Endangered Salmonids: The Department's efforts to conserve and recover the nation's protected resources have made steady and sometimes dramatic progress, as reported in the National Marine Fisheries Service (NMFS) 2004 Biennial Report to Congress on the recovery program for threatened and endangered species, published in August 2005. In recent years, the abundance of both hatchery-reared and naturally spawning populations of listed salmon and steelhead has generally increased. This increase in abundance is likely due to changes in ocean conditions; improvements to habitat from restoration efforts; and changes in harvest regimes, hydropower operations, and hatchery practices implemented since the listings occurred. Improvements are seen in many salmon populations—16 of 26 species or evolutionarily significant units (ESU) of Pacific salmon are stable or increasing, six more than had been anticipated for this time.

Regional Ecosystems: Following a major workshop involving 11 federal agencies, states, academic institutions, Councils, Commissions, the Coastal States Organization, and nongovernmental organizations, NOAA approved a set of 10 Regional Ecosystems in November 2004. This is an important step to further NOAA's efforts to implement an ecosystem-based approach to management. The Regional Ecosystems include the Arctic Seas (Beaufort Sea and Chukchi Seas combined), East Bering Sea, Gulf of Alaska (which combine to form the Alaskan Ecosystem Complex), California Current, Pacific Islands Ecosystem Complex, Gulf of Mexico, Caribbean, Southeast (Atlantic) Shelf, Northeast (Atlantic) Shelf, and Great Lakes.

The Hollings Marine Laboratory in Charleston, South Carolina, which became fully operational in FY 2004 provides for the application of medical technologies to issues of ecosystem health.

Proposed First Listing of Corals under the Endangered Species Act (ESA): In 2005, NOAA proposed listing staghorn coral *(Acropora cervicornis)* and elkhorn coral *(Acropora palmata)* as threatened under the ESA, the first ESA listing of any coral species. These coral are found in shallow water on reefs throughout the Bahamas, Florida, and the Caribbean. Once abundant, these corals have remained at low levels without noticeable recovery, and in several monitored areas continued to decline. Threats to these species include physical damage from human activities and hurricanes, as well as disease and temperature-induced bleaching. A proposed rule to list these species will be published once public comments are reviewed.

NOAA helps to Advance Gulf of Mexico Regional Partnerships and Projects: NOAA supported state-led, regional approaches to ecosystems-based management through the Regional Partnership Federal Workgroup and focused on priority ocean and coastal issues identified by the Gulf of Mexico Alliance (a state coalition of Alabama, Florida, Louisiana, Mississippi, and Texas). NOAA then funded partnership projects to (1) improve accuracy and timeliness of storm surge forecasts to help coastal communities mitigate coastal storm impacts and (2) better identify onset of harmful algal blooms and predict the transport of the blooms.

Rebuilt Fish Stocks: As a result of the Department's efforts to conserve and manage the nation's fishery resources, one formerly overfished fish stock, Pacific Whiting, was fully rebuilt. Pacific Whiting was rebuilt in only two years. In addition, six stocks are no longer considered to be overfished, and overfishing has been eliminated on three stocks. Overfished and/or overfishing determinations were made for 20 stocks whose status was previously unknown. The percentage of stocks with a known population status that are not overfished increased from 64 percent to 72 percent, while the percentage of stocks with a known fishing rate that are not subject to overfishing increased from 79 percent to 81 percent.

NOAA's Ocean Exploration scientists launch the CTD (conductivity, temperature, depth) over the side of the research vessel Thompson *to take ocean measurements.*

NOAA, the U.S. Coast Guard, State of Florida, Monroe County, and Local Response Organizations Conducted a Successful "Safe Sanctuary" Exercise: The scenario involved the grounding of an 800 foot containership carrying 1,200,000 gallons of fuel in the Florida Keys National Marine Sanctuary. The ship injured ecological and historical/cultural resources and had two releases of oil and potentially unstable cargo. The exercise evaluated the collective ability to deliver data, real-time observations, forecasts, and scientific expertise and assets to address protection of NOAA trust resources in the event of a major incident.

NOAA Exploration of South Pacific Finds New Species and Magical Scenes; Sets Records for NOAA Undersea Research and Ocean Exploration: Hawaii Undersea Research Laboratory (HURL) and Ocean Exploration completed the longest and most-challenging ocean expedition in HURL's 25-year history. The ship traveled 10,000 nautical miles and the Pisces submersibles made 67 dives, one as deep as 1,820 meters on Brothers undersea volcano. The results included discovery and the advancement of knowledge about the largely unknown ocean in that region. The nearly five month long international expedition to explore the South Pacific produced many discoveries, including numerous suspected new species, new ranges for known species, measurements of the diversity of marine life, and more data about undersea volcanoes and the rare interface of life based on sunlight with chemosynthetic organisms.

NOAA Finalized Regulations for the North Pacific Crab Rationalization Program: This new program allocates Bering Sea and Aleutian Islands king and Tanner crab fisheries resources not only to fishermen, but also to processors and communities. The program encourages crab harvesting cooperatives that can fish individual fishing quota collectively and cooperatively. The value of Bering Sea and Aleutian Islands crab is expected to increase under the program. Other rationalization programs, such as the American Fisheries Act pollock cooperatives and the halibut/sablefish individual fishing quota program, have resulted in more valuable, better managed, and safer North Pacific fisheries.

NOAA Aids Regional Collaboration, Integration, and Research in Restoring the Great Lakes: The Department of Commerce and NOAA partnered with federal, state, and local governments, tribes, and others in the Great Lakes Interagency Task Force. Using science-based restoration, NOAA directed the Task Force's efforts to the most important sources of problems and ensured evaluation of socioeconomic consequences of the restoration. In addition, NOAA's Great Lakes Environmental Research Laboratory (GLERL),

NOAA continued its observer coverage in 42 fisheries in FY 2005, monitoring nearly 63,000 fishing days, up from 45,000 in 2000.

in collaboration with researchers in the United States and Canada, is leading one of the largest, most comprehensive Lake Erie research field programs. The two-year project, entitled International Field Years on Lake Erie (IFYLE) and initiated in May 2005, includes a series of ship cruises and field and laboratory work. Fourteen observation moorings will be deployed in the lake to continuously collect data. GLERL also conducted experiments on natural phytoplankton communities from the area that suggest genetic factors, not environmental, may be dominant in controlling "in situ" microcystin concentrations (a type of toxin).

Implementing the President's Preserve America Initiative: Through an Executive Order, *Preserve America*, President Bush asked federal agencies to accelerate efforts to inventory, preserve, and showcase federally-managed historic and cultural resources and foster tourism in partnership with local communities. NOAA's wealth of heritage resources includes centuries-old maps, charts, photographs, books, and scientific instruments recalling NOAA's long and proud history and dedicated service. NOAA initiated the first annual NOAA Heritage Week, including an exhibit of heritage resources called the *Treasures of NOAA's Ark*. The NOAA *Preserve America* Initiative Grant Program stimulated efforts within NOAA to preserve, protect, and promote heritage resources.

NOAA Worked with Various Government Agency Partners to Advance Marine Mammal Protection Act Reauthorization, The National Offshore Aquaculture Act, and Magnuson-Stevens Fisheries Conservation and Management Act Reauthorization: NOAA transmitted to Congress a comprehensive package of amendments to reauthorize the Magnuson-Stevens Act and the Marine Mammal Protection Act, and proposed the National Offshore Aquaculture Act. The bills meet Administration commitments made in the December 2004 U.S. Ocean Action Plan and other key objectives and necessary improvements.

NOAA Sea Grant Researchers Develop Means to Predict Risk of Dioxin in Fish: University of Washington Sea Grant scientists are revealing the intricate molecular mechanisms by which dioxin (and similar compounds like PCBs) derails normal processes in the cells of developing fish. With a detailed understanding of these mechanisms, toxicologists will have a way to predict the danger a given species faces from dioxin by conducting a relatively simple analysis of that species' cellular biochemistry and describing how dioxin will corrupt it.

A listing of program evaluations that have been conducted follows.

FY 2005 OFFICE OF INSPECTOR GENERAL (OIG) REPORTS ISSUED

FSD-15989-4-0001: *Improvements Needed in the Reporting for NOAA GOALS–Build Sustainable Fisheries, Recover Protected Species, and Predict Climate Changes* (four recommendations–Final Report)

This audit concluded that NOAA has unclear measures, weak procedures in place to ensure data reliability, insufficient documentation, and inadequate explanations. The recommendations were implemented according to the action plan and a follow-up audit was initiated in FY 2005 to gauge the adequacy of the Agency's corrective actions.

STL-17242-5-0001: *National Marine Fisheries Service (NMFS) Review Process for California Central Valley and State Water Projects' Biological Opinion Deviated from Normal Practice* (three recommendations–Final Report)

This report revealed inconsistencies between the way the consultation was initiated by the NMFS southwest regional office and the way it initiated other consultations. The report also found that that regional office did not comply with two controls in its normal review process. NMFS is implementing the recommendations.

FY 2005 GOVERNMENT ACCOUNTABILITY OFFICE (GAO) REPORTS ISSUED

GAO-05-240: *Storm Water Pollution: Information Needed on the Implications of Permitting Oil and Gas Construction Activities* (no recommendations)

This report concluded that substantially more oil and gas activities would likely be affected by Phase II of the stormwater rule than were affected in the Phase I rule for sites greater than five acres (in the past 12 months 433 oil and gas sites were permitted under the Phase I rule in Louisiana, Texas, and Oklahoma). NMFS participated in the review because Phase II of the stormwater rule is expected to substantially increase NMFS' workload on consultations conducted pursuant to section 7 of the ESA, likely exceeding current staff capabilities.

GAO-05-241: *Individual Fishing Quotas: Management Costs Varied and Were Not Recovered as Required (Part 3 IFQ Study)* (two recommendations)

This report found that recovery of IFQ costs, as mandated in the Magnuson-Stevens Act, has been implemented in the Halibut and Sablefish IFQ, but not in the two East Coast IFQ programs, and recommended that the Agency implement cost recovery in all IFQ programs and develop the necessary guidance. NMFS generally agreed with the GAO recommendations and stated that the Agency will work with the Councils on IFQ cost recovery and will develop guidance on the determination of recoverable costs.

GAO-05-283: *Klamath River Basin: Reclamation Met Its Water Bank Obligations, But Information to Stakeholders Could Be Improved* (no recommendations)

This report examined compliance with the water bank requirements in the Biological Opinion on the Klamath River Basin project. GAO concluded the Bureau of Reclamation implemented the water bank in conformance with the Biological Opinion.

GAO-05-213: *Food Safety: Federal Agencies Should Pursue Opportunities to Reduce Overlap and Better Leverage Resources* (three recommendations)

This report identified overlaps in food safety activities at the U.S. Department of Agriculture (USDA), U.S. Food and Drug Administration (FDA), EPA, and NMFS and analyzed the extent to which the agencies use interagency agreements to leverage resources. GAO concluded that FDA and NMFS are not implementing an agreement designed to enable each agency to discharge its seafood responsibilities effectively. The report recommends that FDA and NMFS identify and inventory all active interagency food safety-related agreements and evaluate the need for these agreements, and where necessary, update the agreements to reflect recent legislative changes, new technological advances, and current needs. NMFS concurred with all recommendations and has submitted a draft revision of the subject agreement to FDA for their review and comment.

Performance Goal: Support the nation's commerce with information for safe, efficient, and environmentally sound transportation (NOAA)

U.S. transportation systems are economic lifelines for the nation. As U.S. dependence on surface and air transportation grows over the next 20 years, and as maritime trade doubles, better navigation and weather information provided by NOAA will be critical to protect lives, cargo, and the environment. For example, better aviation weather information could significantly reduce the $4 billion lost through economic inefficiencies as a result of weather related air traffic delays. Improved surface forecasts and specific user warnings would likely reduce the 7,000 weather-related fatalities and 800,000 injuries annually from vehicle crashes.

Some highlights from this performance goal in FY 2005 include:

Number of Reported Results		
Below Target	Slightly Below Target	On Target
0	0	5

See Appendix A: Performance and Resource Tables for individual reported results.

NOAA's Height Modernization Project increases Gulf Coast Safety and Planning: NOAA invested more than $3.7 million in 2005 grant funding to implement the Height Modernization Project in the Gulf States. Implementation includes building the infrastructure and capacity of the states to determine and deliver consistent, accurate, and timely height information. The data are critical to determining effective highway evacuation routes, storm surge modeling, flood plain mapping, sea level rise calculations, vessel under-keel and bridge clearance, subsidence monitoring, and restoration of coastal habitats. NOAA released Technical Report 50 to describe the methods and results of research into recent rates of subsidence on benchmarks in the lower Mississippi Valley and northern Gulf Coast region. The data in this report were obtained from the analysis of leveling projects in NOAA's geodetic database observed between 1920 and 1995.

NOAA Develops the Iraqi Geospatial Reference System (IGRS): NOAA provided critical assistance in the design, development, and implementation of IGRS. The IGRS was modeled after the National Spatial Reference System (NSRS) in the United States, which is managed by NOAA. Six Iraqi Continuously Operating Reference Stations (CORS) are now fully operational and data collection has been completed for a High Accuracy Reference Network (HARN) in southern Iraq. Army, Air Force, Marine, and civilian surveyors from many nations and disciplines are beginning to use the CORS and HARN stations for projects all around Iraq. The extreme accuracy and efficiency of the IGRS products are positively influencing the wide success of both military operations and civil reconstruction efforts.

NOAA's Aviation Weather Program Exceeded Aggressive Performance Criteria for Aviation Forecasts: This progam is vital to aviation operations by improving the ceiling and visibility. The False Alarm Rate decreased five percentage points compared to FY 2004. The program also fielded and tested 25 Water Vapor Sensors to increase observations used in forecasts, created and conducted a new training course for meteorologists and pilot weather modules utilized by over 10,000 individuals, and successfully demonstrated the Volcanic Ash Collaboration Tool in collaboration with FAA.

New Physical Oceanographic Real-Time System (PORTS®) Established in Lower Columbia River: In partnership with the Port of Portland, NOAA established the Lower Columbia River PORTS® as the 13th PORTS®. The PORTS® program is designed to support safe, cost efficient marine transportation by providing accurate real-time oceanographic and meteorological data in a variety of user friendly formats, including telephone voice response and the Internet. Data are quality controlled on a 24/7 basis to allow navigation decisions to be made with confidence. The Columbia River annually handles nearly 48 million tons of cargo. Vessel operators must know the depth of the water in order to move the greatest amount of cargo without running the ship aground. In port areas, water levels and currents frequently differ from predictions as a result of changes in winds and water run off. Users of NOAA PORTS® information include port authorities, vessel pilots, shipping companies, U.S. Coast Guard, U.S. Navy, recreational boaters, fishermen, coastal managers, environmental organizations, academia, and surfers.

STRATEGIES AND FUTURE PLANS

Ecosystems

Consistent with the U.S. Ocean Action Plan and U.S. Commission on Ocean Policy Report, NOAA has adopted an ecosystem approach to management that will evolve over time in collaboration with its partners. The six strategies contained in the five year NOAA strategic plan include:

- Engage and collaborate with the Department's partners to achieve regional objectives by delineating regional ecosystems, promoting partnerships at the ecosystem level, and implementing cooperative strategies to improve regional ecosystem health.
- Manage uses of ecosystems by applying scientifically sound observations, assessments, and research findings to ensure the sustainable use of resources and to balance competing uses of coastal and marine ecosystems.
- Improve resource management by advancing the Department's understanding of ecosystems through better simulation and predictive models.
- Build and advance the capabilities of an ecological component of the NOAA global environmental observing system to monitor, assess, and predict national and regional ecosystem health, as well as to gather information consistent with established social and economic indicators.
- Develop coordinated regional and national outreach and education efforts to improve public understanding and involvement in stewardship of coastal and marine ecosystems.
- Engage in technological and scientific exchange with the Department's domestic and international partners to protect, restore, and manage marine resources within and beyond the nation's borders.

NOAA is implementing the call by its stakeholders to move towards an ecosystem approach to managing uses of coastal and marine resources. NOAA is integrating the application of its multiple ecosystem mandates in partnership with universities; industry; non-governmental organizations; and local, state, and federal agencies by developing and implementing ecosystem approaches to management of coastal and marine resources. NOAA is seeking improved understanding of ecosystems, identification of regional ecosystems, development of ecosystem health indicators, and new methods of governance to establish the necessary knowledge, tools, and capabilities to fully implement ecosystem approaches to managing coastal, ocean, and Great Lakes resources. Advancement in NOAA's performance measurement for an ecosystem approach to management is underway for FY 2006.

Working with shrimp and longline fishermen, NOAA scientists have developed a new, soft Turtle Excluder Device (TED) and a highly effective double-flap hard TED that the shrimp industry has adopted to reduce the incidental capture of endangered and threatened sea turtles.

Commerce and Transportation

NOAA helps transportation information users and stakeholders reach their goals with the following strategies identified in the five year NOAA strategic plan:

- Expand and enhance advanced technology monitoring and observing systems, such as weather and oceanographic observations, hydrographic surveys, and precise positioning coordinates, to provide accurate, up-to-date information.
- Develop and apply new technologies, methods, and models to increase the capabilities, efficiencies, and accuracy of transportation-related products and services.
- Develop and implement sophisticated assessment and prediction capabilities to support decisions on aviation, marine, and surface navigation efficiencies; coastal resource management; and transportation system management, operations, and planning.
- Build public understanding of the technology involved and the role of the environment in commerce and transportation.

In the future, NOAA plans to enhance the intermodal transportation network by improving available products and services and investing in transportation related observing systems. For example, NOAA will continue to build and maintain its suite of ENCs to supply commercial and recreational mariners with the digital navigation data they need to navigate safely in the 21st century. Additionally, NOAA will focus on equipping all 175 National Water Level Observation Network Stations with real-time operational capability at the top 150 U.S. seaports. Enhanced ice forecasts and refinements to aviation, marine, and surface weather predictions will also contribute to NOAA's role in saving lives, property, and critical infrastructure. NOAA will continue to survey and chart U.S. waters, maintain the highly accurate positioning infrastructure the nation relies on each day, support Satellite Search and Rescue incidents, respond to hazardous material events, and support U.S. national interests in commercial remote sensing licensing. It is through these and other important activities that NOAA strives to improve and deliver information crucial to safe and efficient transportation.

CHALLENGES FOR THE FUTURE

The Department must further the examination of land-water interfaces from an ecosystem perspective to successfully address ocean and coastal issues. Human health linkages with weather, climate, and ecosystem goals are priorities that directly impact the U.S. economy. NOAA's Strategic Plan's emphasis on the nation's needs for expanded commerce and economic development that is safe and environmentally sound directly supports the Department's focus on a healthy and growing economy. One initiative especially highlights NOAA's ability to provide services that support environmentally sound economic development. The Port Infrastructure and Economic Revitalization (PIER) initiative relies on partnerships to facilitate the revitalization of working waterfronts and other port infrastructure development needed to maintain pace with the exponential growth of the marine transportation system.

The Department's response to addressing the transportation challenges facing the nation include building on the foundation of expertise, research, and technology development to deliver the information, tools, and services essential to safe, efficient, and environmentally sound transport on water, land, and in the air. Impacts to the system, particularly at vulnerable choke points, affect transit time, delivery reliability, efficiency, cost of goods transported, and the environment. To improve service delivery, NOAA consults with its stake holders to identify valid user needs that cannot be met with existing information; enhance products that support transportation systems; work with partners to conduct research and development in weather, modeling, and geopositioning; and improve the translation of research into operational value. NOAA must also focus on connecting and strengthening its observations systems that gather data for transportation information.

NOAA surveys 95,000 nautical miles of U.S. coastline to provide an accurate and official delineation of the national shoreline for nautical chart production and coastal resource management.

Management Integration Goal

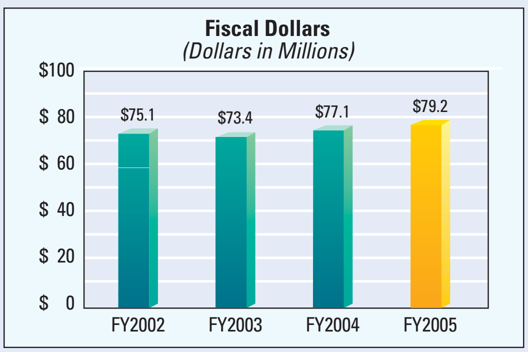
PERFORMANCE GOAL	STATUS*
Identify and effectively manage human and material resources critical to the success of the Department's strategic goals (DM)	🔴
Promote improvements to Commerce programs and operations by identifying and completing work that (1) promotes integrity, efficiency, and effectiveness; and (2) prevents and detects fraud, waste, and abuse (OIG)	🟢

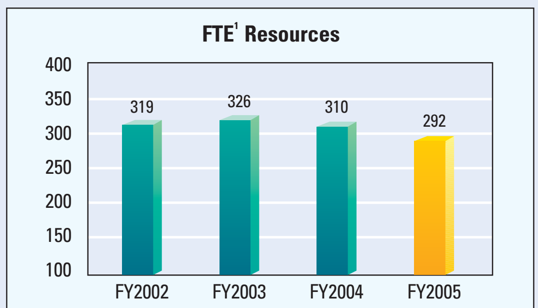
* 🟢 = MET (100%) 🟡 = SIGNIFICANTLY MET (75% - 99%) 🔴 = NOT MET (< 75%)

MANAGEMENT INTEGRATION GOAL

Achieve organizational and management excellence

MANAGEMENT INTEGRATION GOAL TOTAL RESOURCES





[1]FTE — Full-Time Equivalent

Achieving organizational and management excellence is a goal that requires extensive interaction and coordination among entities throughout the Department. Departmental Management (DM)—consisting of the Offices of the Secretary, Deputy Secretary, Chief Financial Officer and Assistant Secretary for Administration, Chief Information Officer, General Counsel, and Inspector General (OIG)—provides the policies and guidelines that support the management infrastructure the Department needs to carry out its mission. In addition, DM audit and inspection programs help promote consistency and integrity throughout the Department. Most of DM's work can be characterized as "behind-the-scenes," contributing to the efficiency with which operating units throughout the Department administer their programs.

Number of Reported Results		
Below Target	Slightly Below Target	On Target
2	0	7

See Appendix A: Performance and Resource Tables for individual reported results.

By achieving the specific targets associated with the DM performance goal, the Department met its strategic management integration goal for fiscal year 2005. Highlights of the Department's accomplishments are provided in the performance goal information that follows.

Performance Goal: Identify and effectively manage human and material resources critical to the success of the Department's strategic goals (DM)

The executive direction and coordination of program activities provided through centralized services contribute to the efficient administration of the Department to ensure that the overall mission is fulfilled.

Number of Reported Results		
Below Target	Slightly Below Target	On Target
2	0	4

See Appendix A: Performance and Resource Tables for individual reported results.

In order to ensure the accomplishment of its mission, the Department has developed and put into place policies and programs designed to enable the successful operation of its units, the effective and efficient use of both material and human resources, and the implementation of laws and regulations that govern the use of those resources. This performance goal represents the Department's commitment to ensuring the wise stewardship of its resources. Because this goal encompasses a wide range of administrative and operational tasks, the measures used to assess progress are highly diverse.

Among its activities, DM accomplished the following in FY 2005:

- Clean audit opinion for the seventh consecutive year. This fulfills governmental financial reporting and accountability requirements.
- Achievement of green status in Improving Financial Management on the President's Management Scorecard.
- Completion of a business case for leveraging the financial systems and processes in place to streamline financial management within the Department.
- Submission of FAIR Act inventory on time in order to further job competition between the federal government and the private sector to ensure the most effective use of government funds.
- Obligation of 50 percent of eligible service contracting dollars through performance-based contracts, ensuring that contractors who provided services to the Department are performing at an expected level of performance.
- Awarding of 62 percent of all contracts to small businesses.
- Increased the representation of underrepresented race and national origin groups within the department from 28 percent in FY 2004 to 29 percent in FY 2005.
- Transition to a new automated hiring tool that provides automatic notification of vacancies to more than 65 organizations with diverse memberships.
- Completion of an extensive evaluation of the Department's learning management system, resulting in improvements to online system capabilities.
- Certification and accreditation of all national critical and mission critical information systems in accordance with the Department's information technology (IT) security policy.

- Completion of privacy impact assessments for all IT systems that contain personal or business identifiable information, and publication of machine-readable privacy policies on the Department's principal Web sites.

- Completion of revised and updated Herbert C. Hoover Building Occupant Emergency Plan to establish procedures for safeguarding lives and property during emergencies.

- Certification of five security specialists by the Certified Protection Professionals Board. This certification is a prestigious designation, confirming expertise and recognized throughout the security industry as the gold standard of the profession.

The Department uses reviews and reports generated by OIG, the Office of Management and Budget (OMB), the Government Accountability Office (GAO), other congressional organizations, government-wide task forces, and other objective sources to evaluate activities of the Department related to this goal. For example, DM works closely with OMB on implementing the five government-wide management initiatives established in the President's Management Agenda (PMA) and is rated quarterly on its success in implementing them. In addition, many of the laws pertaining to these activities have separate reporting requirements, which highlight both strengths and weaknesses of the Department's administrative functions. The Department uses the results of these efforts to assess achievement of performance targets.

The performance-based contracting metric was not met in FY 2005. A new formula based on the Federal Procurement Regulations was put in place this year for performance-based contracting. This target was met in FY 2004. To test the impact of this new formula on the targets, DM re-ran FY 2004 performance-based contracting data, and discovered that the FY 2004 goal would not have been met if this formula was applied. The Federal Procurement Data System-Next Generation (FPDS-NG) is the required governmental acquisition data reporting system. In addition, the FPDS-NG is not reporting over 3,000 fourth quarter transactions for NOAA which represent over $300 million. In FY 2006, DM will review FPDS-NG to ensure that all performance-based contracts are properly coded; work with NOAA and the other system users to ensure that data is entered into FPDS-NG properly and in a timely manner; revise the target; and evaluate and resolve the challenge of performance-based contracting in the fourth quarter of the fiscal year.

***Performance Goal:* Promote improvements to Commerce programs and operations by identifying and completing work that (1) promotes integrity, efficiency, and effectiveness; and (2) prevents and detects fraud, waste, and abuse (OIG)**

Promotes improvements to Departmental programs through audits, inspections, evaluations, and investigations and a variety of activities geared toward averting problems.

Number of Reported Results		
Below Target	Slightly Below Target	On Target
0	0	3

See Appendix A: Performance and Resource Tables for individual reported results.

Almost all OIG's recommendations made were accepted by senior Agency leadership; implementation of these recommendations will result in significant improvements to the Department's operations. OIG inspections and audits also captured significant financial benefits for the Department, including recovery of funds returned to the Department, expenditures that were not supported by adequate documentation, recoveries from criminal and civil investigations, future financial benefits from recommendations for more efficient use of Department funds, and expenditure of funds that may have been inconsistent with applicable laws and regulations.

OIG criminal, civil, and administrative investigations continue to disclose instances of misconduct by employees, contractors, and grantees that threaten the integrity of the Department's programs and operations. In addition, auditors or inspectors frequently identify investigative issues, such as fraud and conflicts of interest, and refer such matters to OIG investigators.

As the Department works to accomplish its mission, OIG provides a unique, independent voice to the Secretary and other senior Commerce managers, as well as to Congress, in keeping with its mandate to promote integrity, efficiency, and effectiveness; and prevent and detect waste, fraud, and abuse in Department programs and operations. Moreover, OIG strives to ensure that it:

- Performs high quality, timely work.
- Concentrates its efforts on the Department's most critical programs, operations, challenges, and vulnerabilities.
- Achieves results that allow government funds to be put to better use and address criminal, civil, and other wrongdoing.

OIG performs its activities in accordance with the GAO's Government Auditing Standards and the President's Council on Integrity and Efficiency's (PCIE) Quality Standards for Inspections and Program Evaluations. OIG audit and investigations programs are subject to external peer reviews conducted under PCIE guidelines designed to evaluate their compliance with applicable standards.

STRATEGIES AND FUTURE PLANS

To meet the many management challenges facing the Department, a number of initiatives have been undertaken, some of which are described below.

- *Improving Information Security*

  The Department will continue to enhance the protection afforded its information systems and data. Every automated system in the Department is subject to risk assessments, which include documenting successful testing or a specific plan for taking remedial action. The Department's IT and security policies and requirements reflect federal standards, best practices, and state-of-the-art advances in controls, evaluation, accreditation, and contingency planning. By carefully planning how the Department invests IT funds, ensuring that it has cohesive and well-constructed IT architecture, and safeguarding the integrity and availability of the Department's IT systems, DM can provide the IT support the Department needs to carry out its missions.

- *Preparing for Emergencies*

  The Office of Security has aggressively worked to enhance the emergency preparedness, safety, and security of Department personnel and facilities. Efforts to provide for the security of National Security Information (NSI) have been improved by briefing 2,758 of 4,376 cleared employees in the last year on the proper handling of classified information.

  In the current four-year cycle, anti-terrorism risk assessments based on criticality, threat, and vulnerability have been conducted for 304 of 784 Department facilities, with countermeasure upgrades being recommended to mitigate the identified risks. In this same cycle, assessments of 252 of the Department's 784 Occupant Emergency Plans (OEP) have been completed along with in-depth reviews of all bureau Continuity of Operations Plans (COOP).

The Office of Security continues to remain attentive to key issues central to mission success and to focus on the services necessary to make the Department a safer work environment for all.

- *Future Workforce Requirements*

The Department will continue to be challenged in the years ahead to cope with significant changes in the way the government hires and compensates its civilian workforce. Flexible approaches to recruiting and employee pay that are based on employee performance represent challenges that, if adopted and implemented with care, are likely to result in a more competent, satisfied, and successful workforce. The Department is already, in some organizations, preparing for the potential overhaul of human resources activities through its demonstration projects which highlight pay for performance. The Department will seek approaches to implementation of changes in human resources management that will help it compete with private sector employers to recruit a diverse, highly specialized, and increasingly technical workforce.

CHALLENGES FOR THE FUTURE

As demands for higher productivity and service levels grow, the Department frequently must adjust program operations to meet evolving needs while facing funding limitations. Smooth and sound integration of program demands, performance results, and budget realities will continue to be an objective and a challenge of the Department.

Managing its programs from within aging physical facilities and ensuring the safety and security of staff, information, and customers is a challenge the Department plans to meet through modernization efforts which will satisfy technical, scientific, and safety and security requirements.

The growing technological orientation of its work and a highly competitive market challenge the Department's managers to attract and retain high quality workers. The Department must employ the right people in the right jobs at the right time while assuring that its workforce is representative of the nation's population. Identification of competencies for mission-critical occupations will help the Department to perfect workable succession plans, and maintaining an ambitious fill-time with the help of automated rating tools will enable the Department to replace mission-critical employees expeditiously.

Information security and critical infrastructure protection are among the Department's most important challenges, as the Department, and society in general, depend more and more on electronic communication. The Department puts a high priority on these issues to ensure that our systems, data, products, and services are protected and operations continue unaffected by potential attempts at disruption. We also focus attention on challenges resulting from the increasing use of the World Wide Web to provide data and information to citizens and businesses in the Department's program areas, and to support transaction-oriented e-government that offers efficiencies for both Departmental operations and the Department's customers.

The specter of terrorism continues to challenge the Department to improve its security policies, programs, and initiatives so that its response to threats to personnel, assets, and operations is swift and effective.

FINANCIAL SECTION

MESSAGE FROM THE CHIEF FINANCIAL OFFICER

This Performance and Accountability Report summarizes the Department's financial and performance management achievements during FY 2005, and permits our stakeholders to assess our performance relative to our mission and the financial resources with which we are entrusted. The report fulfills the requirements of the Reports Consolidation Act of 2000, the Chief Financial Officers Act, the Government Performance and Results Act, the Federal Managers' Financial Integrity Act, and the Government Management Reform Act.

In FY 2005 the Department of Commerce achieved a green status rating on the Financial Management Scorecard under the President's Management Agenda. The Department remains strongly committed to the President's mandate to improve financial management and integrate budget and performance. By ensuring both the integrity of our financial operations and the accuracy of our financial data, we can be confident that we are managing our resources well. This is critical to ensuring the American taxpayers know that their dollars are well spent.

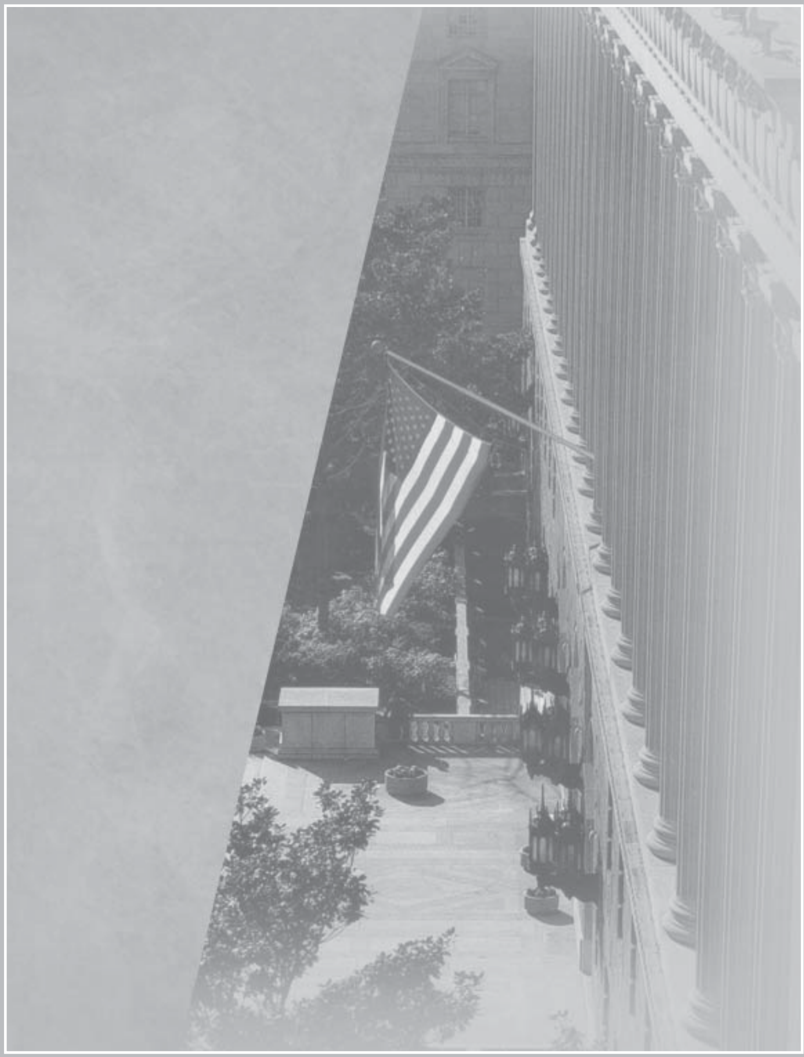
We are proud of having achieved an unqualified audit opinion on our consolidated financial statements for the seventh consecutive year. During FY 2005 we also completed a business case that identified opportunities within the existing financial systems environment to consolidate hardware and software, and to reduce redundant responsibilities. We have worked hard to ensure that our program managers have ready access to financial information to help them make well-informed operational, policy, and budget decisions. Our success is due largely to our focus on our critical missions and our emphasis on solid financial performance and accountability.

We were able to resolve the non-compliance with laws and regulations related to capital leases contained in our prior year audit report. We will work to resolve two reportable conditions cited in FY 2005—one concerning identified deficiencies in general information technology (IT) controls remaining from the prior year's audit report, and the other concerning one bureau's controls over reporting construction-in-progress.

During FY 2006 we will also continue to enhance our financial management systems and refine our financial products to address the needs of our stakeholders. We remain committed to maximizing the effectiveness of our programs and their benefit to the American taxpayers.

Otto J. Wolff
Chief Financial Officer and
Assistant Secretary for Administration

Financial Management and Analysis



FINANCIAL MANAGEMENT AND ANALYSIS

In support of the President's Management Agenda (PMA) and 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. 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 achievement of a green status rating on the Financial Performance Scorecard under the PMA. In addition, the Department continued to receive unqualified opinions, successfully implemented a single integrated financial system, and continued its compliance with the Federal Financial Management Improvement Act (FFMIA). Highlights of accomplishments for fiscal year (FY) 2005 and future initiatives are discussed further below.

I. FINANCIAL MANAGEMENT SYSTEMS

In October 2003, the Department completed the implementation of its financial management system, the Commerce Business System (CBS), formerly known as the Commerce Administrative Management System (CAMS). CBS replaced non-compliant legacy financial systems within the Department. Bureaus that were previously on compliant systems continue to use those systems with some entities potentially converting to CBS at a future date. The financial information from these systems and CBS is integrated in the Corporate Database (as discussed further below) for consolidated financial reporting, resulting in a single integrated financial system. A Consolidated Reporting System (CRS) integrates existing management data from financial, human resource, acquisition, and federal assistance enterprise databases, and provides senior management with online desktop access to information about bureau programs and resources that is critical to strategic decision-making.

CBS provides reliable and 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 includes a Core Financial System (CFS) interfaced with administrative systems for small purchases, bankcards, grants (Automated Standard Application for Payments [ASAP]), a data warehouse, and time reporting/labor cost distribution module, collectively called Core CBS. Planned is an obligation and requisition interface between CBS and the Commerce Standard Acquisition and Reporting System (CSTARS), the Department's acquisition system.

The Corporate Database is a commercial off-the-shelf software package for consolidating financial data and producing financial reports. The Corporate Database provides an integrated solution to financial statements and Federal Agencies Centralized Trial Balance System (FACTS I) Adjusted Trial Balances reporting at the Department, bureau, and Treasury Appropriation/Fund Group level, and also provides the ability to perform data analysis. The database was updated in FY 2004 to produce the Department's footnotes, financial analysis reports, and other additional information required for the government-wide financial statements.

During FY 2005, the Department accomplished the following initiatives:

- Completed the business case on the review of information technology and system support activities associated with CBS and the financial feeder systems. The business case identified opportunities within the existing financial systems environment to consolidate hardware and software and reduce redundant responsibilities. The Department will benefit from this consolidation by reducing the systems infrastructure and reducing overall financial systems costs, and positioning the Department for the replacement of CBS in FY 2012.

- Successfully completed the Next Generation Financial Management Solicitation process for replacing the current Corporate Database with upgraded technology and expanded capabilities.
- The Department's executive information system, CRS, for the first time included performance data in addition to financial, procurement, human resources, and grants information. The performance data provides Department executives and managers with easy access to bureaus' performance against established GPRA goals.
- Completed the CBS Web Migration Business case and had an independent company perform an independent technology assessment of the Web Migration Business Case to validate the assumptions, proposed options, proposed architecture, and approach presented in the business case.
- Had an independent company perform and complete an Independent Verification and Validation (IV&V) of the Oracle code and database design for usability and sustainability through the CBS life expectancy of 2012 and beyond.
- Conducted a deconstruction of six common business systems other than CBS for FYs 2005-2008 in which the bureaus and the Office of Financial Management (OFM) (1) developed a common basis for reporting costs by standard cost categories, activities, and functions using commonly agreed-upon definitions; and (2) reviewed bureau spending by cost categories to ensure consistent spending across those categories.

Although the Department has an integrated financial system with the implementation of CBS and the Corporate Database, there is still a need to look forward to ensure that it continues to provide reliable, timely, and accurate financial data to management. In FY 2006, the Department plans to accomplish the following:

- Implement recommendations from the CBS business case study by beginning the process of consolidating financial system applications from the existing locations to one data center.
- Conduct a Web migration pilot project to refine the approach and cost of migrating CBS to the current version of its software. In addition, Commerce will implement best practices identified in the Web Migration IV&V for maintaining CBS software.
- Complete the implementation process of replacing the current Corporate Database with upgraded technology and expanded capabilities.
- Continue to identify and employ controls necessary to provide, improve, and maintain general controls, specifically security of financial management systems.
- Implement the interface between the CBS and procurement system in production throughout Commerce. This interface will permit the procurement system to send requisition and obligation documents to the CBS for processing.

The Department is already looking beyond FY 2006 in an effort to plan improvements to its financial management systems and operations, including:

- Conversion of the International Trade Administration (ITA) to the CBS. This effort will continue to expand the benefits of CBS in standardizing financial management activities across the Department and in providing a centralized financial system for financial management and reporting. In addition, ITA's existing system supporting its core business functions is technologically out-of-date and is no longer being supported by the software vendor.
- Planning for the transition to a Financial Management Line of Business Center of Excellence by 2012. The Department has begun mapping out a timeline that includes the required phases and activities for this transition, including beginning planning activities in FY 2008; identification of the Center of Excellence by FY 2010; and implementation/deployment occurring between FY 2010 and FY 2012.

II. FINANCIAL REPORTING

The Department is committed to making financial management a priority and significant efforts are being made to further improve the management of its financial resources. The Department has received unqualified opinions on its consolidated financial statements since 1999. In addition, one bureau subject to individual audit has maintained unqualified opinions on its principal financial statements. The Department met or exceeded the accelerated financial statement submission deadlines for FY 2005. These achievements resulted from the Department's commitment to strong management controls and accountability for its resources. Two reportable conditions were cited relating to some identified deficiencies in general information technology (IT) controls remaining from the prior years and one bureau's controls over reporting Construction-Work-in-Progress. Although the Department did not identify any significant problems with erroneous payments, it recognized the importance of maintaining adequate internal controls. The Performance and Accountability Report (PAR) section, Improper Payments Information Act of 2002 (IPIA), and the Appendix on the IPIA reporting details describe the Department's implementation efforts of this Act along with the results of Commerce's reviews.

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

- Implemented Section 831 of the Defense Authorization Act of 2002 (P.L. 107-107, Title VIII, Subtitle D, Sec. 831; 31 USC 3561-3567) by contracting with a private vendor to perform recovery auditing. The audit included thorough reviews of sample invoices from two of the Department's largest payment offices, and an independent confirmation of open items with key vendors. Also, as a separate effort, the Department performed disbursement sampling to identify improper payments. Results of the audit, confirmation efforts, and disbursement sampling revealed no significant improper payments or internal control deficiencies.
- Completed a business case that studied the structure of, and processes and business practices followed by, the Accounts Payable function across the bureaus. The business case made several recommendations to streamline financial management within the Department, including implementing best practices and researching the feasibility of a Web invoicing system.
- Participated in the government-wide Chief Financial Officer (CFO) Council, Financial Management Policies and Practices Committee and led the development of the revised Internal Controls Assessment (Office of Management and Budget (OMB) Circular A-123) Implementation guidance that was issued by the OMB in July 2005.
- Actively participated in the government-wide development of the revised Form and Content of Agency Financial Statements (OMB Circular A-136) that was issued by OMB in July 2005.
- 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 impeded the Department's ability to produce timely and accurate financial statements.
- Prepared Corrective Action Plans for the reportable condition and management letter comments, and progress was monitored throughout the year.
- Held meetings throughout the fiscal year with the Office of Inspector General (OIG) and independent auditors to ensure timely completion of the audit and issuance of the financial statements.
- Held monthly meetings led by the Department's Deputy CFO with the bureaus' CFOs to discuss financial management issues, including financial statements, the CRS, and financial performance metrics. These meetings were in addition to the Department's monthly CFO Council meetings led by the Department's CFO, and the monthly Finance Officer meetings led by the Deputy CFO.

- Participated in the Financial Metrics Workgroup led by the CFO Council Committee. Monthly financial metrics were compiled, analyzed, and reported in the government-wide consolidated CFO measurement tracking system. This information is also included in Commerce's CRS for senior management's review. Individual bureaus were provided with a monthly status report comparing and analyzing their results with the Department's goals, and the Department and government-wide results.
- Facilitated intragovernmental 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 the Treasury Department. The Department took a proactive approach of initiating contact with all trading partner agencies to reconcile large differences. However, despite its considerable effort, the Department has been unsuccessful in its attempts to reconcile all differences primarily due to a lack of participation by its trading partners.

Although the Department has accomplished much in the area of financial management, there is still a need to improve upon these accomplishments to ensure that the Department produces and reports accurate, reliable, and timely financial information. In FY 2006, the Department plans to accomplish the following:

- Implement the requirements of OMB Circular A-123, *Management Accountability and Control*, and OMB Circular A-136, *Financial Reporting Requirements*.
- Implement recommendations from the CBS business case study to streamline business processes throughout the Department. As a first step, the Department will implement best practices identified in the business case to improve financial operations and examine the cost and feasibility of Web invoicing.
- Continue to identify areas that will facilitate the acceleration of providing accurate and reliable financial information to Commerce managers and central agencies. This will be achieved through ongoing meetings and workgroups amongst the Department's financial managers and participation in government-wide financial management committees and workgroups.
- Develop corrective actions to resolve outstanding internal control deficiencies and monitor their implementation.
- Continue to monitor and perform reviews of the Department's progress in preventing improper payments.
- Continue to work with OMB, Treasury, and the Government-wide Intragovernmental Subcommittee to improve the intragovernmental reconciliation process.

GRANTS MANAGEMENT

The Department is an active participant with the government-wide implementation of Public Law (PL) 106-107 (The Grants Streamlining Initiative) to simplify and automate the grants process, including participation on various interagency workgroups. The Department's Office of Acquisition Management (OAM) coordinates quarterly Departmental Grants Council meetings and works closely with the OIG and General Counsel 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.

An active partner in e-grants initiatives, OAM serves on the Grants.gov Executive Board and the Grants Line of Business Taskforce and participates on workgroups and pilot activities. The Department is now fully compliant with Grants.gov, and has revised its Grants and Cooperative Agreements Manual and Standard Grants Terms and Conditions to recognize the emerging growth of electronic government.

Integral to the Department's effort to move aggressively into the world of e-grants is the continued utilization of the National Oceanic and Atmospheric Administration's (NOAA) Grants Online System, a back-office solution to the Grants.gov's storefront. The system, which went live in January 2005, was designed to facilitate efficiencies through standardized business processes and provide a direct interface to other Departmental systems. It has demonstrated significant potential for reducing paperwork, increasing accountability, simplifying the application process, and is being considered for enterprise-wide implementation.

The Department has taken additional steps to adapt its operational structure and business processes to the streamlined vision of federal grants operation expressed in PL 106-107. During FY 2005, OAM has undertaken a high-level reengineering survey of the Department's grant operations in an effort to develop a more interactive, synergistic enterprise-wide model for federal assistance programs in the emerging electronic environment. The goal is to create a performance-based culture utilizing value-added business processes with maximum use of automation for improved timeliness and quality of service delivery.

OAM's efforts to facilitate the approval of indirect cost rates for award recipients continued throughout FY 2005. OAM continued working with a contractor in reviewing applications submitted to the Department for indirect cost rate determinations, and made significant progress in facilitating the approval of indirect cost rates for award recipients throughout the fiscal year. In addition, OAM incorporated new audit and risk management features into the program and looks forward to reaping the benefits of these efforts in FY 2006 and beyond.

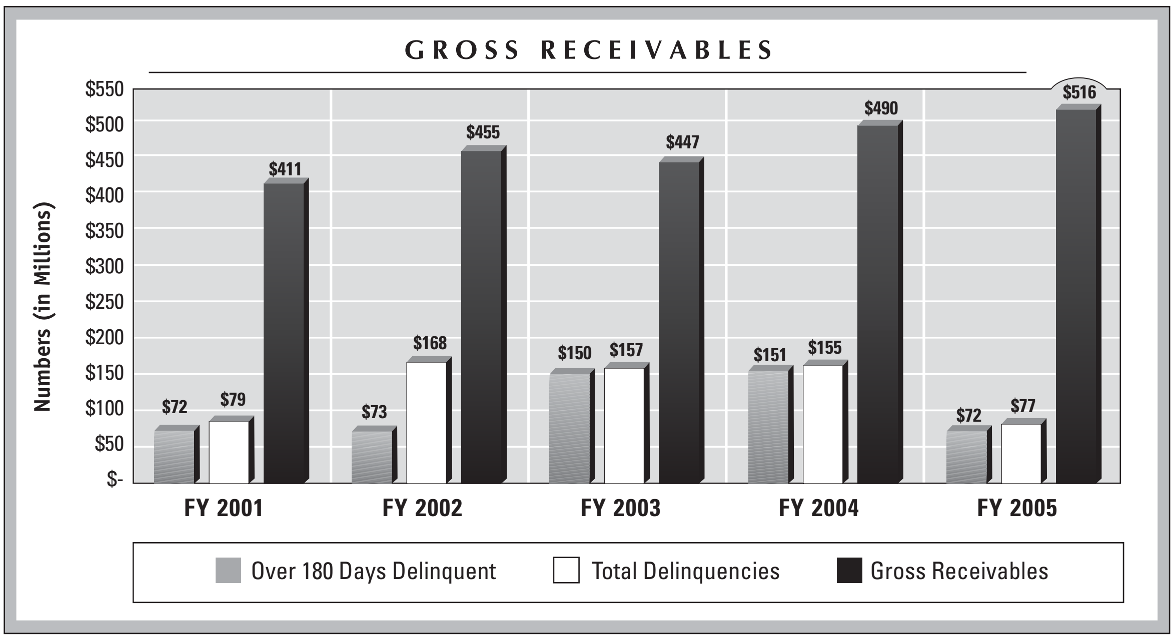
HUMAN CAPITAL

The Department recognizes the need to ensure succession planning in the area of financial management and to enhance the current workforce development. The Department provides internships through a variety of sources to give finance and accounting majors an opportunity to gain hands-on accounting experience, while introducing potential future employees to the opportunities that exist at the Department. In FY 2005, the Department initiated a two-year career internship program for college level graduates interested in pursuing a career in federal accounting. A total of 11 candidates are currently participating in finance related training courses and rotational assignments throughout the Department and its bureaus. The Department continued its partnership with the National Academy Foundation (NAF) by employing finance interns from local high schools and participating in NAF sponsored events. In addition, the Department initiated a panel of subject matter experts, consisting of representatives from the bureaus, to review the current accounting position descriptions, performance plans, and hiring criteria to ensure that the Department hires and retains high quality accountants.

DEBT MANAGEMENT

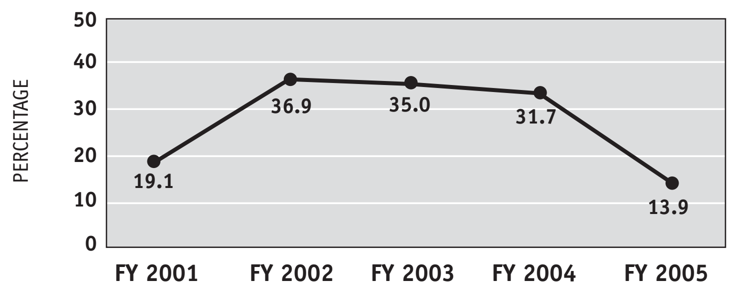
RECEIVABLES AND DEBT MANAGEMENT

The Department has incorporated the principles of the Credit Reform Act of 1990 into the operations of its credit and debt programs. Prescreening procedures, account-servicing standards, determined collection of delinquent debt, inventory management, and asset disposition standards have helped to diminish significantly the amount of risk inherent in credit programs. These procedures were established to ensure that credit costs are properly identified and controlled, that borrowers' needs are met, and that costs to the taxpayers are minimized.



The Department's gross receivables increased minimally, from $490 million at September 30, 2004 to $516 million at September 30, 2005, as reported on the Department's Treasury Report on Receivables (TROR). The 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 decreased significantly from $151 million at September 30, 2004 to $72 million at September 30, 2005. This decrease is mainly due to a large collection on a loan receivable, made possible by a liquidation, under bankruptcy, of the borrower's assets. As a result, total delinquencies, as a percentage of gross receivables, also decreased significantly, from 31.7 percent at September 30, 2004 to 13.9 percent at September 30, 2005.

TOTAL DELINQUENCIES AS A PERCENTAGE OF GROSS RECEIVABLES



The Debt Collection Improvement Act of 1996 established the Treasury Department 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. Over $17 million in delinquent debt has been referred to Treasury for cross-servicing since FY 1998.

During FY 2001, the issuance of the revised *Federal Claims Collection Standards* and the revised OMB Circular No. A-129, *Policies for Federal Credit Programs and Non-Tax Receivables*, provided agencies greater latitude to maximize the effectiveness of federal debt collection procedures. Since then, the Department has utilized all the tools available to improve the management of its debt.

PAYMENT PRACTICES

Electronic Funds Transfer (EFT)

The Omnibus Consolidated Rescissions and Appropriations Act of 1996 mandated the use of EFT. It requires all government payments, other than tax refunds, to be made electronically. The Department closely monitors its monthly EFT performance, and submits consolidated monthly EFT activity reports to OMB, as part of the Department's Performance Metrics data.

OMB has increased its performance goal for vendor EFT payments from 90 percent in FY 2004 to 96 percent in FY 2005. Although the Department's FY 2005 EFT vendor payments of 93 percent was lower than OMB's goal, the Department achieved a green status in this category in September 2005. The Department also increased its overall EFT percentage to 98 percent in FY 2005. The Department is focusing on improving its EFT percentage for vendor payments by working closely with its bureaus to identify opportunities for new business processes. The Department believes this and other efforts will lead to increased EFT percentages in the future for vendor payments. The Department's achievements in this area are illustrated in the table below:

Payment Category	EFT Percentage		Total Volume (Actual Number of Transactions)	
	FY 2005	FY 2004	FY 2005	FY 2004
Retirement Benefits	100%	99%	4,518	4,392
Salary	99%	99%	1,166,610	1,119,187
Vendor	93%	94%	327,525	535,058
Overall	**98%**	**97%**	**1,498,653**	**1,658,637**

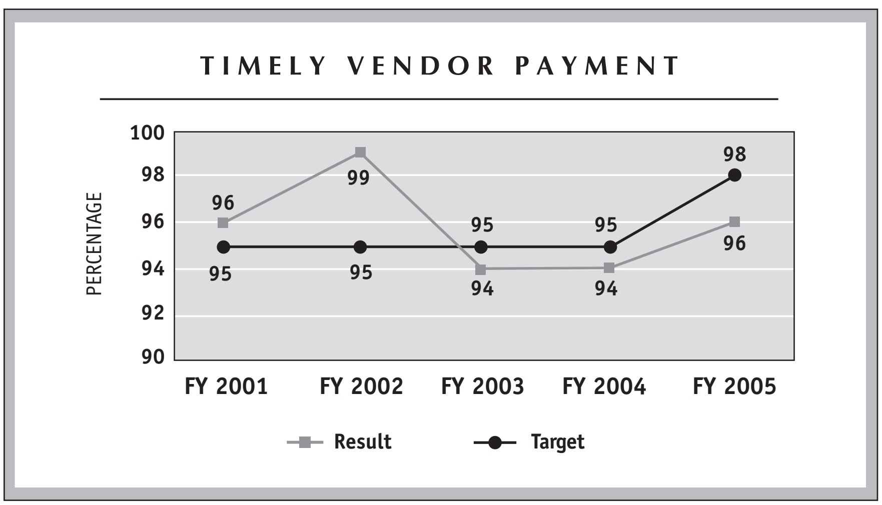
Bankcards

The Department is committed to the use of bankcards (purchase cards) as a means of streamlining Departmental procurements. However, bankcard usage is closely monitored, and those that are no longer needed are promptly closed. This has resulted in an overall decrease, over the past four fiscal years, in the number of bankcards in use, from 6,405 in FY 2001 to 6,028 in FY 2005. The Department's emphasis on EFT-compliant payment methods has contributed to an overall increase, over the past four fiscal years, in bankcard purchases, from $131.6 million in FY 2001 to $159.5 million in FY 2005. The Department continues to monitor the internal controls surrounding bankcard purchases to ensure that all such purchases are legal and proper. As of September 30, 2005, the Department had an overall zero percent bankcard delinquency rate.

Prompt Payment

The Prompt Payment Act of 1982 requires agencies to pay their bills to vendors on a timely basis, and to pay interest penalties when payments are made late. The Department closely monitors its prompt payment performance, and submits consolidated monthly prompt payment activity reports to OMB, as part of the Department's Performance Metrics data.

The Department has improved its prompt payment performance from 94 percent in FY 2004 to 96 percent in FY 2005. Furthermore, the number of invoices with late-payment interest penalties decreased significantly, from 15,631 in FY 2004 to 8,974 in FY 2005. At the same time, OMB has increased the government-wide prompt payment percentage goal from 95 percent in FY 2004 to 98 percent in FY 2005. The Department moved closer to OMB's new goal in September 2005, and continues to focus on improving the prompt payment percentage by working closely with its bureaus to identify opportunities for new business processes.



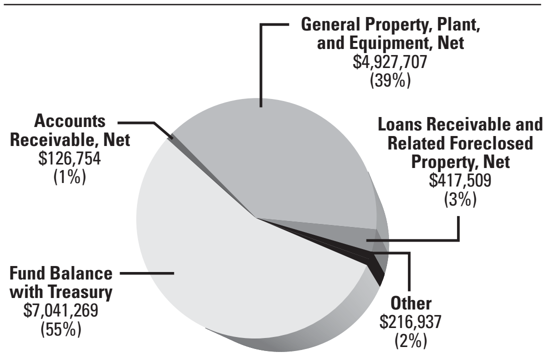
ANALYSIS OF FY 2005 FINANCIAL CONDITION AND RESULTS

Composition of Assets and Assets by Responsibility Segment

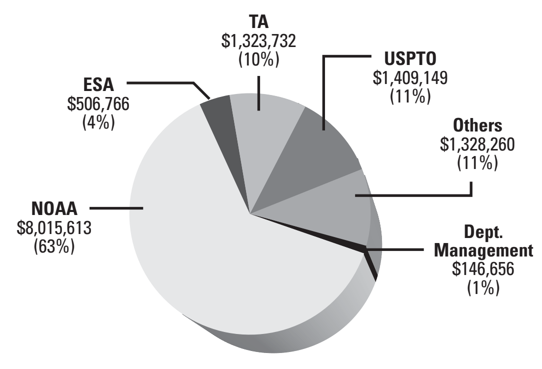
The composition (by percentage) and distribution (by responsibility segment) of the Department's assets remained consistent from FY 2004 to FY 2005.

Total assets amounted to $12.73 billion at September 30, 2005. Fund Balance with Treasury of $7.04 billion is the aggregate amount of funds available to make authorized expenditures and pay liabilities. General Property, Plant, and Equipment, Net of Accumulated Depreciation (General PP&E) of $4.93 billion includes $2.83 billion of Construction-in-progress, primarily of satellites and weather measuring and monitoring systems, $842 million of satellites and weather systems, $711 million of structures, facilities, and leasehold improvements, and $547 million of other General PP&E. Loans Receivable and Related Foreclosed Property, Net of $418 million primarily relates to NOAA's direct loan programs. Accounts Receivable, Net of $127 million resulted primarily when the Department performed reimbursable services or sold goods. Other Assets of $217 million primarily includes Inventory, Materials, and Supplies, Net of $97 million, and Advances and Prepayments of $102 million.

COMPOSITION OF THE DEPARTMENT'S ASSETS
(Dollars in Thousands)

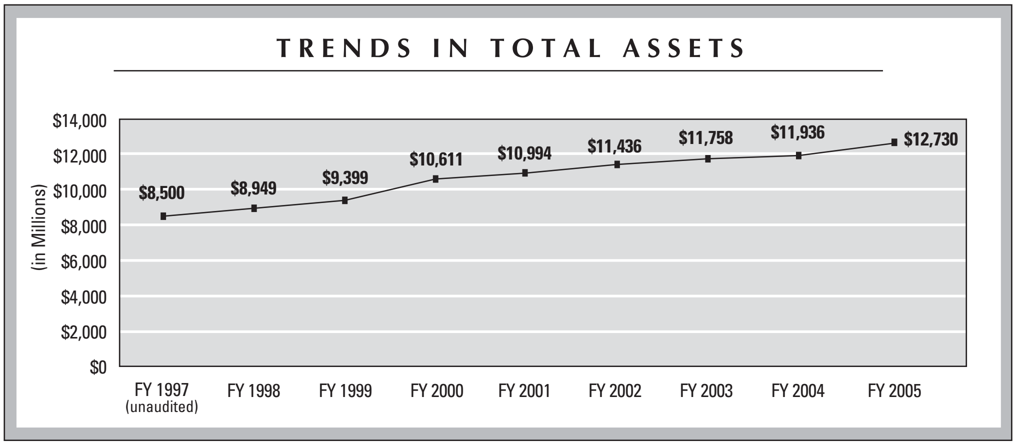


ASSETS BY RESPONSIBILITY SEGMENT
(Dollars in Thousands)



Trends in Assets

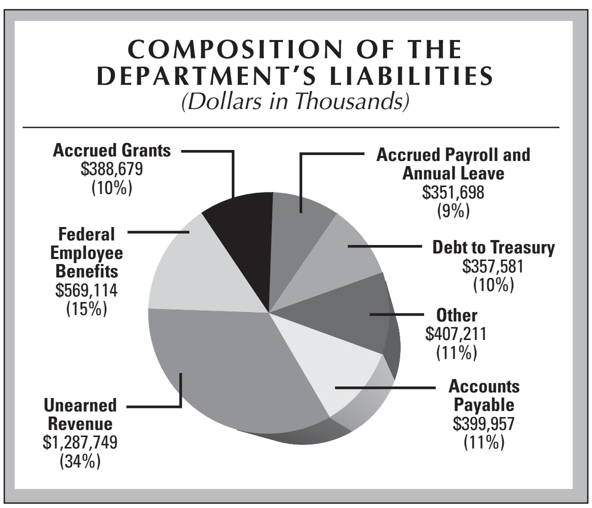
Total Assets increased $794 million or seven percent, from $11.94 billion at September 30, 2004 to $12.73 billion at September 30, 2005. Fund Balance with Treasury increased $389 million or six percent, from $6.65 billion to $7.04 billion, which primarily resulted from Appropriations Received, net of reductions, increasing by $444 million or eight percent. General PP&E increased $275 million or six percent, from $4.65 billion to $4.93 billion, mainly due to an increase of $270 million in NOAA's Construction-in-progress, primarily for satellites. Loans Receivable and Related Foreclosed Property, Net increased $101 million or 32 percent, from $317 million to $418 million, primarily due to NOAA's issuance of $97 million of Crab Buyback direct loans in FY 2005.

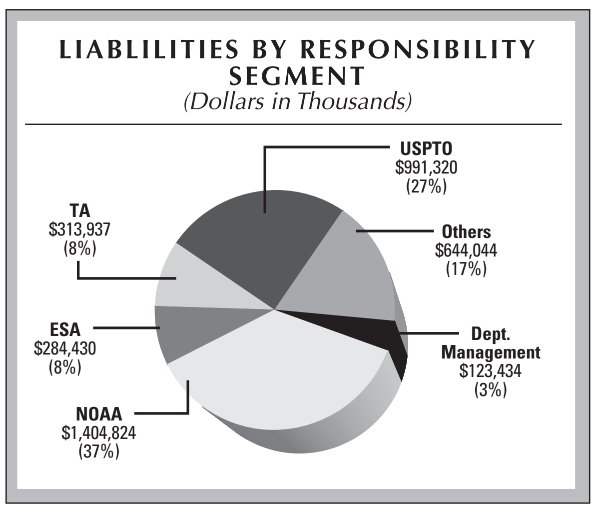


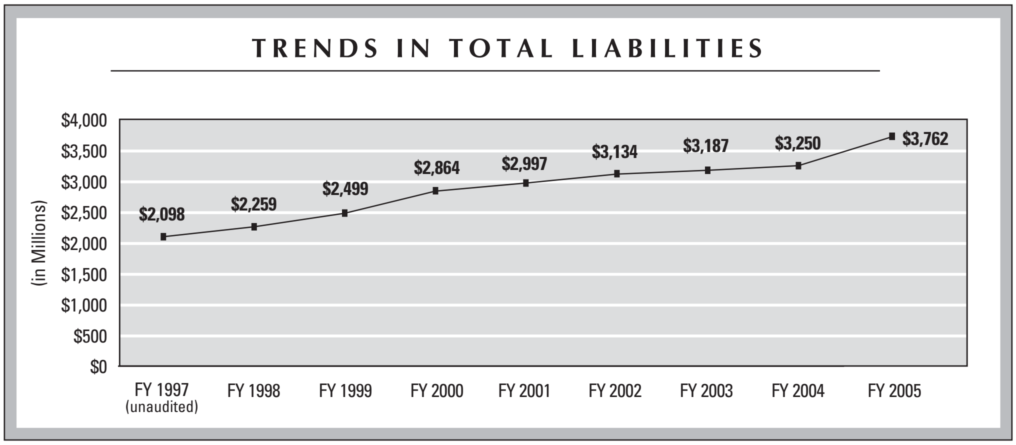
Composition of Liabilities and Liabilities by Responsibility Segment

The composition (by percentage) and distribution (by responsibility segment) of the Department's liabilities also remained consistent from FY 2004 to FY 2005.

Total liabilities amounted to $3.76 billion at September 30, 2005. Unearned Revenue of $1.29 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 of $569 million is composed of the actuarial present value of projected benefits for the NOAA Corps Retirement System ($350 million) and the NOAA Corps Post-retirement Health Benefits ($45 million), and Actuarial FECA Liability ($174 million), which represents the liability for future workers' compensation benefits. Accounts Payable of $400 million consists primarily of amounts owed for goods, services, or capitalized assets received, progress on contract performance by others, and other expenses due. Accrued Grants of $389 million, which relates to a diverse array of financial assistance programs and projects, includes the Economic Development Administration's (EDA) accrued grants of $254 million for their economic development and assistance funding to state and local governments. Debt to Treasury of $358 million consists of monies borrowed primarily for NOAA's direct loan programs. Accrued Payroll and Annual Leave of $352 million includes salaries and wages earned by employees, but not disbursed as of September 30. Other Liabilities of $407 million primarily includes Downward Subsidy Reestimates Payable to Treasury of $108 million, Loan Guarantee Liabilities of $82 million, Environmental and Disposal Liabilities of $73 million, and Resources Payable to Treasury of $44 million.







Trends in Liabilities

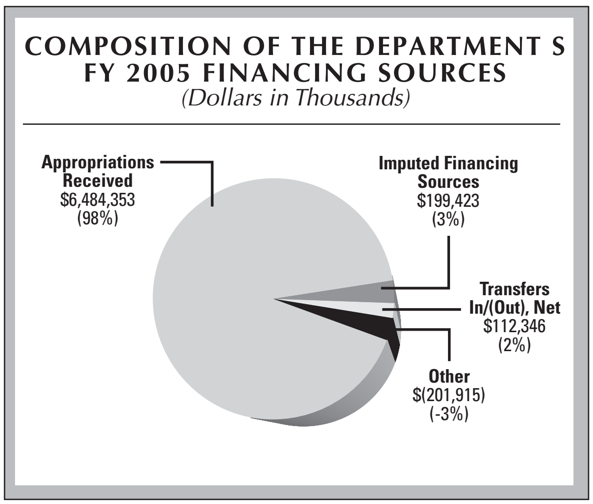
Total Liabilities increased $512 million or 16 percent, from $3.25 billion at September 30, 2004 to $3.76 billion at September 30, 2005. Unearned Revenue increased $200 million or 18 percent, from $1.09 billion to $1.29 billion, primarily due to increased unearned revenue from patent and trademark application and user fees that are pending action. Debt to Treasury increased $84 million or 30 percent, from $274 million to $358 million, mainly due to net borrowings in FY 2005 of $113 million for NOAA's direct loan programs, less the repayment to Treasury in FY 2005 of $29 million by the Emergency Steel Loan Guarantee Program. Accounts Payable increased $75 million or 23 percent, from $325 million to $400 million, primarily due to increased delivered orders in FY 2005 resulting from higher Appropriations Received, net of reductions. Downward Subsidy Reestimates Payable to Treasury increased $105 million, from $3 million to $108 million, primarily because of a downward subsidy reestimate of $85 million, as of September 30, 2005, on the defaulted guaranteed loan receivable of the Emergency Steel Loan Guarantee Program, made possible by better-than-expected actual and anticipated cash flows.

Composition of and Trends in Financing Sources

Most of the Department's Financing Sources, shown on the Consolidated Statements of Changes in Net Position, are obtained from Appropriations Received, net of reductions. Other typical Financing Sources include net transfers to and from other federal agencies without reimbursement, imputed financing sources from costs absorbed by other federal agencies, and Downward Subsidy Reestimates Payable to Treasury (a negative Financing Source).

The composition (by percentage) of the Department's financing sources remained consistent from FY 2004 to FY 2005.

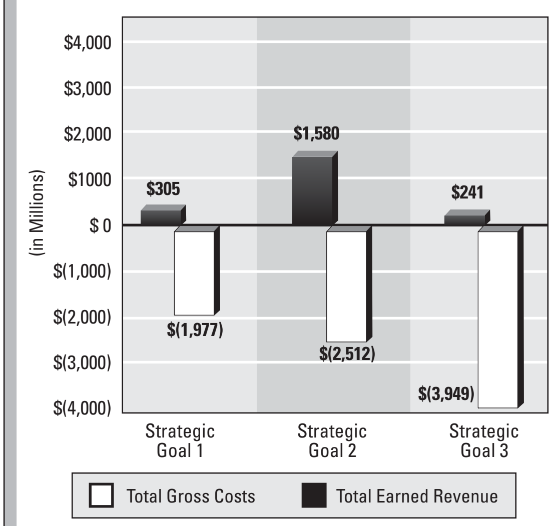
Total Financing Sources increased $360 million or six percent, from $6.23 billion for FY 2004 to $6.59 billion for FY 2005. Appropriations Received, net of reductions, increased by $444 million or eight percent. Downward Subsidy Reestimates Payable to Treasury increased $(105) million, from $(3) million in FY 2004 to $(108) million in FY 2005, as previously discussed in the *Trends in Liabilities* section.



FY 2005 Net Cost of Operations by Strategic Goal

In FY 2005, Net Cost of Operations amounted to $6.31 billion, which consists of Gross Costs of $8.44 billion less Earned Revenue of $2.13 billion.

FY 2005 NET COST OF OPERATIONS BREAKDOWN OF GROSS COSTS AND EARNED REVENUE BY STRATEGIC GOAL



Strategic Goal 1, Provide the Information and Tools to Maximize U.S. Competitiveness and Enable Economic Growth for American Industries, Workers, and Consumers, includes Net Program Costs of $764 million (Gross Costs of $1.01 billion less Earned Revenue of $248 million) for the Census Bureau. Census carries out the Decennial Census, periodic censuses, and demographic and other surveys, and prepares and releases targeted data products for economic and other programs. ITA's programs and activities also support Strategic Goal 1, with Net Program Costs of $410 million (Gross Costs of $422 million less Earned Revenue of $12 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. Strategic Goal 1 also includes Net Program Costs of $389 million (Gross Costs of $407 million less Earned Revenue of $18 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.

Strategic Goal 2, Foster Science and Technological Leadership by Protecting Intellectual Property, Enhancing Technical Standards, and Advancing Measurement Science, includes Net Program Costs of $55 million (Gross Costs of $1.25 billion less Earned Revenue of $1.20 billion) for the U.S. Patent and Trademark Office's (USPTO) patents program, which includes processing patent applications and disseminating patent information. Through issuing patents, USPTO encourages technological advancement by providing incentives to invent, invest in, and disclose new technology. *Strategic Goal 2* also includes Net Program Costs of $509 million (Gross Costs of $607 million less Earned Revenue of $98 million) for the National Institute of Standards and Technology's (NIST) 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.

Strategic Goal 3, Observe, Protect, and Manage the Earth's Resources to Promote Environmental Stewardship, includes Net Program Costs of $1.29 billion (Gross Costs of $1.37 billion less Earned Revenue of $86 million) related to NOAA's stewardship of ecosystems, which reflects NOAA's mission to conserve, protect, manage, and restore fisheries and coastal and ocean resources. The Department has a responsibility for stewardship of the marine ecosystem and for setting standards to protect and manage the shared resources and harvests of the oceans. The Department strives to balance sustainable development and healthy functioning marine ecosystems, and to conserve, protect, restore, and better manage resources.

LIMITATIONS OF THE FINANCIAL STATEMENTS

These financial statements have been prepared to report the overall financial position and results of operations of the Department of Commerce, 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.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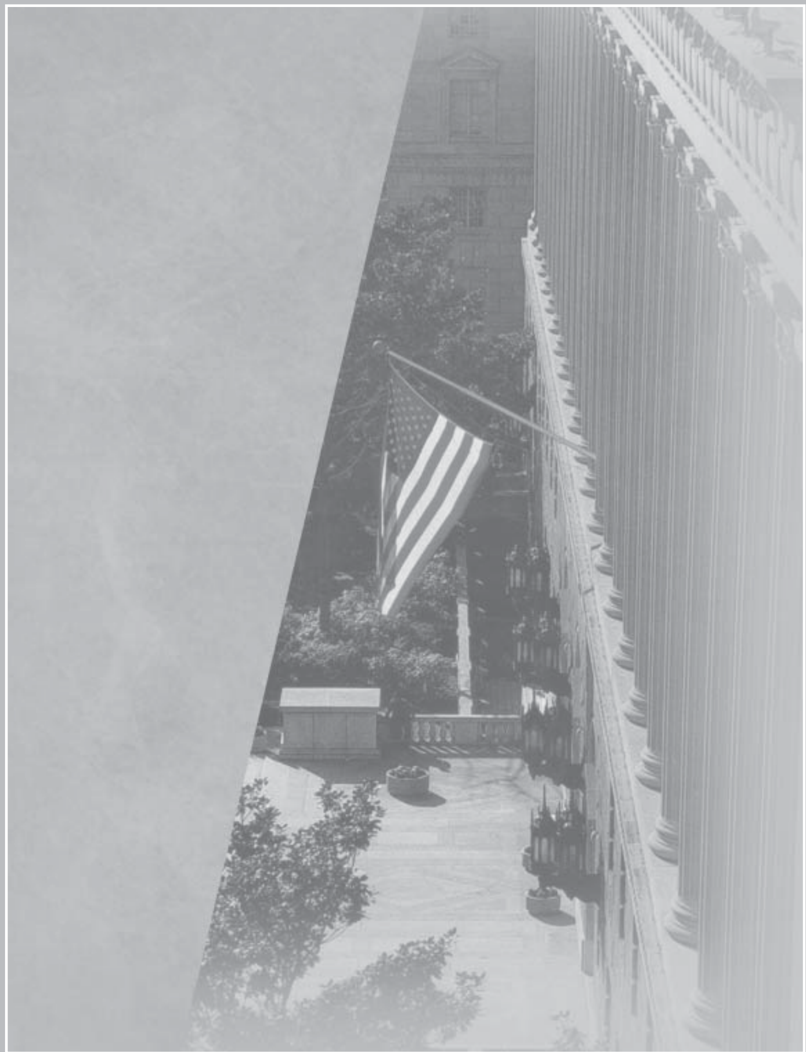
Principal Financial Statements



DEPARTMENT OF COMMERCE

UNITED STATES OF AMERICA

United States Department of Commerce Consolidated Balance Sheets
As of September 30, 2005 and 2004 *(In Thousands)*

	FY 2005	FY 2004
ASSETS		
Intragovernmental:		
Fund Balance with Treasury (Note 2)	$ 7,041,269	$ 6,652,727
Accounts Receivable (Note 3)	58,794	84,028
Other - Advances and Prepayments	11,691	15,180
Total Intragovernmental	**7,111,754**	**6,751,935**
Cash (Note 4)	9,640	13,694
Accounts Receivable, Net (Note 3)	67,960	59,901
Loans Receivable and Related Foreclosed Property, Net (Note 5)	417,509	317,138
Inventory, Materials, and Supplies, Net (Note 6)	96,645	99,515
General Property, Plant, and Equipment, Net (Note 7)	4,927,707	4,652,882
Other (Note 8)	98,961	41,242
TOTAL ASSETS	**$ 12,730,176**	**$ 11,936,307**
LIABILITIES		
Intragovernmental:		
Accounts Payable	$ 68,850	$ 65,493
Debt to Treasury (Note 10)	357,581	274,426
Other		
Resources Payable to Treasury	43,864	63,931
Unearned Revenue	429,932	347,651
Other (Note 11)	165,757	55,695
Total Intragovernmental	**1,065,984**	**807,196**
Accounts Payable	331,107	259,631
Loan Guarantee Liabilities	81,812	73,645
Federal Employee Benefits (Note 12)	569,114	557,679
Environmental and Disposal Liabilities (Note 13)	73,311	78,687
Other		
Accrued Payroll and Annual Leave	351,698	321,114
Accrued Grants	388,679	350,452
Capital Lease Liabilities (Note 14)	18,563	18,331
Unearned Revenue	857,817	740,491
Other (Note 11)	23,904	42,973
TOTAL LIABILITIES	**$ 3,761,989**	**$ 3,250,199**
Commitments and Contingencies (Notes 5, 14, and 16)		
NET POSITION		
Unexpended Appropriations	$ 4,238,321	$ 4,209,311
Cumulative Results of Operations	4,729,866	4,476,797
TOTAL NET POSITION	**$ 8,968,187**	**$ 8,686,108**
TOTAL LIABILITIES AND NET POSITION	**$ 12,730,176**	**$ 11,936,307**

The accompanying notes are an integral part of these statements.

United States Department of Commerce Consolidated Statements of Net Cost
For the Years Ended September 30, 2005 and 2004 (Note 17) *(In Thousands)*

	FY 2005	FY 2004
Strategic Goal 1: Provide the Information and Tools to Maximize U.S. Competitiveness and Enable Economic Growth for American Industries, Workers, and Consumers		
Intragovernmental Gross Costs	$ 450,377	$ 411,683
Gross Costs With the Public	1,526,841	1,518,510
Total Gross Costs	1,977,218	1,930,193
Intragovernmental Earned Revenue	(269,720)	(275,502)
Earned Revenue From the Public	(34,993)	(28,022)
Total Earned Revenue	(304,713)	(303,524)
Net Program Costs	**1,672,505**	**1,626,669**
Strategic Goal 2: Foster Science and Technological Leadership by Protecting Intellectual Property, Enhancing Technical Standards, and Advancing Measurement Science		
Intragovernmental Gross Costs	429,770	358,966
Gross Costs With the Public	2,082,229	1,959,060
Total Gross Costs	2,511,999	2,318,026
Intragovernmental Earned Revenue	(154,878)	(152,217)
Earned Revenue From the Public	(1,425,614)	(1,290,748)
Total Earned Revenue	(1,580,492)	(1,442,965)
Net Program Costs	**931,507**	**875,061**
Strategic Goal 3: Observe, Protect, and Manage the Earth's Resources to Promote Environmental Stewardship		
Intragovernmental Gross Costs	728,940	596,810
Gross Costs With the Public	3,220,149	3,247,671
Total Gross Costs	3,949,089	3,844,481
Intragovernmental Earned Revenue	(184,440)	(169,557)
Earned Revenue From the Public	(56,533)	(57,682)
Total Earned Revenue	(240,973)	(227,239)
Net Program Costs	**3,708,116**	**3,617,242**
NET COST OF OPERATIONS	**$ 6,312,128**	**$ 6,118,972**

The accompanying notes are an integral part of these statements.

United States Department of Commerce Consolidated Statements of Changes in Net Position
For the Years Ended September 30, 2005 and 2004 *(In Thousands)*

	FY 2005		FY 2004	
	Cumulative Results of Operations	**Unexpended Appropriations**	**Cumulative Results of Operations**	**Unexpended Appropriations**
Beginning Balances	**$ 4,476,797**	**$ 4,209,311**	**$ 4,389,948**	**$ 4,181,364**
Budgetary Financing Sources:				
Appropriations Received (Note 18)	-	6,484,353	-	6,124,921
Appropriations Transfers In/(Out), Net	-	22,625	-	8,379
Other Adjustments (Note 18)	-	(99,261)	-	(295,014)
Appropriations Used	6,378,707	(6,378,707)	5,810,339	(5,810,339)
Non-exchange Revenue	5,000	-	10,120	-
Donations	12,127	-	1,298	-
Transfers In/(Out) Without Reimbursement, Net	88,745	-	86,441	-
Other Budgetary Financing Sources/(Uses), Net (Note 18)	626	-	74,707	-
Other Financing Sources:				
Transfers In/(Out) Without Reimbursement, Net	976	-	17,939	-
Imputed Financing Sources From Costs Absorbed by Others	199,423	-	219,375	-
Downward Subsidy Reestimates Payable to Treasury	(107,587)	-	(3,228)	-
Other Financing Sources/(Uses), Net	(12,820)	-	(11,170)	-
Total Financing Sources	**6,565,197**	**29,010**	**6,205,821**	**27,947**
Net Cost of Operations	**(6,312,128)**	**-**	**(6,118,972)**	**-**
Net Change	**253,069**	**29,010**	**86,849**	**27,947**
ENDING BALANCES	**$ 4,729,866**	**$ 4,238,321**	**$ 4,476,797**	**$ 4,209,311**

The accompanying notes are an integral part of these statements.

United States Department of Commerce Combined Statements of Budgetary Resources
For the Years Ended September 30, 2005 and 2004 (Note 18) *(In Thousands)*

	FY 2005		FY 2004	
	Budgetary	Non-budgetary Credit Program Financing Accounts	Budgetary	Non-budgetary Credit Program Financing Accounts
BUDGETARY RESOURCES:				
Budget Authority				
Appropriations Received	$ 6,496,389	$ -	$ 6,134,774	$ -
Borrowing Authority	-	105,592	-	169,997
Net Transfers	105,271	-	88,106	-
Unobligated Balance				
Beginning of Period	730,102	188,495	1,000,131	60,212
Adjustments to Unobligated Balance, Beginning of Period	(1,223)	-	31,315	-
Net Transfers	(10,032)	-	4,277	-
Spending Authority From Offsetting Collections				
Earned				
Collected	2,723,025	167,047	2,578,665	84,313
Receivables	(34,695)	-	(59,937)	(1)
Change in Unfilled Customer Orders				
Advances Received	217,431	-	84,185	-
Without Advances	20,887	(6,568)	24,787	6,128
Previously Unavailable	1,362	-	-	-
Total Spending Authority From Offsetting Collections	**2,928,010**	**160,479**	**2,627,700**	**90,440**
Recoveries of Prior-years Obligations (Unpaid)	101,506	11,118	85,920	26,512
Temporarily Not Available Pursuant to Public Law	(32,055)	-	(176,759)	-
Permanently Not Available				
Cancellations of Expired and No-year Accounts	(4,993)	-	(119,076)	-
Enacted Reductions	(90,278)	-	(204,494)	-
Enacted Reductions - Reversals	-	-	75,584	-
Capital Transfers and Redemption of Debt	(7,415)	(73,093)	(2,400)	(43,662)
Other Authority Withdrawn	(1,174)	(109,156)	-	(25,852)
TOTAL BUDGETARY RESOURCES	**$ 10,214,108**	**$ 283,435**	**$ 9,545,078**	**$ 277,647**
STATUS OF BUDGETARY RESOURCES:				
Obligations Incurred				
Direct	$ 6,764,628	$ 123,944	$ 6,443,981	$ 85,753
Reimbursable	2,709,854	6,383	2,370,995	3,399
Total Obligations Incurred	**9,474,482**	**130,327**	**8,814,976**	**89,152**
Unobligated Balance				
Apportioned	400,058	518	415,704	99,013
Exempt From Apportionment	274,378	-	221,548	-
Unobligated Balance Not Available	**65,190**	**152,590**	**92,850**	**89,482**
TOTAL STATUS OF BUDGETARY RESOURCES	**$ 10,214,108**	**$ 283,435**	**$ 9,545,078**	**$ 277,647**
RELATIONSHIP OF OBLIGATIONS TO OUTLAYS:				
Obligated Balance, Net, Beginning of Period (Unpaid)	$ 4,989,717	$ 230,847	$ 4,745,233	$ 299,141
Adjustments to Obligated Balance, Beginning of Period (Unpaid)	1,172	-	4,765	-
Obligated Balance, Net, Beginning of Period, as Adjusted (Unpaid)	**$ 4,990,889**	**$ 230,847**	**$ 4,749,998**	**$ 299,141**
Obligated Balance, Net, End of Period (Unpaid)				
Accounts Receivable	$ (120,055)	$ -	$ (154,749)	$ -
Unfilled Customer Orders Without Advances	(131,876)	(392)	(110,989)	(6,961)
Undelivered Orders (Unpaid)	4,523,173	185,600	4,414,985	235,814
Accounts Payable	979,591	65	840,470	1,994
Total Obligated Balance, Net, End of Period (Unpaid)	**$ 5,250,833**	**$ 185,273**	**$ 4,989,717**	**$ 230,847**
Outlays				
Disbursements	$ 9,126,840	$ 171,351	$ 8,524,487	$ 124,807
Collections	(2,940,456)	(167,047)	(2,662,850)	(84,313)
Total Outlays	**6,186,384**	**4,304**	**5,861,637**	**40,494**
Less: Distributed Offsetting Receipts	(17,660)	-	(14,515)	-
NET OUTLAYS	**$ 6,168,724**	**$ 4,304**	**$ 5,847,122**	**$ 40,494**

The accompanying notes are an integral part of these statements.

United States Department of Commerce Consolidated Statements of Financing
For the Years Ended September 30, 2005 and 2004 *(In Thousands)*

	FY 2005	FY 2004
Resources Used to Finance Activities:		
Budgetary Resources Obligated		
Obligations Incurred	$ 9,604,809	$ 8,904,128
Less: Spending Authority From Offsetting Collections and Recoveries	(3,201,113)	(2,830,572)
Obligations Net of Offsetting Collections and Recoveries	6,403,696	6,073,556
Less: Distributed Offsetting Receipts	(17,660)	(14,515)
Net Obligations	6,386,036	6,059,041
Other Resources		
Transfers In/(Out) Without Reimbursement, Net	976	17,939
Imputed Financing Sources From Costs Absorbed by Others	199,423	219,375
Downward Subsidy Reestimates Payable to Treasury	(107,587)	(3,228)
Other Financing Sources/(Uses), Net	(12,820)	(11,170)
Net Other Resources Used to Finance Activities	79,992	222,916
Total Resources Used to Finance Activities	**6,466,028**	**6,281,957**
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	(117,718)	(253,152)
Resources that Fund Expenses Recognized in Prior Periods	(48,314)	(65,471)
Budgetary Offsetting Collections and Receipts that Do Not Affect Net Cost of Operations:		
Credit Program Collections which Increase Loan Guarantee Liabilities or Allowance for Subsidy Cost	154,759	68,139
Budgetary Financing Sources (Uses), Net	3,805	27,038
Resources that Finance the Acquisition of Assets	(1,053,321)	(745,915)
Other Resources or Adjustments to Net Obligated Resources that Do Not Affect Net Cost of Operations:		
Change in Unfilled Customer Orders	231,750	115,100
Transfers In/(Out) Without Reimbursement, Net	(976)	(17,939)
Downward Subsidy Reestimates Payable to Treasury	107,587	3,228
Other Financing Sources/(Uses), Net	12,820	11,170
Other	(986)	-
Total Resources Used to Finance Items Not Part of Net Cost of Operations	**(710,594)**	**(857,802)**
Total Resources Used to Finance Net Cost of Operations	**5,755,434**	**5,424,155**
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 (Note 19)		
Increase in Accrued Annual Leave Liability	8,365	7,029
Increases in NOAA Corps Retirement System Liability and NOAA Corps Post-retirement Health Benefits Liability	17,200	9,823
Reestimates of Credit Subsidy Expense	(110,845)	(7,144)
Other	(2,868)	(2,398)
Total Components of Net Cost of Operations that Will Require or Generate Resources in Future Periods	(88,148)	7,310
Components Not Requiring or Generating Resources		
Depreciation and Amortization	514,592	512,021
Expenses Related to Resources Recognized in Prior Periods	59,065	11,200
Satellite Damage Costs (Note 17)	-	131,400
NOAA Issuances of Materials and Supplies	61,761	19,340
Revaluation of Assets or Liabilities	2,690	6,855
Other	6,734	6,691
Total Components of Net Cost of Operations that Will Not Require or Generate Resources	644,842	687,507
Total Components of Net Cost of Operations that Will Not Require or Generate Resources in the Current Period	**556,694**	**694,817**
NET COST OF OPERATIONS	**$ 6,312,128**	**$ 6,118,972**

The accompanying notes are an integral part of these 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 13 bureaus, the Emergency Oil and Gas and Steel Loan Guarantee Programs, the National Intellectual Property Law Enforcement Coordination Council, and Departmental Management.

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

- National Oceanic and Atmospheric Administration (NOAA)
- U.S. Patent and Trademark Office (USPTO)
- Economics and Statistics Administration (ESA)
  - Bureau of Economic Analysis (BEA)
  - Census Bureau
- Technology Administration (TA)
  - National Institute of Standards and Technology (NIST)
  - National Technical Information Service (NTIS)
- Others
  - Bureau of Industry and Security (BIS)
  - Economic Development Administration (EDA)
  - International Trade Administration (ITA)
  - Minority Business Development Agency (MBDA)
  - National Intellectual Property Law Enforcement Coordination Council (NIPC)
  - National Telecommunications and Information Administration (NTIA)
  - Emergency Oil and Gas and Steel Loan Guarantee Programs (ELGP)

- Departmental Management (DM)
  - Franchise Fund
  - Gifts and Bequests (G&B)
  - 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 generally accepted accounting principles (GAAP) in the U.S. and the form and content for entity financial statements specified by the Office of Management and Budget (OMB) in Circular No. 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.

C *Elimination of Intra-entity and Intra-Departmental Transactions and Balances*

Transactions and balances within a reporting entity (intra-entity transactions) have been eliminated from the financial statements, except as noted below. Transactions and balances among the Department's entities (intra-Departmental transactions) have been eliminated from the *Consolidated Balance Sheets* and the *Consolidated Statements of Net Cost*. There are no intra-Departmental eliminations for the *Consolidated Statements of Changes in Net Position* and the *Consolidated Statements of Financing*. 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.

D *Fund Balance with Treasury*

Fund Balance with Treasury is the aggregate amount of funds in the Department's accounts with the U.S. Department of the Treasury (Treasury). Deposit Funds primarily represent the 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.

E 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.

F 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.

G Loans Receivable and Related Foreclosed Property, 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.

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 at 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.

H *Inventory, Materials, and Supplies, Net*

Inventory, Materials, and Supplies, Net are stated at the lower of cost or net realizable value primarily under the 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.

I *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 Thresholds: 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 is an exception to this policy, having a capitalization threshold of $200 thousand. General PP&E with an acquisition cost less than the capitalization threshold is expensed when purchased. When the purchase of a large quantity of items, each costing less than the capitalization threshold, would materially distort the amount of costs reported in a given period, the purchase is capitalized as a group.

Depreciation: Depreciation is expensed 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: The U.S. General Services Administration (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. Upon completion of the work, the costs are transferred to the appropriate General PP&E account for capitalization.

J 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 collectibility 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.

K Non-entity Assets

Non-entity assets are assets held by the Department that are not available for use in its operations. The non-entity Fund Balance with Treasury primarily represents customer deposits held by the Department until customer orders are received. Non-entity Loans Receivable and Related Foreclosed Property, Net represents EDA's Drought Loan Portfolio. The Portfolio collections are submitted to Treasury monthly.

L 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 for its Fisheries Finance Traditional, Tuna Fleet, and Individual Fishing Quota (IFQ) Direct Loans, Fishing Vessel Obligation Guarantee (FVOG) Program, Bering Sea Pollock Fishery Buyout, and Pacific Groundfish Buyback Loans. To simplify interest calculations, all 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. Balances of any borrowed but undisbursed funds will earn interest at the same rate used in calculating interest expense.

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 a liability to Treasury. The Portfolio collections are returned to Treasury monthly, 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 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. The projected annual benefit payments are 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. These factors are also used to adjust historical payments of benefits by the Department 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 two tests: 1) a comparison of the percentage change in the liability amount by agency to the percentage change in the actual payments; and 2) a comparison of the ratio of the estimated liability to the actual payment of the beginning year calculated for the current projection to the liability-payment ratio calculated for the prior projection.

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. Actuarial gains and losses, and prior and past service costs, if any, are recognized immediately in the year they occur, without amortization. The actuarial calculations use U.S. Department of Defense Retirement Board economic assumptions (as used by the U.S. Military Retirement System) for investment earnings on federal securities, annual basic pay increases, and annual inflation. Demographic assumptions appropriate to covered personnel are also used. For background information about these plans, see Note 1.P, *Employee Retirement Benefits*.

Environmental and Disposal Liabilities: 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 $65.6 million. This estimated 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 clean-up of the Pribilof Island 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 asbestos-containing materials (ACM) and lead-based paints (LBP) at certain NOAA facilities. The Department has scheduled surveys to assess the potential for liabilities for ACM and 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 ACM or 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 accounts, 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.

M ***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.

N ***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, both obligated and unobligated. Unexpended Appropriations are reduced for Appropriations Used and adjusted for other changes in budgetary resources, such as transfers and rescissions. Cumulative Results of Operations is the net result of the Department's operations since inception.

O ***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-year, and no-year bases. Upon expiration of an annual or multiple-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-year appropriations are canceled at the end of the fifth 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 Costs Absorbed by Others (and Related Imputed Costs): In certain cases, operating costs of the Department are paid for by funds appropriated to other federal entities. For example, pension benefits for most Department employees are paid for by the U.S. Office of Personnel Management (OPM), and certain legal judgments against the Department are paid from the Judgment Fund maintained by Treasury. OMB limits Imputed Costs to be recognized by federal entities to the following: 1) employees' pension benefits; 2) health insurance, life insurance, and other benefits for retired employees; 3) other post-employment benefits for retired, terminated, and inactive employees, including severance payments, training and counseling, continued health care, and unemployment and workers' compensation under FECA; and 4) losses in litigation proceedings. The Department includes applicable Imputed Costs on the *Consolidated Statements of Net Cost*. In addition, an Imputed Financing Source From Costs 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.

P 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 seven percent of an employee's basic pay. Employees contributed seven 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 Costs 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, the Department was required to make contributions of 11.2 percent (FY 2005) or 10.7 percent (FY 2004) of basic pay. Employees contributed 0.8 percent of basic pay. 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. For the year ended September 30, 2004, this plan was not fully funded by the Department and its employees. The Department therefore recognized in FY 2004 an Imputed Cost and an Imputed Financing Source From Costs Absorbed by Others for the difference between the estimated service cost and the contributions made by the Department and its covered employees.

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, 2005, included 279 active duty officers, 311 nondisability retiree annuitants, 20 disability retiree annuitants, and 47 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. FERS-covered employees are entitled, effective January 2005, to contribute up to 15 percent of basic pay to their TSP account, subject to the Internal Revenue Service (IRS) dollar amount limits, with the Department making matching contributions up to five percent of basic pay. Employees covered by CSRS are entitled, effective January 2005, to contribute up to 10 percent of basic pay to their TSP account, subject to the IRS dollar amount limits. 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 amount limits.

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 benefits for covered employees as an Imputed Cost and an Imputed Financing Source From Costs 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 Costs Absorbed by Others.

Q *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.

R *Tax Status*

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

NOTE 2. FUND BALANCE WITH TREASURY

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

	FY 2005	FY 2004
General Funds	$ 5,926,327	$ 5,696,123
Revolving Funds	735,344	582,275
Special Fund (Patent and Trademark Surcharge Fund)	233,529	233,529
Other Special Funds	43,223	45,443
Deposit Funds	88,856	87,589
Trust Funds	1,303	1,267
Other Fund Types	12,687	6,501
Total	$ 7,041,269	$ 6,652,727

Status of Fund Balance with Treasury is as follows:

	FY 2005	FY 2004
Temporarily Not Available Pursuant to Public Law	$ 547,232	$ 516,499
Unobligated Balance		
Available	674,954	635,948
Unavailable	216,611	182,935
Obligated Balance Not Yet Disbursed	5,265,046	4,989,078
Non-budgetary	337,426	328,267
Total	$ 7,041,269	$ 6,652,727

See Note 18, *Combined Statements of Budgetary Resources*, for legal arrangements affecting the Department's use of Fund Balance with Treasury for FY 2005 and FY 2004.

NOTE 3. ACCOUNTS RECEIVABLE, NET

FY2005

	Accounts Receivable, Gross	Allowance for Uncollectible Accounts	Accounts Receivable, Net
Intragovernmental	$ 58,794	$ -	$ 58,794
With the Public	$ 82,726	$ (14,766)	$ 67,960

FY2004

	Accounts Receivable, Gross	Allowance for Uncollectible Accounts	Accounts Receivable, Net
Intragovernmental	$ 84,028	$ -	$ 84,028
With the Public	$ 73,445	$ (13,544)	$ 59,901

NOTE 4. CASH

	FY 2005	FY 2004
Cash Not Yet Deposited with Treasury	$ 8,998	$ 12,547
Imprest Funds	340	383
Other Cash	302	764
Total	$ 9,640	$ 13,694

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. Other Cash represents monies held in a trust account obtained through the foreclosure of a NOAA direct loan.

NOTE 5. LOANS RECEIVABLE AND RELATED FORECLOSED PROPERTY, 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[1]
NOAA	Bering Sea and Aleutian Islands Non-Pollock Buyback Loans[1]
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, 2005

Loan Guarantee Programs:

EDA	Economic Development Revolving Fund
ELGP-Oil/Gas	Emergency Oil and Gas Loan Guarantee Program
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 2005	FY 2004
Direct Loans Obligated Prior to FY 1992	$ 44,619	$ 52,913
Direct Loans Obligated After FY 1991	345,218	227,758
Defaulted Guaranteed Loans from Pre-FY 1992 Guarantees	23	3,295
Defaulted Guaranteed Loans from Post-FY 1991 Guarantees	27,649	33,172
Total	$ 417,509	$ 317,138

Direct Loans Obligated Prior to FY 1992 consist of:

FY 2005

Direct Loan Program	Loans Receivable, Gross	Interest Receivable	Allowance for Loan Losses	Value of Assets Related to Direct Loans, Net
CEIP	$ 22,145	$ 7,686	$ (24,093)	$ 5,738
Drought Loan Portfolio	26,504	453	(270)	26,687
Economic Development Revolving Fund	12,204	113	(123)	12,194
Fisheries Loan Fund	912	91	(1,003)	-
Total	$ 61,765	$ 8,343	$ (25,489)	$ 44,619

FY 2004

Direct Loan Program	Loans Receivable, Gross	Interest Receivable	Allowance for Loan Losses	Value of Assets Related to Direct Loans, Net
CEIP	$ 22,392	$ 7,748	$ (20,268)	$ 9,872
Drought Loan Portfolio	28,655	463	(291)	28,827
Economic Development Revolving Fund	14,305	153	(244)	14,214
Fisheries Loan Fund	1,881	138	(2,019)	-
Total	$ 67,233	$ 8,502	$ (22,822)	$ 52,913

Direct Loans Obligated After FY 1991 consist of:

FY 2005

Direct Loan Program	Loans Receivable, Gross	Interest Receivable	Allowance for Subsidy Cost (Present Value)	Value of Assets Related to Direct Loans, Net
Bering Sea Pollock Fishery Buyback	$ 61,980	$ 48	$ 6,336	$ 68,364
Crab Buyback Loans	97,399	3,578	18,064	119,041
Fisheries Finance IFQ Loans	15,891	172	2,577	18,640
Fisheries Finance Traditional Loans	76,928	737	9,056	86,721
Fisheries Finance Tuna Fleet Loans	13,889	118	1,617	15,624
Pacific Groundfish Buyback Loans	35,663	1,226	(61)	36,828
Total	$ 301,750	$ 5,879	$ 37,589	$ 345,218

FY 2004

Direct Loan Program	Loans Receivable, Gross	Interest Receivable	Allowance for Subsidy Cost (Present Value)	Value of Assets Related to Direct Loans, Net
Bering Sea Pollock Fishery Buyback	$ 66,137	$ 56	$ 7,915	$ 74,108
Fisheries Finance IFQ Loans	15,679	155	2,420	18,254
Fisheries Finance Traditional Loans	64,535	589	8,288	73,412
Fisheries Finance Tuna Fleet Loans	23,833	191	3,507	27,531
Pacific Groundfish Buyback Loans	35,663	1,252	(2,462)	34,453
Total	$ 205,847	$ 2,243	$ 19,668	$ 227,758

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

Direct Loan Program	**FY 2005**	**FY 2004**
Crab Buyback Loans	$ 97,399	$ -
Fisheries Finance IFQ Loans	3,058	3,290
Fisheries Finance Traditional Loans	31,176	21,150
Fisheries Finance Tuna Fleet Loans	-	38,301
Pacific Groundfish Buyback Loans	-	35,663
Total	$ 131,633	$ 98,404

Subsidy Expense for Direct Loans by Program and Component:

Subsidy Expense for New Disbursements of Direct Loans:

FY 2005

Direct Loan Program	Interest Rate Differential	Defaults	Fees and Other Collections	Other	Total
Crab Buyback Loans	$ (22,665)	$ 18,185	$ -	$ -	$ (4,480)
Fisheries Finance IFQ Loans	(696)	54	(21)	157	(506)
Fisheries Finance Traditional Loans	(4,605)	384	(216)	1,974	(2,463)
Total	$ (27,966)	$ 18,623	$ (237)	$ 2,131	$ (7,449)

FY 2004

Direct Loan Program	Interest Rate Differential	Defaults	Fees and Other Collections	Other	Total
Fisheries Finance IFQ Loans	$ (588)	$ 92	$ (31)	$ 110	$ (417)
Fisheries Finance Traditional Loans	(3,115)	309	(71)	581	(2,296)
Fisheries Finance Tuna Fleet Loans	(5,266)	202	(27)	537	(4,554)
Pacific Groundfish Buyback Loans	(11,373)	11,758	-	-	385
Total	$ (20,342)	$ 12,361	$ (129)	$ 1,228	$ (6,882)

Modifications and Reestimates:

FY 2005

Direct Loan Program	Total Modifications	Interest Rate Reestimates	Technical Reestimates	Total Reestimates
Bering Sea Pollock Fishery Buyback	$ -	$ -	$ 1,396	$ 1,396
Fisheries Finance IFQ Loans	-	(144)	333	189
Fisheries Finance Traditional Loans	-	(24)	252	228
Fisheries Finance Tuna Fleet Loans	-	-	1,677	1,677
Pacific Groundfish Buyback Loans	-	-	(616)	(616)
Crab Buyback Loans	-	(7,110)	(7,275)	(14,385)
Total	$ -	$ (7,278)	$ (4,233)	$ (11,511)

FY 2004

Direct Loan Program	Total Modifications	Interest Rate Reestimates	Technical Reestimates	Total Reestimates
Bering Sea Pollock Fishery Buyback	$ -	$ -	$ 954	$ 954
Fisheries Finance IFQ Loans	-	(93)	267	174
Fisheries Finance Traditional Loans	-	(984)	(682)	(1,666)
Fisheries Finance Tuna Fleet Loans	-	(2,386)	2,172	(214)
Pacific Groundfish Buyback Loans	-	(2,578)	4,395	1,817
Total	$ -	$ (6,041)	$ 7,106	$ 1,065

Total Direct Loan Subsidy Expense:

Direct Loan Program	FY 2005	FY 2004
Bering Sea Pollock Fishery Buyback	$ 1,396	$ 954
Crab Buyback Loans	(18,865)	-
Fisheries Finance IFQ Loans	(317)	(243)
Fisheries Finance Traditional Loans	(2,235)	(3,962)
Fisheries Finance Tuna Fleet Loans	1,677	(4,768)
Pacific Groundfish Buyback Loans	(616)	2,202
Total	$ (18,960)	$ (5,817)

Subsidy Rates for Direct Loans by Program and Component:

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

FY 2005

Direct Loan Program	Interest Rate Differential	Defaults	Fees and Other Collections	Other	Total
Fisheries Finance IFQ Loans	(24.91) %	0.48 %	(0.73) %	6.71 %	(18.45) %
Fisheries Finance Traditional Loans	(15.26) %	0.30 %	(0.65) %	1.90 %	(13.71) %
Federal Gulf of Mexico Reef Fish Buyback Loans	(29.89) %	31.17 %	- %	- %	1.28 %

FY 2004

Direct Loan Program	Interest Rate Differential	Defaults	Fees and Other Collections	Other	Total
Fisheries Finance IFQ Loans	(20.10) %	1.52 %	(0.67) %	3.31 %	(15.94) %
Fisheries Finance Traditional Loans	(14.57) %	1.62 %	(0.71) %	8.17 %	(5.49) %

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 2005	FY 2004
Beginning Balance of the Allowance for Subsidy Cost	$ 19,668	$ 20,110
Add Subsidy Expense for Direct Loans Disbursed During the Reporting Years by Component:		
Interest Rate Differential Costs	27,966	20,342
Default Costs (Net of Recoveries)	(18,623)	(12,361)
Fees and Other Collections	237	129
Other Subsidy Costs	(2,131)	(1,228)
Total of the above Subsidy Expense Components	7,449	6,882
Adjustments:		
Fees Received	(256)	(330)
Subsidy Allowance Amortization	(783)	(3,750)
Other	-	(2,179)
Ending Balance of the Allowance for Subsidy Cost Before Reestimates	26,078	20,733
Add or Subtract Subsidy Reestimates by Component:		
Interest Rate Reestimates	7,278	6,041
Technical/Default Reestimates	4,233	(7,106)
Total of the above Reestimate Components	11,511	(1,065)
Ending Balance of the Allowance for Subsidy Cost	$ 37,589	$ 19,668

Defaulted Guaranteed Loans from Pre-FY 1992 Guarantees:

FY 2005

Loan Guarantee Program	Defaulted Guaranteed Loans Receivable, Gross	Interest Receivable	Foreclosed Property	Allowance for Loan Losses	Value of Assets Related to Defaulted Guaranteed Loans Receivable, Net
FVOG Program	$ 17,211	$ 14	$ 14	$ (17,216)	$ 23

FY 2004

Loan Guarantee Program	Defaulted Guaranteed Loans Receivable, Gross	Interest Receivable	Foreclosed Property	Allowance for Loan Losses	Value of Assets Related to Defaulted Guaranteed Loans Receivable, Net
FVOG Program	$ 19,650	$ -	$ 376	$ (16,731)	$ 3,295

Defaulted Guaranteed Loans from Post-FY 1991 Guarantees:

FY 2005

Loan Guarantee Program	Defaulted Guaranteed Loans Receivable, Gross	Interest Receivable	Foreclosed Property	Allowance for Subsidy Cost (Present Value)	Value of Assets Related to Defaulted Guaranteed Loans Receivable, Net
Emergency Steel Loan Guarantee Program	$ 18,896	$ 547	$ -	$ 1,339	$ 20,782
FVOG Program	11,599	1,254	2,970	(8,956)	6,867
Total	$ 30,495	$ 1,801	$ 2,970	$ (7,617)	$ 27,649

FY 2004

Loan Guarantee Program	Defaulted Guaranteed Loans Receivable, Gross	Interest Receivable	Foreclosed Property	Allowance for Subsidy Cost (Present Value)	Value of Assets Related to Defaulted Guaranteed Loans Receivable, Net
Emergency Steel Loan Guarantee Program	$ 92,097	$ -	$ -	$ (67,017)	$ 25,080
FVOG Program	12,608	1,262	2,949	(8,727)	8,092
Total	$ 104,705	$ 1,262	$ 2,949	$ (75,744)	$ 33,172

The Emergency Steel Loan Guarantee Program amounts reported above for both FY 2005 and FY 2004 represent one defaulted guaranteed loan receivable. In June 2005, the borrower repaid $73.2 million of principal against this loan receivable, and the borrower also paid $17.9 million of accrued interest. These collections were made possible by a liquidation, under bankruptcy, of the borrower's assets. These actual collections exceeded the cash flow expectations reflected in the Allowance for Subsidy Cost of $(67.0) million as of September 30, 2004. The Department furthermore anticipates that the government will fully collect in FY 2006 the remaining principal balance of $18.9 million, plus accrued interest. This should be made possible by the expected further liquidation of assets by the borrower. The better-than-expected actual and anticipated cash flows discussed above contributed to the downward subsidy reestimate of $(85.3) million, as of September 30, 2005, for this defaulted guaranteed loan receivable.

Loan Guarantees:

Guaranteed Loans Outstanding:

Outstanding non-acquired guaranteed disbursed loans as of September 30, 2005 and 2004, which are not reflected in the financial statements, are as follows:

	FY 2005		FY 2004	
Loan Guarantee Program	Outstanding Principal of Guaranteed Loans Disbursed, Face Value	Amount of Outstanding Principal Guaranteed	Outstanding Principal of Guaranteed Loans Disbursed, Face Value	Amount of Outstanding Principal Guaranteed
Emergency Oil and Gas Loan Guarantee Program	$ -	$ -	$ 1,248	$ 1,061
Emergency Steel Loan Guarantee Program	242,435	212,817	246,074	215,927
FVOG Program	32,366	32,366	45,202	45,202
Total	$ 274,801	$ 245,183	$ 292,524	$ 262,190

New Disbursements of Loan Guarantees, by year:

	FY 2005		FY 2004	
Loan Guarantee Program	Outstanding Principal of Guaranteed Loans Disbursed, Face Value	Amount of Outstanding Principal Guaranteed	Outstanding Principal of Guaranteed Loans Disbursed, Face Value	Amount of Outstanding Principal Guaranteed
Emergency Steel Loan Guarantee Program	$ 24,536	$ 21,591	$ 80,964	$ 71,248

Loan Guarantee Liabilities:

	FY 2005	FY 2004
Loan Guarantee Program	Loan Guarantee Liabilities for Post-FY 1991 Guarantees Disbursed, Present Value	Loan Guarantee Liabilities for Post-FY 1991 Guarantees Disbursed, Present Value
Emergency Oil and Gas Loan Guarantee Program	$ 294	$ 605
Emergency Steel Loan Guarantee Program	78,347	70,069
FVOG Program	3,171	2,971
Total	$ 81,812	$ 73,645

Subsidy Expense for Loan Guarantees by Program and Component:

Subsidy Expense for New Disbursements of Loan Guarantees:

FY 2005

Loan Guarantee Program	Interest Supplements	Defaults	Fees and Other Collections	Total
Emergency Steel Loan Guarantee Program	$ -	$ 7,368	$ (123)	$ 7,245

FY 2004

Loan Guarantee Program	Interest Supplements	Defaults	Fees and Other Collections	Total
Emergency Steel Loan Guarantee Program	$ -	$ 22,824	$ (405)	$ 22,419

Modifications and Reestimates:

FY 2005

Loan Guarantee Program	Total Modifications	Interest Rate Reestimates	Technical Reestimates	Total Reestimates
Emergency Oil and Gas Loan Guarantee Program	$ -	$ -	$ (814)	$ (814)
Emergency Steel Loan Guarantee Program	1,348	-	(87,264)	(87,264)
FVOG Program	-	-	523	523
Total	$ 1,348	$ -	$ (87,555)[1]	$ (87,555)

[1] *Of this amount, $(84.8) million represents downward subsidy reestimates for defaulted guaranteed loan receivables, and $(2.8) million is the total downward subsidy reestimates for loan guarantee liabilities.*

FY 2004

Loan Guarantee Program	Total Modifications	Interest Rate Reestimates	Technical Reestimates	Total Reestimates
Emergency Oil and Gas Loan Guarantee Program	$ -	$ -	$ (724)	$ (724)
Emergency Steel Loan Guarantee Program	-	676	1,069	1,745
Total	$ -	$ 676	$ 345	$ 1,021

Total Loan Guarantee Subsidy Expense:

Loan Guarantee Program	FY 2005	FY 2004
Emergency Oil and Gas Loan Guarantee Program	$ (814)	$ (724)
Emergency Steel Loan Guarantee Program	(78,671)	24,164
FVOG Program	523	-
Total	$ (78,962)	$ 23,440

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 2005 and FY 2004.

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

	FY 2005	FY 2004
Beginning Balance of Loan Guarantee Liabilities	$ 73,645	$ 51,068
Add Subsidy Expense for Guaranteed Loans Disbursed During the Reporting Years by Component:		
Default Costs (Net of Recoveries)	7,368	22,824
Fees and Other Collections	(123)	(405)
Total of the above Subsidy Expense Components	7,245	22,419
Adjustments:		
Loan Guarantee Modifications	1,348	-
Fees Received	198	220
Interest Accumulation on the Liabilities Balance	1,004	(28)
Other	1,127	(1,055)
Ending Balance of Loan Guarantee Liabilities Before Reestimates	84,567	72,624
Add or Subtract Subsidy Reestimates by Component:		
Interest Rate Reestimates	-	676
Technical/Default Reestimates	(2,755)	345
Total of the above Reestimate Components	(2,755)	1,021
Ending Balance of Loan Guarantee Liabilities	$ 81,812	$ 73,645

Administrative Expenses:

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

Direct Loan Program	FY 2005	FY 2004
Drought Loan Portfolio and Economic Development Revolving Fund	$ 892	$ 1,708
NOAA Direct Loan Programs	2,863	3,251
Total	$ 3,755	$ 4,959

Loan Guarantee Program	FY 2005	FY 2004
Emergency Oil and Gas Loan Guarantee Program	$ 23	$ 15
Emergency Steel Loan Guarantee Program	253	598
FVOG Program	318	462
Total	$ 594	$ 1,075

NOTE 6. INVENTORY, MATERIALS, AND SUPPLIES, NET

Category	Cost Flow Assumption	FY 2005	FY 2004
Inventory			
Items Held for Current Sale			
NIST Standard Reference Materials	First-in, first-out	$ 22,853	$ 23,028
Other	Various	1,060	1,740
Allowance for Excess, Obsolete, and Unserviceable Items		(317)	(318)
Total Inventory, Net		23,596	24,450
Materials and Supplies			
Items Held for Use			
NOAA's National Logistics Support Center	Weighted-average	$ 48,992	$ 49,894
NOAA's National Reconditioning Center	Weighted-average	39,529	39,804
Other	Various	2,135	2,423
Allowance for Excess, Obsolete, and Unserviceable Items		(17,607)	(17,056)
Total Materials and Supplies, Net		73,049	75,065
Total		$ 96,645	$ 99,515

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 2005

Category	Useful Life (Years)	Cost	Accumulated Depreciation	Net Book Value
Land	N/A	$ 15,508	$ -	$ 15,508
Land Improvements	30-40	2,996	(826)	2,170
Structures, Facilities, and Leasehold Improvements	2-60	1,041,761	(330,970)	710,791
Satellites/Weather Systems Personal Property	3-20	4,170,070	(3,327,652)	842,418
Other Personal Property	2-30	1,449,996	(934,413)	515,583
Assets Under Capital Lease	3-40	56,258	(42,922)	13,336
Construction-in-progress	N/A	2,827,901	-	2,827,901
Total		$ 9,564,490	$ (4,636,783)	$ 4,927,707

FY 2004

Category	Useful Life (Years)	Cost	Accumulated Depreciation	Net Book Value
Land	N/A	$ 13,289	$ -	$ 13,289
Land Improvements	30-40	2,996	(735)	2,261
Structures, Facilities, and Leasehold Improvements	2-60	967,491	(294,078)	673,413
Satellites/Weather Systems Personal Property	3-20	3,782,429	(3,018,887)	763,542
Other Personal Property	2-30	1,380,371	(827,425)	552,946
Assets Under Capital Lease	3-40	61,806	(42,651)	19,155
Construction-in-progress	N/A	2,628,276	-	2,628,276
Total		$ 8,836,658	$ (4,183,776)	$ 4,652,882

NOTE 8. OTHER ASSETS

	FY 2005	FY 2004
With the Public		
Advances and Prepayments	$ 90,297	$ 31,516
Notes Receivable	3,203	4,237
Bibliographic Database	5,423	5,451
Other	38	38
Total	$ 98,961	$ 41,242

As of September 30, 2005 and 2004, there are two and three Notes Receivable, respectively, with maturity dates as of September 30, 2005 ranging from October 2006 to July 2024 and interest rates ranging from 7.0 to 7.25 percent. The balances include accrued interest. These notes are considered fully collectible.

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 $48.6 million and $46.1 million, less accumulated amortization of $43.2 million and $40.6 million, for September 30, 2005 and 2004, respectively.

NOTE 9. NON-ENTITY ASSETS

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

	FY 2005	FY 2004
Intragovernmental		
Fund Balance with Treasury	$ 96,699	$ 94,457
Total Intragovernmental	96,699	94,457
With the Public		
Cash	787	463
Accounts Receivable, Net	1,751	1,112
Loans Receivable and Related Foreclosed Property, Net - Drought Loan Portfolio	26,687	28,827
Total	$ 125,924	$ 124,859

NOTE 10. DEBT TO TREASURY

FY 2005

Loan Program	Beginning Balance	Net Borrowings (Repayments)	Ending Balance
Direct Loan Program			
Fisheries Finance, Financing Account	$ 233,482	$ 113,093	$ 346,575
Loan Guarantee Program			
Emergency Steel Loan Guarantee Program	29,199	(29,199)	-
FVOG Program	11,745	(739)	11,006
Total	$ 274,426	$ 83,155	$ 357,581

Maturity dates range from September 2010 to September 2034, and interest rates range from 3.65 to 7.26 percent.

FY 2004

Loan Program	Beginning Balance	Net Borrowings (Repayments)	Ending Balance
Direct Loan Program			
Fisheries Finance, Financing Account	$ 170,536	$ 62,946	$ 233,482
Loan Guarantee Program			
Emergency Steel Loan Guarantee Program	29,199	-	29,199
FVOG Program	11,965	(220)	11,745
Total	$ 211,700	$ 62,726	$ 274,426

Maturity dates range from September 2005 to September 2034, and interest rates range from 3.26 to 7.26 percent.

NOTE 11. OTHER LIABILITIES

	FY 2005			FY 2004
	Current Portion	Non-current Portion	Total	Total
Intragovernmental				
Accrued FECA Liability	$ 21,448	$ 9,876	$ 31,324	$ 31,350
Accrued Benefits	23,428	-	23,428	19,448
Custodial Activity	892	-	892	1,115
Downward Subsidy Reestimates Payable to Treasury	107,587	-	107,587	3,228
Other	160	2,366	2,526	554
Total	$ 153,515	$ 12,242	$ 165,757	$ 55,695
With the Public				
ITA Foreign Service Nationals' Voluntary Separation Pay	$ 772	$ 8,681	$ 9,453	$ 9,344
Contingent Liabilities	3,383	-	3,383	22,786
Employment-related	2,745	-	2,745	2,115
Other	8,323	-	8,323	8,728
Total	$ 15,223	$ 8,681	$ 23,904	$ 42,973

The Current Portion represents liabilities expected to be paid by September 30, 2006, while the Non-current Portion represents liabilities expected to be paid after September 30, 2006.

NOTE 12. FEDERAL EMPLOYEE BENEFITS

These liabilities consist of:

	FY 2005	FY 2004
Actuarial FECA Liability	$ 173,414	$ 179,179
NOAA Corps Retirement System Liability	350,300	335,700
NOAA Corps Post-retirement Health Benefits Liability	45,400	42,800
Total	$ 569,114	$ 557,679

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 2005	FY 2004
Year 1	4.528%	4.88%
Year 2 and Thereafter	5.020%	5.24%

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 2005

Fiscal Year	Cost of Living Allowance	Consumer Price Index - Medical
2006	3.33%	4.09%
2007	2.93%	4.01%
2008	2.40%	4.01%
2009 and Thereafter	2.40%	4.01%

FY 2004

Fiscal Year	Cost of Living Allowance	Consumer Price Index - Medical
2005	2.03%	4.14%
2006	2.73%	3.96%
2007	2.40%	3.98%
2008	2.40%	3.99%
2009 and Thereafter	2.40%	4.02%

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 actuarial calculations used the following U.S. Department of Defense Retirement Board economic assumptions:

	FY 2005	FY 2004
Investment Earnings on Federal Securities	6.25%	6.25%
Annual Basic Pay Increases	3.75%	3.75%
Annual Inflation	3.00%	3.00%

The related pension costs included in the *Consolidated Statements of Net Cost* are as follows:

	FY 2005	FY 2004
Normal Cost	$ 5,600	$ 4,900
Interest on the Unfunded Liability	20,500	19,900
Actuarial (Gains) Losses, Net	4,900	(100)
Total Pension Costs	$ 31,000	$ 24,700

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 same U.S. Department of Defense Retirement Board economic assumptions as used for the NOAA Corps Retirement System actuarial calculations. The claims costs used to derive the post-retirement liabilities were taken from the analysis of the U.S. Military's Projected Retiree Medical Liabilities reports for FY 2005 and FY 2004.

The related post-retirement health benefits costs included in the *Consolidated Statements of Net Cost* are as follows:

	FY 2005	FY 2004
Normal Cost	$ 2,900	$ 3,200
Interest on the Unfunded Liability	2,700	2,500
Actuarial (Gains) Losses, Net	(1,700)	(1,900)
Total Post-retirement Health Benefits Costs	$ 3,900	$ 3,800

NOTE 13. ENVIRONMENTAL AND DISPOSAL LIABILITIES

	FY 2005	FY 2004
Pribilof Island Cleanup	$ 26,994	$ 39,160
Nuclear Reactor	43,359	36,691
Other	2,958	2,836
Total	$ 73,311	$ 78,687

NOTE 14. LEASES

Capital Leases:

Assets under capital leases are as follows:

	FY 2005	FY 2004
Structures, Facilities, and Leasehold Improvements	$ 52,722	$ 45,665
Equipment	3,536	16,141
Less: Accumulated Depreciation	(42,922)	(42,651)
Net Assets Under Capital Leases	$ 13,336	$ 19,155

Capital Lease Liabilities are primarily related to NIST and NOAA. In 1996, NIST entered into a capital lease for an office building in Gaithersburg, Maryland. 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 have an average life of 22 years.

Capital Lease Liabilities:

Future payments due under capital leases are as follows:

FY 2005

	General PP&E Category		
Fiscal Year	Real Property	Personal Property	Total
2006	$ 5,026	$ 2,297	$ 7,323
2007	4,130	1,859	5,989
2008	3,840	1,888	5,728
2009	3,870	1,903	5,773
2010	3,916	-	3,916
Thereafter	27,145	-	27,145
Total Future Lease Payments	47,927	7,947	55,874
Less: Imputed Interest	(22,064)	(648)	(22,712)
Less: Executory Cost	(7,957)	(6,642)	(14,599)
Net Capital Lease Liabilities	$ 17,906	$ 657	$ 18,563

FY 2004

	General PP&E Category		
Fiscal Year	Real Property	Personal Property	Total
2005	$ 6,688	$ 2,278	$ 8,966
2006	3,848	2,302	6,150
2007	2,940	1,858	4,798
2008	2,640	1,888	4,528
2009	2,661	1,903	4,564
Thereafter	24,182	-	24,182
Total Future Lease Payments	42,959	10,229	53,188
Less: Imputed Interest	(20,137)	(875)	(21,012)
Less: Executory Cost	(5,460)	(8,385)	(13,845)
Net Capital Lease Liabilities	$ 17,362	$ 969	$ 18,331

Operating Leases:

Most of the Department's facilities are rented from the U.S. General Services Administration (GSA), which generally charges rent that is intended to approximate commercial rental rates. For federal-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-federal 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 2006 through FY 2010; and 2) future payments due under noncancellable operating leases (non-GSA real property and personal property) are as follows:

FY 2005

	General PP&E Category		
Fiscal Year	GSA Real Property	Non-GSA Real Property	Personal Property
2006	$ 203,929	$ 19,592	$ 23,449
2007	236,509	16,628	6,227
2008	233,243	13,741	6,414
2009	230,951	12,598	6,607
2010	167,391	12,070	6,805
Thereafter	[1]	34,076	-
Total Future Lease Payments		$ 108,705	$ 49,502

[1] *Not estimated*

NOTE 15. LIABILITIES NOT COVERED BY BUDGETARY RESOURCES

	FY 2005	FY 2004
Intragovernmental		
Accrued FECA Liability	$ 28,485	$ 28,272
Other	4,110	594
Total Intragovernmental	32,595	28,866
Accrued Payroll	21,359	20,361
Accrued Annual Leave	194,771	186,406
Federal Employee Benefits	569,114	557,679
Environmental and Disposal Liabilities	73,311	78,687
Contingent Liabilities	3,383	22,786
Capital Lease Liabilities	694	13,398
Unearned Revenue	690,488	570,817
ITA Foreign Service Nationals' Voluntary Separation Pay	9,453	9,344
Other	3,725	1,144
Total	$ 1,598,893	$ 1,489,488

Due to USPTO's funding structure, budgetary resources do not cover a portion of its Unearned Revenue. The Unearned Revenue as of September 30 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 is shown below.

Major Long-term Commitments:

	FY 2005						
Description	FY2006	FY2007	FY 2008	FY 2009	FY 2010	Thereafter	Total
Geostationary Operational Environmental Satellites	$ 358,100	$ 454,000	$ 532,100	$ 539,600	$ 570,500	$ 3,980,800	$ 6,435,100
Convergence Satellites	321,000	341,300	343,900	297,200	373,900	1,149,200	2,826,500
Polar Operational Environmental Satellites	102,700	90,800	62,300	41,900	41,700	-	339,400
Other Weather Service	113,345	105,108	103,438	92,376	48,284	327,487	790,038
Total	$ 895,145	$ 991,208	$ 1,041,738	$ 971,076	$ 1,034,384	$ 5,457,487	$ 10,391,038

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 $3.4 million and $22.8 million as of September 30, 2005 and 2004, respectively. Accordingly, $3.4 million and $22.8 million of contingent liabilities were included in Other Liabilities on the *Consolidated Balance Sheets* as of September 30, 2005 and 2004, 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 Costs 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 $832.9 million as of September 30, 2005. 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 $31.0 million as of September 30, 2005. 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, 2005 and 2004, with outstanding principal balances totaling $32.4 million and $45.2 million, respectively. A loan guarantee liability of $3.2 million and $3.0 million is recorded for the outstanding guarantees at September 30, 2005 and 2004, respectively.

Emergency Steel Loan Guarantee Program: This program has two outstanding non-acquired guaranteed loans as of September 30, 2005 and 2004, with the guaranteed portion of outstanding principal balances totaling $212.8 million and $215.9 million as of September 30, 2005 and 2004, respectively. The Department's guarantee percentages range from 85 to 88 percent for these loans as of September 30, 2005, and range from 85 to 95 percent as of September 30, 2004. A loan guarantee liability of $78.3 million and $70.1 million is recorded for the outstanding guarantees at September 30, 2005 and 2004, respectively.

Related to an outstanding non-acquired guaranteed loan, the Department has additionally guaranteed two Letters of Credit totaling $10.6 million and $12.1 million as of September 30, 2005 and 2004, respectively. The Department's guarantee percentages for these Letters of Credit are 90 percent and 95 percent. The guaranteed portion of these Letters of Credit total $10.0 million and $11.3 million as of September 30, 2005 and 2004, respectively.

Emergency Oil and Gas Loan Guarantee Program: This program has one outstanding non-acquired guaranteed loan as of September 30, 2005, with a guaranteed portion of outstanding principal balance of zero. There were three outstanding non-acquired guaranteed loans as of September 30, 2004, with the guaranteed portion of outstanding principal balance totaling $1.1 million. The Department's guarantee percentage is 85 percent for these loans. A loan guarantee liability of $294 thousand and $605 thousand is recorded for the outstanding guarantees at September 30, 2005 and 2004, respectively. The loan guarantee liability at September 30, 2005 relates to an outstanding revolving loan for which no draws have been made as of September 30, 2005.

NOTE 17. CONSOLIDATED STATEMENTS OF NET COST

FY 2005 Consolidating Statement of Net Cost:

	NOAA	USPTO	ESA	TA	Others	Departmental Management	Combining Totals	Intra-Departmental Eliminations	Consolidating Totals
COSTS:									
Strategic Goal 1: Provide the Information and Tools to Maximize U.S. Competitiveness and Enable Economic Growth for American Industries, Workers, and Consumers									
Intragovernmental Gross Costs	$ -	$ -	$ 271,559	$ -	$ 183,969	$ 66,318	$ 521,846	$ (71,469)	$ 450,377
Gross Costs With the Public	-	-	800,819	-	680,127	45,895	1,526,841	-	1,526,841
Total Gross Costs	-	-	1,072,378	-	864,096	112,213	2,048,687	(71,469)	1,977,218
Intragovernmental Earned Revenue	-	-	(225,164)	-	(31,029)	(84,996)	(341,189)	71,469	(269,720)
Earned Revenue From the Public	-	-	(26,178)	-	(8,808)	(7)	(34,993)	-	(34,993)
Total Earned Revenue	-	-	(251,342)	-	(39,837)	(85,003)	(376,182)	71,469	(304,713)
Net Program Costs	**-**	**-**	**821,036**	**-**	**824,259**	**27,210**	**1,672,505**	**-**	**1,672,505**
Strategic Goal 2: Foster Science and Technological Leadership by Protecting Intellectual Property, Enhancing Technical Standards, and Advancing Measurement Science									
Intragovernmental Gross Costs	-	298,150	-	126,865	16,492	66,318	507,825	(78,055)	429,770
Gross Costs With the Public	-	1,125,878	-	838,815	71,641	45,895	2,082,229	-	2,082,229
Total Gross Costs	-	1,424,028	-	965,680	88,133	112,213	2,590,054	(78,055)	2,511,999
Intragovernmental Earned Revenue	-	(6,108)	-	(117,400)	(24,429)	(84,996)	(232,933)	78,055	(154,878)
Earned Revenue From the Public	-	(1,366,699)	-	(59,032)	124	(7)	(1,425,614)	-	(1,425,614)
Total Earned Revenue	-	(1,372,807)	-	(176,432)	(24,305)	(85,003)	(1,658,547)	78,055	(1,580,492)
Net Program Costs	**-**	**51,221**	**-**	**789,248**	**63,828**	**27,210**	**931,507**	**-**	**931,507**
Strategic Goal 3: Observe, Protect, and Manage the Earth's Resources to Promote Environmental Stewardship									
Intragovernmental Gross Costs	737,983	-	-	-	-	66,340	804,323	(75,383)	728,940
Gross Costs With the Public	3,174,241	-	-	-	-	45,908	3,220,149	-	3,220,149
Total Gross Costs	3,912,224	-	-	-	-	112,248	4,024,472	(75,383)	3,949,089
Intragovernmental Earned Revenue	(174,801)	-	-	-	-	(85,022)	(259,823)	75,383	(184,440)
Earned Revenue From the Public	(56,526)	-	-	-	-	(7)	(56,533)	-	(56,533)
Total Earned Revenue	(231,327)	-	-	-	-	(85,029)	(316,356)	75,383	(240,973)
Net Program Costs	**3,680,897**	**-**	**-**	**-**	**-**	**27,219**	**3,708,116**	**-**	**3,708,116**
NET COST OF OPERATIONS	**$ 3,680,897**	**$ 51,221**	**$ 821,036**	**$ 789,248**	**$ 888,087**	**$ 81,639**	**$ 6,312,128**	**$ -**	**$ 6,312,128**

FY 2004:

The Department capitalizes the costs of constructing weather satellites as Construction-in-progress, a component of General Property, Plant, and Equipment, Net. In September 2003, a polar-orbiting operational environmental satellite, under construction, was damaged. The incident occurred while a NASA contractor was performing an operation that required rotation of the satellite on its construction platform. At the time of the accident, the satellite's planned launch was in FY 2008. Capitalized costs through the date of the incident were approximately $232 million. As a result of the reviews of the damaged spacecraft, in FY 2004 it was determined that the satellite will be rebuilt. The rebuild will provide assurance that the satellite will be available for launch in FY 2008. In FY 2004, NOAA calculated the damage to the satellite and the instruments at $131.4 million. This amount was written off from General Property, Plant, and Equipment, Net on the FY 2004 *Consolidated Balance Sheet*, with the loss included on the FY 2004 *Consolidated Statement of Net Cost*, Strategic Goal 3, Gross Costs With the Public.

FY 2004 Consolidating Statement of Net Cost:

	NOAA	USPTO	ESA	TA	Others	Departmental Management	Combining Totals	Intra-Departmental Eliminations	Consolidating Totals
COSTS:									
Strategic Goal 1: Provide the Information and Tools to Maximize U.S. Competitiveness and Enable Economic Growth for American Industries, Workers, and Consumers									
Intragovernmental Gross Costs	$ -	$ -	$ 247,055	$ -	$ 170,383	$ 62,637	$ 480,075	$ (68,392)	$ 411,683
Gross Costs With the Public	-	-	736,507	-	737,070	44,933	1,518,510	-	1,518,510
Total Gross Costs	-	-	983,562	-	907,453	107,570	1,998,585	(68,392)	1,930,193
Intragovernmental Earned Revenue	-	-	(235,151)	-	(28,091)	(80,652)	(343,894)	68,392	(275,502)
Earned Revenue From the Public	-	-	(16,740)	-	(11,282)	-	(28,022)	-	(28,022)
Total Earned Revenue	-	-	(251,891)	-	(39,373)	(80,652)	(371,916)	68,392	(303,524)
Net Program Costs	**-**	**-**	**731,671**	**-**	**868,080**	**26,918**	**1,626,669**	**-**	**1,626,669**
Strategic Goal 2: Foster Science and Technological Leadership by Protecting Intellectual Property, Enhancing Technical Standards, and Advancing Measurement Science									
Intragovernmental Gross Costs	-	246,632	-	110,312	13,501	62,637	433,082	(74,116)	358,966
Gross Costs With the Public	-	1,042,548	-	772,411	98,974	45,127	1,959,060	-	1,959,060
Total Gross Costs	-	1,289,180	-	882,723	112,475	107,764	2,392,142	(74,116)	2,318,026
Intragovernmental Earned Revenue	-	(5,427)	-	(118,183)	(22,071)	(80,652)	(226,333)	74,116	(152,217)
Earned Revenue From the Public	-	(1,233,596)	-	(57,152)	-	-	(1,290,748)	-	(1,290,748)
Total Earned Revenue	-	(1,239,023)	-	(175,335)	(22,071)	(80,652)	(1,517,081)	74,116	(1,442,965)
Net Program Costs	**-**	**50,157**	**-**	**707,388**	**90,404**	**27,112**	**875,061**	**-**	**875,061**
Strategic Goal 3: Observe, Protect, and Manage the Earth's Resources to Promote Environmental Stewardship									
Intragovernmental Gross Costs	599,428	-	-	-	-	62,657	662,085	(65,275)	596,810
Gross Costs With the Public	3,202,726	-	-	-	-	44,945	3,247,671	-	3,247,671
Total Gross Costs	3,802,154	-	-	-	-	107,602	3,909,756	(65,275)	3,844,481
Intragovernmental Earned Revenue	(154,157)	-	-	-	-	(80,675)	(234,832)	65,275	(169,557)
Earned Revenue From the Public	(57,682)	-	-	-	-	-	(57,682)	-	(57,682)
Total Earned Revenue	(211,839)	-	-	-	-	(80,675)	(292,514)	65,275	(227,239)
Net Program Costs	**3,590,315**	**-**	**-**	**-**	**-**	**26,927**	**3,617,242**	**-**	**3,617,242**
NET COST OF OPERATIONS	**$ 3,590,315**	**$ 50,157**	**$ 731,671**	**$ 707,388**	**$ 958,484**	**$ 80,957**	**$ 6,118,972**	**$ -**	**$ 6,118,972**

Major Programs: The following tables illustrate major programs of the Department. "Other Programs" refers to the other programs within each strategic goal. 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 Totals columns on the *Consolidating Statements of Net Cost*.

FY 2005 Statement of Net Cost by Major Program (Combining Basis):

PROGRAM COSTS	NOAA	Census Bureau	NIST	USPTO	Others	Combining Totals
Strategic Goal 1: Provide the Information and Tools to Maximize U.S. Competitiveness and Enable Economic Growth for American Industries, Workers, and Consumers						
Decennial and Periodic Censuses						
Intragovernmental Gross Costs	$ -	$ 6,557	$ -	$ -	$ -	$ 6,557
Gross Costs With the Public	-	64,559	-	-	-	64,559
Total Gross Costs	-	71,116	-	-	-	71,116
Intragovernmental Earned Revenue	-	-	-	-	-	-
Earned Revenue From the Public	-	-	-	-	-	-
Total Earned Revenue	-	-	-	-	-	-
Net Program Costs	**-**	**71,116**	**-**	**-**	**-**	**71,116**
Other Programs						
Intragovernmental Gross Costs	-	236,260	-	-	279,029	515,289
Gross Costs With the Public	-	680,402	-	-	781,880	1,462,282
Total Gross Costs	-	916,662	-	-	1,060,909	1,977,571
Intragovernmental Earned Revenue	-	(222,927)	-	-	(118,262)	(341,189)
Earned Revenue From the Public	-	(24,893)	-	-	(10,100)	(34,993)
Total Earned Revenue	-	(247,820)	-	-	(128,362)	(376,182)
Net Program Costs	**-**	**668,842**	**-**	**-**	**932,547**	**1,601,389**
Net Costs for Strategic Goal 1	**-**	**739,958**	**-**	**-**	**932,547**	**1,672,505**
Strategic Goal 2: Foster Science and Technological Leadership by Protecting Intellectual Property, Enhancing Technical Standards, and Advancing Measurement Science						
Measurement and Standards Laboratories						
Intragovernmental Gross Costs	-	-	75,975	-	-	75,975
Gross Costs With the Public	-	-	531,084	-	-	531,084
Total Gross Costs	-	-	607,059	-	-	607,059
Intragovernmental Earned Revenue	-	-	(67,374)	-	-	(67,374)
Earned Revenue From the Public	-	-	(31,009)	-	-	(31,009)
Total Earned Revenue	-	-	(98,383)	-	-	(98,383)
Net Program Costs	**-**	**-**	**508,676**	**-**	**-**	**508,676**
Patents						
Intragovernmental Gross Costs	-	-	-	262,368	-	262,368
Gross Costs With the Public	-	-	-	990,759	-	990,759
Total Gross Costs	-	-	-	1,253,127	-	1,253,127
Intragovernmental Earned Revenue	-	-	-	(5,869)	-	(5,869)
Earned Revenue From the Public	-	-	-	(1,191,911)	-	(1,191,911)
Total Earned Revenue	-	-	-	(1,197,780)	-	(1,197,780)
Net Program Costs	**-**	**-**	**-**	**55,347**	**-**	**55,347**

(Continued)

FY 2005 Statement of Net Cost by Major Program (Combining Basis) - Continued:

PROGRAM COSTS	NOAA	Census Bureau	NIST	USPTO	Others	Combining Totals
Trademarks						
Intragovernmental Gross Costs	-	-	-	35,782	-	35,782
Gross Costs With the Public	-	-	-	135,119	-	135,119
Total Gross Costs	-	-	-	170,901	-	170,901
Intragovernmental Earned Revenue	-	-	-	(239)	-	(239)
Earned Revenue From the Public	-	-	-	(174,788)	-	(174,788)
Total Earned Revenue	-	-	-	(175,027)	-	(175,027)
Net Program Costs	**-**	**-**	**-**	**(4,126)**	**-**	**(4,126)**
Other Programs						
Intragovernmental Gross Costs	-	-	40,811	-	92,889	133,700
Gross Costs With the Public	-	-	285,294	-	139,973	425,267
Total Gross Costs	-	-	326,105	-	232,862	558,967
Intragovernmental Earned Revenue	-	-	(36,192)	-	(123,259)	(159,451)
Earned Revenue From the Public	-	-	(16,657)	-	(11,249)	(27,906)
Total Earned Revenue	-	-	(52,849)	-	(134,508)	(187,357)
Net Program Costs	**-**	**-**	**273,256**	**-**	**98,354**	**371,610**
Net Cost for Strategic Goal 2	**-**	**-**	**781,932**	**51,221**	**98,354**	**931,507**
Strategic Goal 3: Observe, Protect, and Manage the Earth's Resources to Promote Environmental Stewardship						
Ecosystems						
Intragovernmental Gross Costs	85,601	-	-	-	-	85,601
Gross Costs With the Public	1,286,903	-	-	-	-	1,286,903
Total Gross Costs	1,372,504	-	-	-	-	1,372,504
Intragovernmental Earned Revenue	(37,343)	-	-	-	-	(37,343)
Earned Revenue From the Public	(48,177)	-	-	-	-	(48,177)
Total Earned Revenue	(85,520)	-	-	-	-	(85,520)
Net Program Costs	**1,286,984**	**-**	**-**	**-**	**-**	**1,286,984**
Other Programs						
Intragovernmental Gross Costs	652,382	-	-	-	66,340	718,722
Gross Costs With the Public	1,887,338	-	-	-	45,908	1,933,246
Total Gross Costs	2,539,720	-	-	-	112,248	2,651,968
Intragovernmental Earned Revenue	(137,458)	-	-	-	(85,022)	(222,480)
Earned Revenue From the Public	(8,349)	-	-	-	(7)	(8,356)
Total Earned Revenue	(145,807)	-	-	-	(85,029)	(230,836)
Net Program Costs	**2,393,913**	**-**	**-**	**-**	**27,219**	**2,421,132**
Net Cost for Strategic Goal 3	**3,680,897**	**-**	**-**	**-**	**27,219**	**3,708,116**
NET COST OF OPERATIONS	**$ 3,680,897**	**$ 739,958**	**$ 781,932**	**$ 51,221**	**$ 1,058,120**	**$ 6,312,128**

FY 2004 Statement of Net Cost by Major Program (Combining Basis):

PROGRAM COSTS	NOAA	Census Bureau	NIST	USPTO	Others	Combining Totals
Strategic Goal 1: Provide the Information and Tools to Maximize U.S. Competitiveness and Enable Economic Growth for American Industries, Workers, and Consumers						
Decennial and Periodic Censuses						
Intragovernmental Gross Costs	$ -	$ 16,111	$ -	$ -	$ -	$ 16,111
Gross Costs With the Public	-	212,181	-	-	-	212,181
Total Gross Costs	-	228,292	-	-	-	228,292
Intragovernmental Earned Revenue	-	-	-	-	-	-
Earned Revenue From the Public	-	-	-	-	-	-
Total Earned Revenue	-	-	-	-	-	-
Net Program Costs	**-**	**228,292**	**-**	**-**	**-**	**228,292**
Other Programs						
Intragovernmental Gross Costs	-	202,508	-	-	261,456	463,964
Gross Costs With the Public	-	471,741	-	-	834,588	1,306,329
Total Gross Costs	-	674,249	-	-	1,096,044	1,770,293
Intragovernmental Earned Revenue	-	(233,447)	-	-	(110,447)	(343,894)
Earned Revenue From the Public	-	(15,034)	-	-	(12,988)	(28,022)
Total Earned Revenue	-	(248,481)	-	-	(123,435)	(371,916)
Net Program Costs	**-**	**425,768**	**-**	**-**	**972,609**	**1,398,377**
Net Costs for Strategic Goal 1	**-**	**654,060**	**-**	**-**	**972,609**	**1,626,669**
Strategic Goal 2: Foster Science and Technological Leadership by Protecting Intellectual Property, Enhancing Technical Standards, and Advancing Measurement Science						
Measurement and Standards Laboratories						
Intragovernmental Gross Costs	-	-	62,959	-	-	62,959
Gross Costs With the Public	-	-	467,876	-	-	467,876
Total Gross Costs	-	-	530,835	-	-	530,835
Intragovernmental Earned Revenue	-	-	(64,598)	-	-	(64,598)
Earned Revenue From the Public	-	-	(28,403)	-	-	(28,403)
Total Earned Revenue	-	-	(93,001)	-	-	(93,001)
Net Program Costs	**-**	**-**	**437,834**	**-**	**-**	**437,834**
Patents						
Intragovernmental Gross Costs	-	-	-	219,171	-	219,171
Gross Costs With the Public	-	-	-	926,706	-	926,706
Total Gross Costs	-	-	-	1,145,877	-	1,145,877
Intragovernmental Earned Revenue	-	-	-	(5,218)	-	(5,218)
Earned Revenue From the Public	-	-	-	(1,064,853)	-	(1,064,853)
Total Earned Revenue	-	-	-	(1,070,071)	-	(1,070,071)
Net Program Costs	**-**	**-**	**-**	**75,806**	**-**	**75,806**
Trademarks						
Intragovernmental Gross Costs	-	-	-	27,461	-	27,461
Gross Costs With the Public	-	-	-	115,842	-	115,842
Total Gross Costs	-	-	-	143,303	-	143,303
Intragovernmental Earned Revenue	-	-	-	(209)	-	(209)
Earned Revenue From the Public	-	-	-	(168,743)	-	(168,743)
Total Earned Revenue	-	-	-	(168,952)	-	(168,952)
Net Program Costs	**-**	**-**	**-**	**(25,649)**	**-**	**(25,649)**

(Continued)

FY 2004 Statement of Net Cost by Major Program (Combining Basis) - Continued:

PROGRAM COSTS	NOAA	Census Bureau	NIST	USPTO	Others	Combining Totals
Other Programs						
Intragovernmental Gross Costs	-	-	37,541	-	85,950	123,491
Gross Costs With the Public	-	-	278,984	-	169,652	448,636
Total Gross Costs	-	-	316,525	-	255,602	572,127
Intragovernmental Earned Revenue	-	-	(38,519)	-	(117,789)	(156,308)
Earned Revenue From the Public	-	-	(16,937)	-	(11,812)	(28,749)
Total Earned Revenue	-	-	(55,456)	-	(129,601)	(185,057)
Net Program Costs	**-**	**-**	**261,069**	**-**	**126,001**	**387,070**
Net Cost for Strategic Goal 2	**-**	**-**	**698,903**	**50,157**	**126,001**	**875,061**
Strategic Goal 3: Observe, Protect, and Manage the Earth's Resources to Promote Environmental Stewardship						
Ecosystems						
Intragovernmental Gross Costs	251,283	-	-	-	-	251,283
Gross Costs With the Public	1,479,061	-	-	-	-	1,479,061
Total Gross Costs	1,730,344	-	-	-	-	1,730,344
Intragovernmental Earned Revenue	(66,094)	-	-	-	-	(66,094)
Earned Revenue From the Public	(3,402)	-	-	-	-	(3,402)
Total Earned Revenue	(69,496)	-	-	-	-	(69,496)
Net Program Costs	**1,660,848**	**-**	**-**	**-**	**-**	**1,660,848**
Other Programs						
Intragovernmental Gross Costs	348,145	-	-	-	62,657	410,802
Gross Costs With the Public	1,723,665	-	-	-	44,945	1,768,610
Total Gross Costs	2,071,810	-	-	-	107,602	2,179,412
Intragovernmental Earned Revenue	(88,063)	-	-	-	(80,675)	(168,738)
Earned Revenue From the Public	(54,280)	-	-	-	-	(54,280)
Total Earned Revenue	(142,343)	-	-	-	(80,675)	(223,018)
Net Program Costs	**1,929,467**	**-**	**-**	**-**	**26,927**	**1,956,394**
Net Cost for Strategic Goal 3	**3,590,315**	**-**	**-**	**-**	**26,927**	**3,617,242**
NET COST OF OPERATIONS	**$ 3,590,315**	**$ 654,060**	**$ 698,903**	**$ 50,157**	**$ 1,125,537**	**$ 6,118,972**

NOTE 18. COMBINED STATEMENTS OF BUDGETARY RESOURCES

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

	FY 2005	FY 2004
Appropriations Received per SBR	$ 6,496,389	$ 6,134,774
Less:		
Other Special Receipts for NOAA, Classified as Exchange Revenue	(10,717)	(8,554)
Other	(1,319)	(1,299)
Appropriations Received per SCNP	$ 6,484,353	$ 6,124,921

Total borrowing authority available for NOAA's loan programs amounted to $172.4 million and $331.7 million at September 30, 2005 and 2004, respectively. Borrowing authority of $100.0 million, carried forward from FY 2004, was cancelled in FY 2005. The Borrowing Authority amounts reported in the SBR Budgetary Resources section represent only borrowing authority realized during the reporting period. See Note 1L, *Debt to Treasury*, for debt repayment requirements, financing sources for repayments, and other terms of borrowing authority used.

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

Reductions to the Department's appropriations under Public Law 108-447 amounted to $122.3 million for FY 2005, while reductions for FY 2004 under Public Law 108-199 amounted to $207.2 million. These reductions are included in the SBR Budgetary Resources section as follows: Permanently Not Available subsection, Enacted Reductions ($90.3 million and $204.5 million for the years ended September 30, 2005 and 2004, respectively), and Temporarily Not Available Pursuant to Public Law ($32.0 million and $2.7 million for the years ended September 30, 2005 and 2004, respectively). These reductions are also part of the amounts reported on the line Other Adjustments in the SCNP.

During FY 1999, 2000, and 2002, a total of $75,584 thousand in fees were considered permanently rescinded. In FY 2004, OMB addressed the classification of rescissions and clarified that these rescissions should now be considered reductions in budgetary resources and should be classified as either permanently or temporarily available. Due to the clarification regarding rescissions and reductions, fee resources previously rescinded as permanently unavailable were restored to USPTO and recorded as a reduction and classified as temporarily unavailable fee collections in FY 2004.

Legal arrangements affecting the Department's use of Unobligated Balances of Budget Authority and/or Fund Balance with Treasury during FY 2005 and FY 2004 include the following:

- The Department's Deposits Funds, reported in Note 2, *Fund Balance with Treasury*, are not available to finance operating activities. These funds are also included in Note 2, *Fund Balance with Treasury*, on the line Non-budgetary (breakdown by status).
- The Department's Fund Balance with Treasury includes $516.5 million and $515.1 of USPTO offsetting collections exceeding current and prior years' appropriations, as of September 30, 2005 and 2004, respectively. 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, *Fund Balance with Treasury*, on the lines *General Funds* (breakdown by type), and *Temporarily Not Available Pursuant to Public Law* (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 the end of FY 1998. These revenues 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, 2005 and 2004, $ 233.5 million is held in the Patent and Trademark Surcharge Fund. These funds are included in Note 2, *Fund Balance with Treasury*, on the lines *Special Fund (Patent and Trademark Surcharge Fund*) (breakdown by type), and *Non-budgetary* (breakdown by status).
- The Department's Fund Balance with Treasury as of September 30, 2005 includes $30.7 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, *Fund Balance with Treasury*, on the lines *Revolving Funds* (breakdown by type), and *Temporarily Not Available Pursuant to Public Law* (breakdown by status).
- The Coastal Zone Management Fund has $23 thousand and $32.0 million of unapportioned authority that was not provided obligational authority pursuant to 16 United States Code 1456a, as of September 30, 2005 and 2004, respectively. These funds are included in Note 2, *Fund Balance with Treasury*, on the lines *Revolving Funds* (breakdown by type), and *Unobligated Balance, Unavailable* (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.

There are no material differences between the amounts reported in the *Combined Statement of Budgetary Resources* for the year ended September 30, 2004 and the actual amounts reported in the Budget of the United States Government.

Apportionment Categories of Obligations Incurred:

The amounts of direct and reimbursable obligations incurred against amounts apportioned under Categories A, B, and Exempt from Apportionment are as follows:

	FY 2005		
	Direct	Reimbursable	Total
Category A	$ 2,206,582	$ 1,895,420	$ 4,102,002
Category B	4,532,932	87,929	4,620,861
Exempt from Apportionment	149,058	732,888	881,946
Total	$ 6,888,572	$ 2,716,237	$ 9,604,809

	FY 2004		
	Direct	Reimbursable	Total
Category A	$ 2,052,497	$ 1,581,570	$ 3,634,067
Category B	4,308,579	97,413	4,405,992
Exempt from Apportionment	168,658	695,411	864,069
Total	$ 6,529,734	$ 2,374,394	$ 8,904,128

NOTE 19. CONSOLIDATED STATEMENTS OF FINANCING

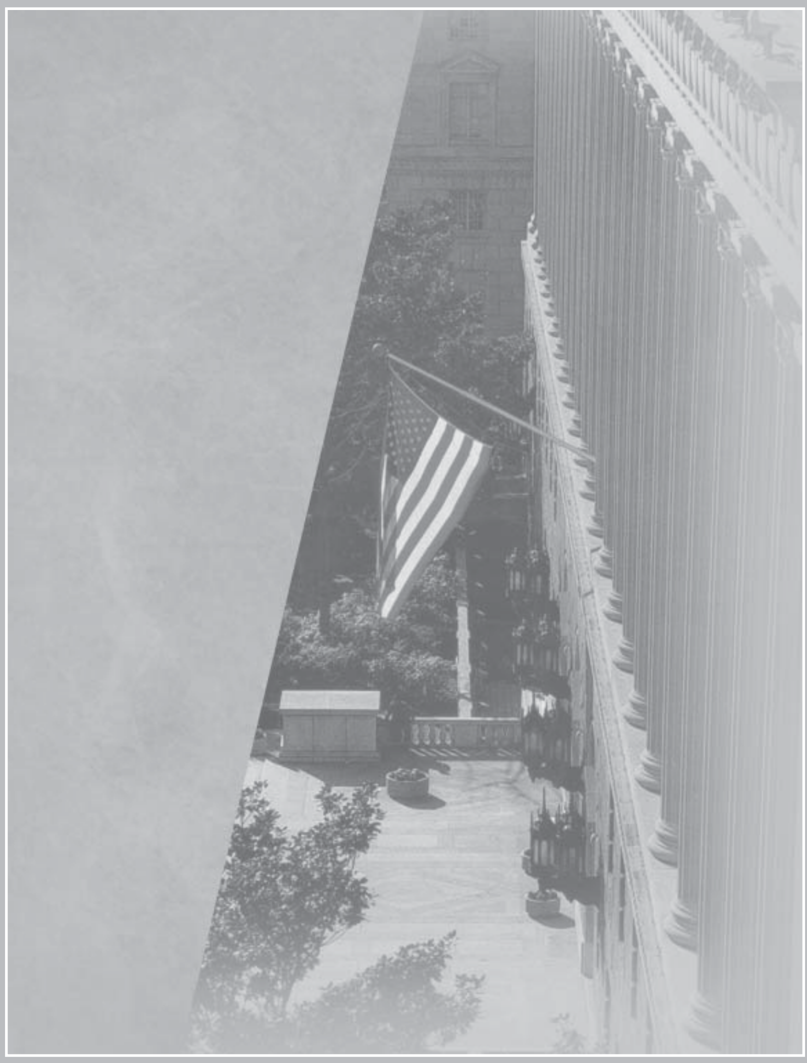
The Consolidated Statement of Financing reconciles the Department's *Resources Used to Finance Activities* (first section), which consists of the budgetary basis of accounting Net Obligations plus the proprietary basis of accounting Other Resources, to the proprietary basis of accounting Net Cost of 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 of 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 that are included in the Liabilities Not Covered by Budgetary Resources reported in Note 15. This subsection does not include costs incurred in prior fiscal years that are also included in Liabilities Not Covered by Budgetary Resources.

NOTE 20. 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 the year ended September 30, 2005, the Department had custodial nonexchange revenue of $9.0 million; custodial nonexchange revenue of $892 thousand was payable to Treasury at September 30, 2005. For the year ended September 30, 2004, the Department had custodial nonexchange revenue of $8.0 million; custodial nonexchange revenue of $1.1 million was payable to Treasury at September 30, 2004.

CONSOLIDATING BALANCE SHEET



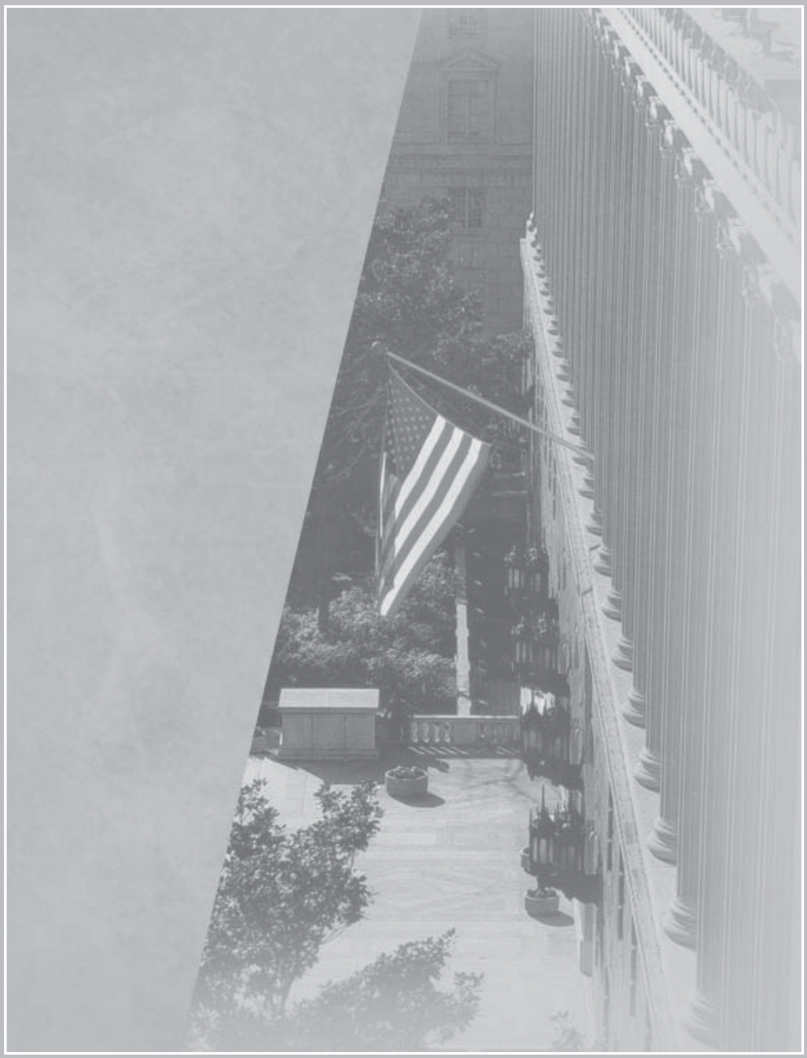
United States Department of Commerce Consolidating Balance Sheet
As of September 30, 2005 *(In Thousands)*

	Consolidating Totals	Intra-Departmental Eliminations	BIS	Census Bureau	DM/G&B	DM/S&E	DM/WCF	EDA	ELGP	ESA/BEA	Franchise Fund	ITA	MBDA	NIPC	NIST	NOAA	NTIA	NTIS	OIG	TA	USPTO
ASSETS																					
Intragovernmental:																					
Fund Balance with Treasury	$ 7,041,269	$ -	$ 29,135	$ 392,362	$ 484	$ 73,652	$ 35,032	$ 828,961	$ 197,379	$ 16,914	$ 2,385	$ 144,786	$ 12,529	$ 1,973	$ 693,407	$ 3,229,954	$ 106,519	$ 30,819	$ 2,224	$ 1,957	$ 1,240,797
Accounts Receivable	58,794	(5,196)	786	3,397	26	2,605	1,269	1,626	-	3	541	2,076	12	-	1,899	49,263	93	344	-	-	50
Other - Advances and Prepayments	11,691	(77,815)	1,572	11,643	-	2,586	4,281	623	-	2,146	403	6,616	309	-	12,629	41,809	905	259	763	233	2,729
Total Intragovernmental	7,111,754	(83,011)	31,493	407,402	510	78,843	40,582	831,210	197,379	19,063	3,329	153,478	12,850	1,973	707,935	3,321,026	107,517	31,422	2,987	2,190	1,243,576
Cash	9,640	-	-	-	-	-	-	-	-	-	-	100	-	-	-	641	-	25	-	-	8,874
Accounts Receivable, Net	67,960	-	872	2,923	-	21	41	110	-	4	-	280	27	-	8,642	51,718	121	534	1	-	2,666
Loans Receivable and Related Foreclosed Property, Net	417,509	-	-	-	-	-	-	38,883	20,782	-	-	-	-	-	-	357,844	-	-	-	-	-
Inventory, Materials, and Supplies,Net	96,645	-	-	790	-	-	74	-	-	-	-	-	-	-	24,726	70,914	-	141	-	-	-
General Property, Plant, and Equipment, Net	4,927,707	-	534	76,230	9,554	1,041	8,682	17	-	354	977	4,036	2	-	542,071	4,133,867	1,694	247	-	-	148,401
Other	98,961	-	-	-	3	6	5	5,561	-	-	-	2,349	3	-	131	79,603	-	5,668	-	-	5,632
TOTAL ASSETS	$ 12,730,176	$ (83,011)	$ 32,899	$ 487,345	$ 10,067	$ 79,911	$ 49,384	$ 875,781	$ 218,161	$ 19,421	$ 4,306	$ 160,243	$ 12,882	$ 1,973	$1,283,505	$ 8,015,613	$ 109,332	$ 38,037	$ 2,988	$ 2,190	$1,409,149
LIABILITIES																					
Intragovernmental:																					
Accounts Payable	$ 68,850	$ (5,196)	$ 3,022	$ 9,344	$ -	$ 411	$ 630	$ 40	$ -	$ 153	$ -	$ 12,421	$ 59	$ -	$ 1,191	$ 39,288	$ 457	$ 4,141	$ 4	$ 88	$ 2,797
Debt to Treasury	357,581	-	-	-	-	-	-	-	-	-	-	-	-	-	-	357,581	-	-	-	-	-
Other																					
Resources Payable to Treasury	43,864	-	-	-	-	-	-	40,668	-	-	-	-	-	-	-	3,196	-	-	-	-	-
Unearned Revenue	429,932	(77,815)	9,108	85,992	-	53,350	33,468	80,449	-	58	2,085	317	27	-	138,850	69,664	20,702	9,351	30	66	4,230
Other	165,757	-	1,478	16,208	-	479	984	436	88,081	388	19	2,983	527	4	4,312	39,329	702	181	483	21	9,142
Total Intragovernmental	1,065,984	(83,011)	13,608	111,544	-	54,240	35,082	121,593	88,081	599	2,104	15,721	613	4	144,353	509,058	21,861	13,673	517	175	16,169
Accounts Payable	331,107	-	3,805	29,665	11	5,390	5,430	539	153	680	198	10,479	1,873	18	17,677	155,948	481	1,391	768	114	96,487
Loan Guarantee Liabilities	81,812	-	-	-	-	-	-	-	78,641	-	-	-	-	-	-	3,171	-	-	-	-	-
Federal Employee Benefit	569,114	-	1,434	71,170	-	1,037	2,416	1,815	-	218	89	9,613	2,473	-	10,586	457,411	1,295	561	1,718	-	7,278
Environmental and Disposal Liabilities	73,311	-	-	-	-	-	-	-	-	-	-	-	-	-	43,359	29,952	-	-	-	-	-
Other																					
Accrued Payroll and Annual Leave	351,698	-	3,919	53,335	-	3,521	6,897	2,467	13	5,795	281	24,276	972	17	29,634	128,696	3,309	1,296	1,567	384	85,319
Accrued Grants	388,679	-	-	-	-	-	-	254,386	-	-	-	12,213	1,811	-	32,270	54,655	33,300	-	-	44	-
Capital Lease Liabilities	18,563	-	-	-	-	-	-	-	-	-	-	-	-	-	694	17,869	-	-	-	-	-
Unearned Revenue	857,817	-	547	9,209	-	-	-	13	-	274	-	4,786	-	-	10,085	41,082	841	5,023	-	10	785,947
Other	23,904	-	49	1,941	-	-	2,168	-	1	-	-	9,976	-	-	2,608	6,982	59	-	-	-	120
TOTAL LIABILITIES	$ 3,761,989	$ (83,011)	$ 23,362	$ 276,864	$ 11	$ 64,188	$ 51,993	$ 380,813	$ 166,889	$ 7,566	$ 2,672	$ 87,064	$ 7,742	$ 39	$ 291,266	$ 1,404,824	$ 61,146	$ 21,944	$ 4,570	$ 727	$ 991,320
NET POSITION																					
Unexpended Appropriations	4,238,321	-	12,592	150,553	-	16,101	-	498,799	51,272	14,117	-	98,701	8,675	1,934	422,628	2,909,502	50,103	-	1,642	1,675	27
Cumulative Results of Operations	4,729,866	-	(3,055)	59,928	10,056	(378)	(2,609)	(3,831)	-	(2,262)	1,634	(25,522)	(3,535)	-	569,611	3,701,287	(1,917)	16,093	(3,224)	(212)	417,802
TOTAL NET POSITION	$ 8,968,187	$ -	$ 9,537	$ 210,481	$ 10,056	$ 15,723	$ (2,609)	$ 494,968	$ 51,272	$ 11,855	$ 1,634	$ 73,179	$ 5,140	$ 1,934	$ 992,239	$ 6,610,789	$ 48,186	$ 16,093	$ (1,582)	$ 1,463	$ 417,829
TOTAL LIABILITIES AND NET POSITION	$ 12,730,176	$ (83,011)	$ 32,899	$ 487,345	$ 10,067	$ 79,911	$ 49,384	$ 875,781	$ 218,161	$ 19,421	$ 4,306	$ 160,243	$ 12,882	$ 1,973	$1,283,505	$ 8,015,613	$ 109,332	$ 38,037	$ 2,988	$ 2,190	$1,409,149

See accompanying independent auditors' report.

Required Supplementary Information

(unaudited)



DEPARTMENT OF COMMERCE

UNITED STATES OF AMERICA

Required Supplementary Information (unaudited)

(All Tables Are Presented In Thousands)

A *Deferred Maintenance*

Deferred maintenance is maintenance that was not performed when it should have been, that was scheduled and not performed, or that was delayed for a future period. Maintenance is the act of keeping property, plant, and equipment (PP&E) in acceptable operating condition and includes 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 excludes 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. The significant portions of Departmental deferred maintenance relate to the PP&E of both NOAA and NIST (see below for abbreviations). These two entities represent 95 percent of the Department's General PP&E, Net balance as of September 30, 2005.

National Oceanic and Atmospheric Administration (NOAA):

The NOAA uses the Condition Assessment Survey (CAS) method to identify and quantify deferred maintenance for assets meeting NOAA's $200 thousand capitalization threshold. The CAS method employs a periodic inspection of real property to determine its current condition and to estimate costs to correct any deficiencies.

The following shows NOAA's deferred maintenance for projects with estimated costs greater than $50 thousand, as of September 30, 2005:

PP&E Category	Asset Condition	Estimated Cost to Return to Acceptable Condition
Buildings and Structures	3	$ 8,200 to $ 10,100
Heritage Assets	4, 3	$ 11,760 to $ 14,370
Total		**$ 19,960 to $ 24,470**

NOAA has established a facility condition code to classify the condition of the Buildings and Structures. Each Building and Structure is assessed an individual facility condition code. The average of the individual facility condition codes determines the CAS Asset Condition. The CAS method for Buildings and Structures 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. The amounts reported for heritage assets represent non-critical maintenance to bring the assets to good condition. The CAS method for heritage assets is based on the same five-point scale as the Buildings and Structures. There is an annual call each year to the NOAA components, requesting their submissions of new projects and updates to existing unfunded projects to reflect changes in requirements or costs.

National Institute of Standards and Technology (NIST):

NIST also uses the CAS method to estimate deferred maintenance. 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 repairs and maintenance to increase their value to 3, or acceptable condition. The following shows NIST's deferred maintenance as of September 30, 2005:

PP&E Category	Asset Condition	Estimated Cost to Return to Acceptable Condition
Mechanical and Electrical Devices	5	$390,100 to $393,900
Buildings (Internal Structures)	4	$60,700 to $74,500
Buildings (External Structures)	4	$46,900 to $52,200
Total		**$497,700 to $520,600**

B *Segment Information*

Departmental Management/Working Capital Fund (DM/WCF):

The DM/WCF's mission is to provide, in the most efficient and economical manner possible, the centralized services required by the operating entities of the Department and other federal entities. The DM/WCF operates on a revolving fund basis, whereby current operating expenses charged to the customer finance the cost of goods and services. The overall financial goal of the fund is to remain at break-even position.

Services: The DM/WCF provides a variety of administrative services to the Department and to other federal entities. These include personnel-related services, financial and budget management, legal services, security, acquisition, telecommunications, and public affairs.

Major Customers: The major customers of DM/WCF are NOAA, ITA, and Census Bureau, accounting for 30 percent, 20 percent, and 18 percent of earned revenue, respectively.

Note: Information about assets, liabilities, and net position as of September 30, 2005 can be found on the Consolidating Balance Sheet, which is included as additional information.

DM/WCF
Summary of Costs and Related Exchange Revenue by Line of Business
For the Year Ended September 30, 2005

	Personnel-related Services	Financial Management	Legal Services	Administrative Services	Total
Full Cost of Services Provided	$ 18,156	$ 22,876	$ 31,989	$ 58,517	$ 131,538
Less: Exchange Revenue	(17,719)	(22,325)	(31,219)	(57,108)	(128,371)
Excess of Costs over Exchange Revenue	**$ 437**	**$ 551**	**$ 770**	**$ 1,409**	**$ 3,167**

Franchise Fund:

The Department's Franchise Fund has three major goals:

- To operate along the lines of a commercial business by becoming self-sustaining and capable of achieving full cost recovery and by becoming competitive, without subsidies, in an open-market environment
- To encourage competition and the operation of market forces in the delivery of administrative services to lower costs and to promote better service
- To create a customer-oriented workforce that is capable of providing quality services and products

Services: The Franchise Fund is composed of only one service provider, the Office of Computer Services (OCS). The OCS provides IT services to the Department and to other federal entities, including the U.S. Department of Homeland Security and U.S. Department of Energy.

Major Customers: The major customers of the Franchise Fund are the Department of Homeland Security and DM/WCF, accounting for 63 percent and 17 percent of earned revenue, respectively.

Franchise Fund
Summary of Costs and Related Exchange Revenue by Line of Business
For the Year Ended September 30, 2005

	Computer Services
Full Cost of Services Provided	$ 6,619
Less: Exchange Revenue	(6,797)
Excess of Costs over Exchange Revenue	**$ (178)**

Note: Information about assets, liabilities, and net position as of September 30, 2005 can be found on the Consolidating Balance Sheet, which is included as additional information.

United States Department of Commerce Intragovernmental Assets and Liabilities
As of September 30, 2005 *(In Thousands)*

Intragovernmental Assets:

Trading Partner Name	Number	Fund Balance with Treasury	Accounts Receivable, Net	Advances and Prepayments	Total
Department of the Treasury	20	$ 7,041,269	$ (162)	$ 4	$ 7,041,111
Department of Transportation	69	-	14,912	413	15,325
National Aeronautics and Space Administration	80	-	9,356	-	9,356
Department of Homeland Security	70	-	1,586	3,790	5,376
Environmental Protection Agency	68	-	5,151	-	5,151
Department of Energy	89	-	4,795	-	4,795
U.S. Postal Service	18	-	3	3,321	3,324
Department of the Navy	17	-	3,103	-	3,103
U.S. Army Corps of Engineers	96	-	3,024	-	3,024
Department of the Interior	14	-	2,419	10	2,429
Government Printing Office	04	-	-	2,100	2,100
Department of the Air Force	57	-	2,065	-	2,065
Agency for International Development	72	-	1,980	-	1,980
Others		-	10,562	2,053	12,615
Total		**$ 7,041,269**	**$ 58,794**	**$ 11,691**	**$ 7,111,754**

Intragovernmental Liabilities:

Trading Partner Name	Number	Accounts Payable	Debt to Treasury	Resources Payable to Treasury	Unearned Revenue	Other	Total
Department of the Treasury	20	$ 166	$ 357,581	$ -	$ 2,740	$ -	$ 360,487
Treasury General Fund	99	-	-	43,864	-	114,726	158,590
Office of the Secretary of Defense - Defense Agencies	97	8,153	-	-	114,493	-	122,646
Department of Homeland Security	70	680	-	-	66,055	-	66,735
Department of Labor	16	174	-	-	17,096	31,370	48,640
Department of Justice	15	154	-	-	41,357	-	41,511
Department of Health and Human Services	75	4,868	-	-	30,318	-	35,186
General Services Administration	47	19,392	-	-	4,993	2,366	26,751
Department of State	19	8,679	-	-	12,895	18	21,592
Department of the Air Force	57	4,177	-	-	9,679	-	13,856
Department of Education	91	-	-	-	13,027	-	13,027
National Science Foundation	49	2,934	-	-	9,874	-	12,808
Environmental Protection Agency	68	216	-	-	10,587	-	10,803
Unidentified	00	4,397	-	-	6,020	-	10,417
National Aeronautics and Space Administration	80	2,996	-	-	6,850	-	9,846
Others		11,864	-	-	83,948	17,277	113,089
Total		**$ 68,850**	**$ 357,581**	**$ 43,864**	**$ 429,932**	**$ 165,757**	**$ 1,065,984**

United States Department of Commerce Intragovernmental Transfers
For the Year Ended September 30, 2005 *(In Thousands)*

Trading Partner Name	Number	Transfers In	Transfers Out
Appropriation Transfers:			
Department of the Navy	17	$ 18,000	$ -
Agency for International Development	72	6,347	-
Independent Agencies	95	2,778	-
U.S. Army Corps of Engineers	96	1,679	1,679
Department of Interior	14	-	4,500
Total		**$ 28,804**	**$ 6,179**
Transfers Without Reimbursement:			
Department of Agriculture	12	$ 77,539	$ -
Department of Health and Human Services	75	5,332	-
Department of Interior	14	3,507	58
Department of the Treasury	20	2,425	-
General Services Administration	47	62	-
Treasury General Fund	99	-	(914)
Total		**$ 88,865**	**$ (856)**

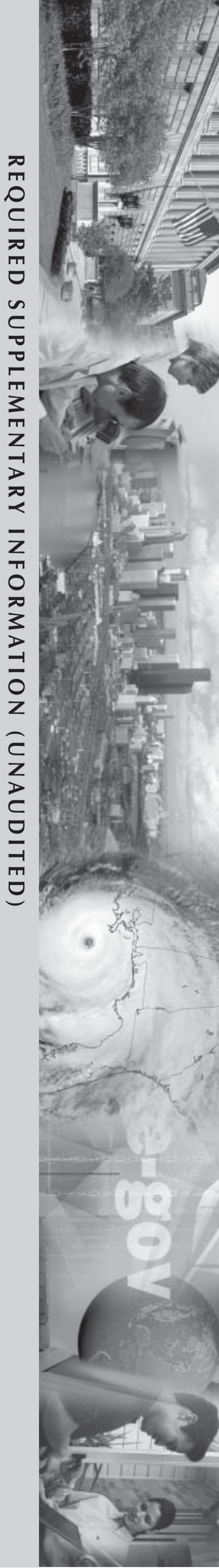
United States Department of Commerce Intragovernmental Earned Revenue and Related Costs
For the Year Ended September 30, 2005 *(In Thousands)*

Intragovernmental Earned Revenue:

Trading Partner		
Name	**Number**	**Amount**
Department of Labor	16	$ 80,463
Department of Health and Human Services	75	79,723
Department of Transportation	69	57,220
Office of the Secretary of Defense - Defense Agencies	97	51,476
Department of Homeland Security	70	42,712
Department of Justice	15	37,764
U.S. Army Corps of Engineers	96	28,523
Department of Housing and Urban Development	86	27,551
National Aeronautics and Space Administration	80	21,783
Environmental Protection Agency	68	21,436
Department of Energy	89	19,751
General Services Administration	47	17,010
Department of the Army	21	16,889
Department of State	19	14,713
Department of Education	91	12,924
Department of the Treasury	20	11,919
Departmental of Agriculture	12	11,840
National Science Foundation	49	10,699
Department of the Air Force	57	10,591
Agency for International Development	72	7,686
Department of the Navy	17	6,600
Department of Interior	14	6,484
Department of Veterans Affairs	36	3,148
Central Intelligence Agency	56	2,828
Independent Agencies	95	1,494
Social Security Administration	28	1,211
Unidentified	00	1,101
Small Business Administration	73	842
Independent Agencies	48	492
U.S. Nuclear Regulatory Commission	31	490
U.S. Postal Service	18	375
Export-Import Bank of the United States	83	294
Congressional Budget Office	08	211
Office of Personnel Management	24	178
Tennessee Valley Authority	64	156
Library of Congress	03	129
Government Printing Office	04	118
Executive Office of the President	11	92
Federal Communications Commission	27	82
International Trade Commission	34	11
Consumer Product Safety Commission	61	10
Federal Labor Relations Authority	54	6
Smithsonian Institution	33	5
Overseas Private Investment Corporation	71	3
Architect of the Capital	01	1
Appalachian Regional Commission	46	1
Federal Trade Commission	29	1
Resolution Trust Corporation	22	1
Federal Maritime Commission	65	1
Total		**$ 609,038**

Gross Costs that Generated Intragovernmental Earned Revenue:

Budget Functional Classification	Amount
300 Natural Resources and Environment	$ 156,623
370 Commerce and Housing Credit	436,302
450 Community and Regional Development	16,276
Total	**$ 609,201**

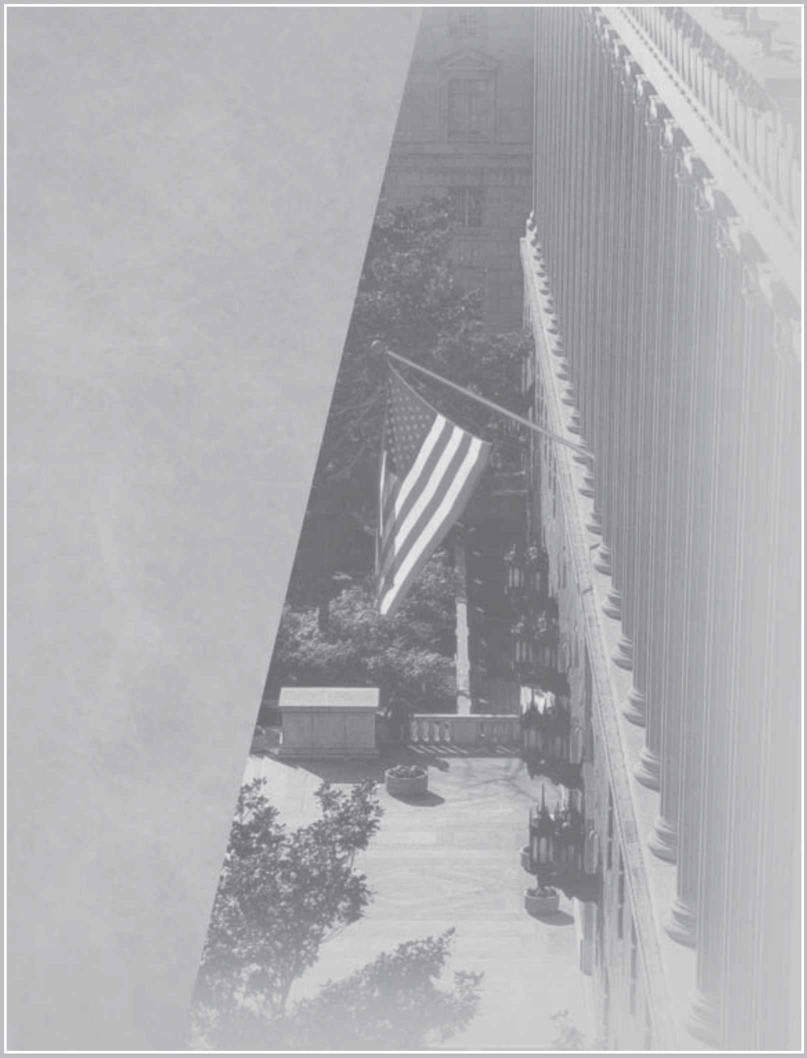


United States Department of Commerce Schedule of Budgetary Resources by Major Budget Account
For the Year Ended September 30, 2005 *(In Thousands)*

	Combining Totals	NOAA Operations, Research, and Facilities	USPTO Salaries and Expenses	NOAA Procurement, Acquisition, and Construction	NIST Industrial Technology Services	ITA Operations and Administration	Census Bureau Periodic Censuses and Programs	EDA Grant Fund	Other Programs
BUDGETARY RESOURCES:									
Budget Authority									
Appropriations Received	$ 6,496,389	$ 2,845,609	$ -	$ 1,067,406	$ 251,300	$ 393,513	$ 556,116	$ 257,423	$ 1,125,022
Borrowing Authority	105,592	-	-	-	-	-	-	-	105,592
Net Transfers	105,271	82,819	-	(1,476)	-	4,107	-	-	19,821
Unobligated Balance									
Beginning of Period	918,597	104,628	2,363	130,659	13,804	15,376	4,622	10,058	637,087
Adjustments to Unobligated Balance, Beginning of Period	(1,223)	-	-	-	-	-	-	-	(1,223)
Net Transfers	(10,032)	(308)	-	-	-	241	-	(2,687)	(7,278)
Spending Authority From Offsetting Collections									
Earned									
Collected	2,890,072	218,916	1,373,808	146	2,062	11,633	881	15,190	1,267,436
Receivables	(34,695)	(9,956)	(52)	-	-	572	800	-	(26,059)
Change in Unfilled Customer Orders									
Advances Received	217,431	22,979	130,458	-	-	(92)	-	8,399	55,687
Without Advances	14,319	5,154	-	-	-	(431)	-	-	9,596
Previously Unavailable	1,362	-	-	-	-	-	-	-	1,362
Total Spending Authority From Offsetting Collections	**3,088,489**	**237,093**	**1,504,214**	**146**	**2,062**	**11,682**	**1,681**	**23,589**	**1,308,022**
Recoveries of Prior-years Obligations (Unpaid)	112,624	19,493	7,544	1,769	9,513	13,633	1,458	31,383	27,831
Temporarily Not Available Pursuant to Public Law	(32,055)	-	-	-	-	-	-	-	(32,055)
Permanently Not Available									
Cancellations of Expired and No-year Accounts	(4,993)	3	-	-	-	(802)	-	(800)	(3,394)
Enacted Reductions	(90,278)	(38,362)	-	(14,071)	(7,258)	(5,257)	(7,428)	(3,437)	(14,465)
Capital Transfers and Redemption of Debt	(80,508)	-	-	-	-	-	-	-	(80,508)
Other Authority Withdrawn	(110,330)	-	-	-	-	-	-	(1,174)	(109,156)
TOTAL BUDGETARY RESOURCES	**$ 10,497,543**	**$ 3,250,975**	**$ 1,514,121**	**$ 1,184,433**	**$ 269,421**	**$ 432,493**	**$ 556,449**	**$ 314,355**	**$ 2,975,296**
STATUS OF BUDGETARY RESOURCES:									
Obligations Incurred									
Direct	$ 6,888,572	$ 2,889,288	$ -	$ 1,085,396	$ 238,779	$ 409,189	$ 549,706	$ 281,713	$ 1,434,501
Reimbursable	2,716,237	242,444	1,508,392	-	-	11,682	-	21,885	931,834
Total Obligations Incurred	**9,604,809**	**3,131,732**	**1,508,392**	**1,085,396**	**238,779**	**420,871**	**549,706**	**303,598**	**2,366,335**
Unobligated Balance									
Apportioned	400,576	104,437	2,764	98,995	23,775	8,087	5,024	-	157,494
Exempt from Apportionment	274,378	-	-	-	-	-	-	-	274,378
Unobligated Balance Not Available	**217,780**	**14,806**	**2,965**	**42**	**6,867**	**3,535**	**1,719**	**10,757**	**177,089**
TOTAL STATUS OF BUDGETARY RESOURCES	**$ 10,497,543**	**$ $3,250,975**	**$ 1,514,121**	**$ 1,184,433**	**$ 269,421**	**$ 432,493**	**$ 556,449**	**$ 314,355**	**$ 2,975,296**
RELATIONSHIP OF OBLIGATIONS TO OUTLAYS:									
Obligated Balance, Net, Beginning of Period (Unpaid)	$ 5,220,564	$ $1,497,774	$ 304,378	$ 846,840	$ 267,243	$ 113,399	$ 145,776	$ 893,588	$ 1,151,566
Adjustments to Obligated Balance, Beginning of Period (Unpaid)	1,172	-	-	-	-	-	-	-	1,172
Obligated Balance, Net, Beginning of Period, as Adjusted (Unpaid)	**$ 5,221,736**	**$ $1,497,774**	**$ 304,378**	**$ 846,840**	**$ 267,243**	**$ 113,399**	**$ 145,776**	**$ 893,588**	**$ 1,152,738**
Obligated Balance, Net, End of Period (Unpaid)									
Accounts Receivable	$ (120,055)	$ (95,999)	$ 927	$ -	$ -	$ (2,076)	$ (800)	$ -	$ (22,107)
Unfilled Customer Orders Without Advances	(132,268)	(73,803)	-	-	-	(1,713)	-	-	(56,752)
Undelivered Orders (Unpaid)	4,708,773	1,656,464	273,635	790,364	199,627	71,209	135,343	556,751	1,025,380
Accounts Payable	979,656	230,389	128,577	78,031	19,853	46,777	16,055	254,386	205,588
Total Obligated Balance, Net, End of Period (Unpaid)	**$ 5,436,106**	**$ 1,717,051**	**$ 403,139**	**$ 868,395**	**$ 219,480**	**$ 114,197**	**$ 150,598**	**$ 811,137**	**$ 1,152,109**
Outlays									
Disbursements	$ 9,298,191	$ 2,897,764	$ 1,402,139	$ 1,062,072	$ 277,029	$ 406,299	$ 542,626	$ 354,666	$ 2,355,596
Collections	(3,107,503)	(241,895)	(1,504,266)	(146)	(2,062)	(11,541)	(881)	(23,589)	(1,323,123)
Total Outlays	**6,190,688**	**2,655,869**	**(102,127)**	**1,061,926**	**274,967**	**394,758**	**541,745**	**331,077**	**1,032,473**
Less: Distributed Offsetting Receipts	(17,660)	-	-	-	-	-	-	-	(17,660)
NET OUTLAYS	**$ 6,173,028**	**$ 2,655,869**	**$ (102,127)**	**$ 1,061,926**	**$ 274,967**	**$ 394,758**	**$ 541,745**	**$ 331,077**	**$ 1,014,813**

Required Supplementary Stewardship Information

(unaudited)



Required Supplementary Stewardship Information (unaudited)

This section provides information on certain resources entrusted to the Department and certain stewardship responsibilities assumed by the Department. These resources and responsibilities are not required to be included in the assets and liabilities reported in the Department's financial statements; they are, however, important to understanding the operations and financial condition of the Department. This section also includes major investments made for the benefit of the nation.

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

Stewardship PP&E are assets, the physical properties of which resemble those of the General PP&E that is traditionally capitalized 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.

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 costs of multi-use heritage assets are capitalized as General PP&E and are depreciated over the useful life of the asset.

National Oceanic and Atmospheric Administration (NOAA):

Collection-type Heritage Assets: The NOAA's collection-type heritage assets are comprised primarily of books, publications, manuscripts, records, and nautical chart plates. The NOAA uses the Condition Assessment Survey (CAS) method to describe the condition of its heritage 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, publications, and manuscripts which make up the majority of the assets are in 4 - poor condition, and 5 - very poor condition.

Collection-type Heritage Assets					
Entity	**Description of Assets**	**Quantity of Items Held September 30, 2004**	**FY 2005 Additions**	**FY 2005 Withdrawals**	**Quantity of Items Held September 30, 2005**
National Environmental Satellite, Data and Information Service Library	Publications, books, manuscripts, photographs, and maps	150,522	56	(5)	150,573
Others	Artifacts, artwork, books, films, instruments, maps, and records	2,674	731	(1)	3,404
Total		**153,196**	**787**	**(6)**	**153,977**

Galveston Laboratory: Galveston Laboratory is comprised of seven buildings that were originally part of Fort Crockett, an Army coastal defense facility built shortly after 1900. These buildings are eligible for placement on the National Register. Due to their historic significance, exterior architectural features, and predominant use in government operations, the Galveston Laboratory is considered a multi-use heritage asset. This facility is undergoing a renovation in three phases. Phases I and II are complete, and Phase III commenced in October 2004. A bid solicitation for Phase III-A, renovation of Building 306, was issued, and a contract has been approved. The renovations are 60 percent complete as of September 30, 2005.

National Marine Fisheries Service (NMFS) Aquarium: In Woods Hole, Massachusetts, this aquarium is used to educate the public, raise public awareness of NMFS activities, and accommodate in-house research for the Northeast Fisheries Science Center, part of NOAA's mission. The aquarium houses 16 separate exhibition tanks holding more than 140 species of fish and invertebrates. The tanks range in size from 75 to 2,800 gallons. The general condition of the aquarium is good. The 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.

Office of Atmospheric Research (OAR) Great Lakes Environmental Research Laboratory (GLERL): The GLERL carries out research and provides scientific products, expertise, and services required for effective management and protection of Great Lakes and coastal ecosystems. Built in 1900 and formerly a Coast Guard base at Muskegon, Michigan, the GLERL 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 Shenehon, and to provide a focal point for GLERL's research on Lake Michigan.

Stewardship Marine Sanctuaries and Coral Reef Reserve:

NOAA:

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 our coastal waters. The Act authorized the Secretary of Commerce to designate discrete areas 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. The sanctuaries are also used for recreational diving and sport fishing, and support valuable commercial industries such as fishing and kelp harvesting. As of September 30, 2005, 13 National Marine Sanctuaries, which include near-shore coral reefs and open ocean, have been designated, covering a total area of 19 thousand square miles. The waters and resources of the National Marine Sanctuaries are generally in good condition, though some specific resources (e.g. certain coral reefs, some commercial and recreational fisheries, and some benthic habitats) are threatened. 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.

Northwestern Hawaiian Islands (NWHI) Coral Reef Ecosystem Reserve: Approximately 70 percent of all coral reefs located in U.S. waters surround the NWHI. The NWHI Coral Reef Ecosystem Reserve is the nation's largest marine protected area, and was established by Executive Orders in December 2000 and January 2001 in accordance with the National Marine Sanctuaries Amendments Act of 2000. The NOAA is presently developing an operations plan for the Reserve, which covers 132 thousand square miles, and has also initiated the process to designate the Reserve as a National Marine Sanctuary. The final Reserve Operations Plan (ROP) is now in its formal clearance process. Once completed, the ROP will be released to the public. The ROP serves as a guide for management of the reserve during the sanctuary designation process. The conclusion of the designation process is expected in the spring of 2006.

B 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, NOAA and EDA have significant investments in non-federal physical property.

NOAA:

National Estuarine Research Reserves (NERR): The NERR system consists of 26 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 at least two-thirds of 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, 2005, encompassed approximately 1.1 million acres of estuarine waters, wetlands, and uplands. Most of the reserves are state-operated and managed in cooperation with NOAA. Two additional reserves are in the process of development: St. Lawrence River Reserve in New York, and a proposed NERR in Texas. The 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 Zone Management Fund: The Coastal Zone Management Program (CZMP) 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. The 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 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. 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.

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 101 such projects.

The NOAA's investments in non-federal physical property for FY 2001 through FY 2005 were as follows:

(In Millions)

Program	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005	Total
National Estuarine Research Reserves	$ 31.6	$ 27.5	$ 24.0	$ 0.5	$ 15.4	$ 99.0
Coastal and Estuarine Land Conservation Program	N/A[1]	14.0	3.6	21.8	15.5	54.9
Total	**$ 31.6**	**$ 41.5**	**$ 27.6**	**$ 22.3**	**$ 30.9**	**$ 153.9**

[1] *Not applicable*

Economic Development Administration (EDA):

Public Works: The Public Works program promotes long-range 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 and Defense Adjustments: The Economic and Defense Adjustments program provides flexible investments for communities facing sudden or severe economic distress to diversify and stabilize its economy. Factors that seriously threaten the economic survival of local communities include essential plant closures, military base closures or realignments, defense laboratory or contractor downsizings, natural resource depletion, out-migration, under-employment, and destructive impacts of foreign trade.

Disaster Recovery: The Disaster Recovery program awards grants for the repair of infrastructure and economic development related facilities damaged by floods and other natural disasters. Funding for the Disaster Recovery program is generally through supplemental funding 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 2001 through FY 2005 were as follows:

(In Millions)

Program	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005	Total
Public Works	$ 174.9	$ 182.5	$ 232.8	$ 194.8	$ 220.1	$ 1,005.1
Economic and Defense Adjustments	131.6	109.0	88.7	75.3	75.4	480.0
Disaster Recovery	28.7	36.7	22.5	18.5	10.1	116.5
Total	**$ 335.2**	**$ 328.2**	**$ 344.0**	**$ 288.6**	**$ 305.6**	**$ 1,601.6**

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 30 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. There is also a Graduate Fellowship Program for Ph.D. candidates in the specialized areas of population dynamics and marine resource economics. 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 2005, 46 Graduate Research Fellowships have been awarded.

Educational Partnership Program: This program provides formal education and internship training opportunities for students attending minority-serving institutions. These funds also support field research and conference attendance where students present their research findings. 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. There were 28 students that started the program in FY 2005.

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. There were 110 students starting the program in 2005, and the first scholarship recipients are expected to complete the program in May 2007.

The following table summarizes NOAA's investments in human capital for FY 2001 through FY 2005:

(In Millions)

Program	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005	Total
National Sea Grant College Program	$ 0.6	$ 0.8	$ 0.7	$ 0.6	$ 0.7	$ 3.4
National Estuarine Research Reserve Program	0.7	0.8	0.1	0.8	0.9	3.3
Educational Partnership Program	N/A[1]	N/A	N/A	N/A	7.0	7.0
Ernest F. Hollings Undergraduate Scholarship Program	N/A	N/A	N/A	N/A	0.3	0.3
Total	**$ 1.3**	**$ 1.6**	**$ 0.8**	**$ 1.4**	**$ 8.9**	**$ 14.0**

[1] *Not applicable*

The following table further summarizes NOAA's human capital investments for FY 2004 and FY 2005 by performance goal:

(In Millions)

Performance Goal	FY 2004	FY 2005
Protect, Restore, and Manage the Use of Coastal and Ocean Resources Through an Ecosystem-based Management	$ 1.4	$ 8.9

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 and societal benefits. Based on a review of the Department's programs, the only significant investments in R&D are by NIST and NOAA.

National Institute of Standards and Technology (NIST):

NIST Laboratories Program: The NIST Laboratories have been the stewards of the U.S.'s measurement infrastructure since their inception in 1901 as the National Bureau of Standards. In fulfilling the Constitutional responsibility to fix the standards of weights and measures, these laboratories provide measurement methods, reference materials, test procedures, instrument calibrations, fundamental data, and standards that comprise essential tools for research, production, and buyer-seller transactions. The laboratories focus on two strategic goals: 1) provide technical leadership for the nation's measurement and standards infrastructure; and 2) assure the availability and efficient transfer of measurement and standards capabilities essential to established industries.

Advanced Technology Program (ATP): This program is a collaborative effort with industry to identify and promote investment in technologies with significant potential for broad-based economic benefits but inadequate levels of private investment.

ATP uses joint ventures and informal teaming arrangements to combine private investment and the best available scientific and technological talent in industry, universities, and government. Cost-shared research is funded through an annual competitive awards process. Awards are made only after rigorous examination of the technical and business merits of each proposal and of the potential benefits to the U.S. economy and quality of life. In FY 2005, ATP has not issued any new industrial research projects. The awards target a broad array of technologies, including pharmaceutical design, tissue engineering, industrial catalysts, energy generation and storage, manufacturing technologies, electronics manufacturing, computer software, and electro-optics.

The following table summarizes NIST's R&D investments for FY 2001 through FY 2005 by R&D Category:

(In Millions)

	NIST Laboratories					Advanced Technology Program					Total				
R&D Category	**FY 2001**	**FY 2002**	**FY 2003**	**FY 2004**	**FY 2005**	**FY 2001**	**FY 2002**	**FY 2003**	**FY 2004**	**FY 2005**	**FY 2001**	**FY 2002**	**FY 2003**	**FY 2004**	**FY 2005**
Basic Research	$ 62.5	$ 63.5	$ 74.2	$ 65.0	$ 66.6	$ -	$ -	$ -	$ -	$ -	$ 62.5	$ 63.5	$ 74.2	$ 65.0	$ 66.6
Applied Research	255.6	288.8	307.9	319.7	325.6	85.0	76.6	86.8	96.9	96.1	340.6	365.4	394.7	416.6	421.7
Development	20.8	19.1	19.4	13.7	14.3	85.0	76.6	86.9	96.9	96.0	105.8	95.7	106.3	110.6	110.3
Total	**$ 338.9**	**$ 371.4**	**$ 401.5**	**$ 398.4**	**$ 406.5**	**$ 170.0**	**$ 153.2**	**$ 173.7**	**$ 193.8**	**$ 192.1**	**$ 508.9**	**$ 524.6**	**$ 575.2**	**$ 592.2**	**$ 598.6**

The following tables further summarize NIST's R&D investments for FY 2004 and FY 2005 by performance goal:

(In Millions)

FY 2004				
Performance Goal	**Basic Research**	**Applied Research**	**Development**	**Total**
Assure the Availability and Efficient Transfer of Measurement and Standards Capabilities Essential to Established Industries	$ 65.0	$ 319.7	$ 13.7	$ 398.4
Accelerate Private Investment in and Development of High-risk, Broad-impact Technologies	-	96.9	96.9	193.8
Total	**$ 65.0**	**$ 416.6**	**$ 110.6**	**$ 592.2**

(In Millions)

FY 2005				
Performance Goal	**Basic Research**	**Applied Research**	**Development**	**Total**
Promote Innovation, Facilitate Trade, Ensure Public Safety and Security, and Help Create Jobs by Strengthening the Nation's Measurements and Standards Infrastructure	$ 66.6	$ 325.6	$ 14.3	$ 406.5
Accelerate Private Investment in and Development of High-risk, Broad-impact Technologies	-	96.1	96.0	192.1
Total	**$ 66.6**	**$ 421.7**	**$ 110.3**	**$ 598.6**

NOAA:

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

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

The 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.

The 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.

Here is a brief description of the major R&D programs of NOAA:

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. The NOAA's research laboratories, Office of Global Programs, and research partners conduct a wide range of research into complex climate systems, including the exploration and investigation of ocean habitats and resources. The NOAA's research organizations conduct applied research on the upper and lower atmosphere as well as the space environment.

Fisheries: The NOAA's NMFS is responsible for the collection and analysis of information on the status of fishery resources and protected species, and for conducting programs that develop fisheries for economic growth. The Magnuson-Stevens Fishery Conservation and Management Act (Act) mandates strong action to conserve and manage fishery resources that contribute to the food supply, economy, and health of the nation. The Act's provisions require NMFS to end over-fishing, rebuild all over-fished stocks, and conserve essential fish habitat through research and consultations on Federal and state actions that may adversely affect habitats. The NMFS's four major research priorities include research to support fishery conservation and management, conservation engineering research, research on the fisheries, and information management research.

Marine Operations and Maintenance and Aircraft Services: These expenditures support NOAA's programs requiring operating days and flight hours to collect data at sea and in the air. The 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. The 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 our precious coastal systems. Our understanding of the coastal environment is enhanced through coastal ocean activities that support science and resource management programs. 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 change. It also provides guidance for the development and evolution of spacecraft and sensors to meet future needs.

The NOAA's R&D investments by program for FY 2001 through FY 2005 were as follows:

(In Millions)

Program	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005	Total
Environmental and Climate	$ 266.2	$ 289.9	$ 351.4	$ 317.9	$ 307.8	$ 1,533.2
Fisheries	125.8	121.7	156.4	70.6	53.5	528.0
Marine Operations and Maintenance and Aircraft Services	18.0	19.3	90.4	51.7	57.5	236.9
Weather Service	11.1	11.0	20.4	17.6	26.9	87.0
Other	112.9	132.4	83.3	116.5	124.9	570.0
Total	**$ 534.0**	**$ 574.3**	**$ 701.9**	**$ 574.3**	**$ 570.6**	**$ 2,955.1**

The following table summarizes NOAA's R&D investments for FY 2001 through FY 2005 by R&D category:

(In Millions)

R&D Category	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005	Total
Applied Research	$ 511.0	$ 546.0	$ 680.8	$ 546.7	$ 514.8	$ 2,799.3
Development	23.0	28.3	21.1	27.6	55.8	155.8
Total	**$ 534.0**	**$ 574.3**	**$ 701.9**	**$ 574.3**	**$ 570.6**	**$ 2,955.1**

The following tables further summarize NOAA's R&D investments for FY 2004 and FY 2005 by performance goal:

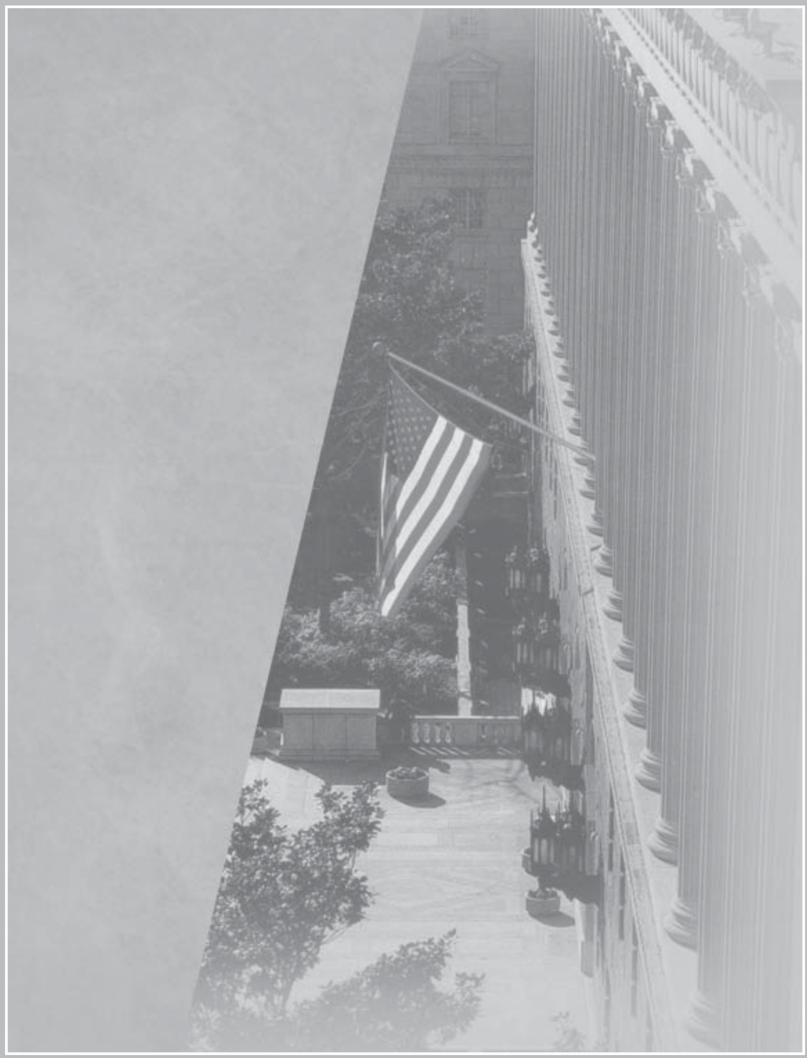
(In Millions)

FY 2004			
Performance Goal	**Applied Research**	**Development**	**Total**
Protect, Restore, and Manage the Use of Coastal and Ocean Resources Through an Ecosystem-based Management	$ 271.6	$ 10.1	$ 281.7
Understand Climate Variability and Change to Enhance Society's Ability to Plan and Respond	163.6	4.3	167.9
Serve Society's Needs for Weather and Water Information	94.9	9.2	104.1
Support the Nation's Commerce with Information for Safe, Efficient, and Environmentally Sound Transportation	16.6	4.0	20.6
Total	**$ 546.7**	**$ 27.6**	**$ 574.3**

(In Millions)

FY 2005			
Performance Goal	**Applied Research**	**Development**	**Total**
Protect, Restore, and Manage the Use of Coastal and Ocean Resources Through an Ecosystem-based Management	$ 242.4	$ 8.6	$ 251.0
Understand Climate Variability and Change to Enhance Society's Ability to Plan and Respond	157.8	5.3	163.1
Serve Society's Needs for Weather and Water Information	105.4	41.9	147.3
Support the Nation's Commerce with Information for Safe, Efficient, and Environmentally Sound Transportation	9.2	-	9.2
Total	**$ 514.8**	**$ 55.8**	**$ 570.6**

Independent Auditors' Report



INDEPENDENT AUDITORS' REPORT

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

November 10, 2005

MEMORANDUM FOR: Carlos M. Gutierrez
Secretary of Commerce

FROM: Johnnie E. Frazier *Johnnie Frazier*

SUBJECT: *Department of Commerce's FY 2005 Consolidated Financial Statements*, Audit Report No. FSD-17433-6-0001

I am pleased to provide you with the attached audit report, which presents an unqualified opinion on the Department of Commerce's FY2005 consolidated financial statements. The audit results indicate that the Department has established an internal control structure that facilitates the preparation of reliable financial and performance information. We commend the Department for the noteworthy accomplishment of once again attaining an unqualified opinion—the seventh consecutive year, and for meeting the fiscal year 2005 accelerated reporting deadline.

My office contracted with the independent public accounting firm of KPMG LLP (KPMG) to perform the audit of the Department's financial statements as of and for the year ended September 30, 2005. The contract required that the audit be done in accordance with U.S. generally accepted government auditing standards and OMB Bulletin 01-02, *Audit Requirements for Federal Financial Statements.*

In its audit of the Department, KPMG found that:

- the financial statements were fairly presented, in all material respects and in conformity with U.S. generally accepted accounting principles;
- there were two reportable conditions related to weaknesses in controls over the Department's financial management systems and National Institute of Standards and Technology's construction-in-progress account monitoring (but not considered material weaknesses in internal control as defined on page 3 of the audit report);
- there were 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; and
- there was one instance in which the Department did not comply with other laws and regulations tested—the Anti-Deficiency Act.

Although continued strengthening of internal controls is necessary, we are pleased that in 2005 the Department made improvements in general information technology controls and eliminated a finding of noncompliance with laws and regulations (a repeat condition since 1997). During fiscal year 2005, the National Oceanic and Atmospheric Administration achieved compliance

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with OMB Circular A-11, *Preparation, Submission, and Execution of the Budget*, by fully funding all of its capital leases. These successes are due to the Department's continued commitment to sound financial management and reliable financial/performance information and the important role and substantial efforts of the Department's financial managers and staff to improve internal controls and eliminate specific deficiencies identified by KPMG and our office in prior audits.

My office defined the audit's scope and oversaw its performance and delivery. 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 U.S. generally accepted government auditing standards, was not intended to enable us to express, and we do not express, an opinion on the Department's consolidated financial statements, conclusions about the effectiveness of internal control, or conclusions on compliance with laws and regulations. KPMG is responsible for the attached audit report dated November 8, 2005, and the conclusions expressed in the report.

In accordance with Department Administrative Order (DAO) 213-5, we ask that the Department's Chief Financial Officer and Assistant Secretary for Administration provide for our review and concurrence an audit action plan that addresses all of the recommendations contained in this report within 60 days of the date of this memorandum.

If you wish to discuss the contents of this report, please call me on (202) 482-4661, or Edward Blansitt, Deputy Inspector General, on (202) 482-3516. We appreciate the cooperation and courtesies the Department extended to KPMG and my staff during the audit.

Attachment

cc: Otto J. Wolff
Chief Financial Officer and Assistant Secretary for Administration

Tom Pyke
Chief Information Officer

Thomas Klausing
Acting Chief Financial Officer, NIST

KPMG LLP
2001 M Street, NW
Washington, DC 20036

Independent Auditors' Report

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

We have audited the accompanying consolidated balance sheets of the U. S. Department of Commerce (Department) as of September 30, 2005 and 2004, and the related consolidated statements of net cost, changes in net position, and financing, and the combined statements of budgetary resources (hereinafter referred to as consolidated financial statements), for the years then ended. The objective of our audits was to express an opinion on the fair presentation of these consolidated financial statements. In connection with our audits, we also considered the Department's internal control over financial reporting and tested the Department's compliance with certain provisions of applicable laws, regulations, contracts, and grant agreements that could have a direct and material effect on these consolidated financial statements.

SUMMARY

As stated in our opinion on the consolidated financial statements, we concluded that the Department's consolidated financial statements as of and for the years ended September 30, 2005 and 2004, are presented fairly, in all material respects, in conformity with accounting principles generally accepted in the United States of America.

Our consideration of internal control over financial reporting resulted in the identification of two reportable conditions, related to weaknesses in the Department's general information technology controls and the National Institute of Standards and Technology's (NIST) construction-in-progress account monitoring controls. However, we do not consider these reportable conditions to be material weaknesses.

The results of our tests of compliance with certain provisions of laws, regulations, contracts, and grant agreements disclosed one instance of noncompliance or other matters that are required to be reported under *Government Auditing Standards*, issued by the Comptroller General of the United States, and Office of Management and Budget (OMB) Bulletin No. 01-02, *Audit Requirements for Federal Financial Statements*.

The following sections discuss our opinion on the Department's consolidated financial statements, our consideration of the Department's internal control over financial reporting, our tests of the Department's compliance with certain provisions of applicable laws, regulations, contracts, and grant agreements, and management's and our responsibilities.

KPMG

OPINION ON THE CONSOLIDATED FINANCIAL STATEMENTS

We have audited the accompanying consolidated balance sheets of the U.S. Department of Commerce as of September 30, 2005 and 2004, and the related consolidated statements of net cost, changes in net position, financing, and the related combined statements of budgetary resources, for the years then ended.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Department as of September 30, 2005 and 2004, and its net costs, changes in net position, budgetary resources, and reconciliation of net costs to budgetary obligations for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

The information in the Management Discussion and Analysis, Required Supplementary Stewardship Information, and Required Supplementary Information sections is not a required part of the consolidated financial statements, but is supplementary information required by accounting principles generally accepted in the United States of America or OMB Circular A-136, *Financial Reporting Requirements*, Part A, *Form and Content of the Performance and Accountability Report*. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of this information. However, we did not audit this information and, accordingly, we express no opinion on it.

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The September 30, 2005 consolidating balance sheet is presented for purposes of additional analysis of the consolidated balance sheet rather than to present the financial position of the Department's bureaus individually. The September 30, 2005 consolidating balance sheet has been subjected to the auditing procedures applied in the audits of the consolidated financial statements and, in our opinion, based on our audits, is fairly stated in all material respects in relation to the September 30, 2005 consolidated balance sheet taken as a whole. The information in the FY 2005 Performance Section, Appendices, and the information on pages IV through VIII, are presented for purposes of additional analysis and are not required as part of the consolidated financial statements. This information has not been subjected to auditing procedures and, accordingly, we express no opinion on it.

INTERNAL CONTROL OVER FINANCIAL REPORTING

Our consideration of internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be reportable conditions. Under standards issued by the American Institute of Certified Public Accountants, reportable conditions are matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Department's ability to record,

process, summarize, and report financial data consistent with the assertions by management in the consolidated financial statements.

Material weaknesses are reportable conditions in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements, in amounts that would be material in relation to the consolidated financial statements being audited, may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

In our fiscal year 2005 audit, we noted certain matters, summarized below and in more detail in Exhibit I, involving internal control over financial reporting and its operation that we consider to be reportable conditions. However, these reportable conditions are not believed to be material weaknesses.

- **General information technology controls**. We found that although the Department has taken corrective actions to address certain information technology (IT) control weaknesses, general IT weaknesses still exist. Despite the positive efforts made by the Department, the Department needs to make continued improvement in its IT general control environment to fully ensure that financial data being processed on the Department's systems has integrity, is confidentially maintained, and is available when needed.

- **Accounting for NIST construction-in-progress**. Prior to March 31, 2005, NIST did not have a policy requiring a periodic reconciliation of the construction-in-progress (CIP) account balance, by project, to active construction project files maintained by the NIST facilities management personnel in Gaithersburg, Maryland and Boulder, Colorado. NIST also did not have a procedure to annually validate the status of project balances in the CIP account. The lack of sufficient monitoring controls resulted in an overstatement of CIP from costs incurred between 1998 and 2004 that should have been expensed or transferred to completed property projects.

* * * * *

A summary of the status of the Department's prior year reportable condition is included as Exhibit II.

We also noted certain additional matters that we reported to the management of the Department in two separate letters addressing information technology and other matters, respectively.

COMPLIANCE AND OTHER MATTERS

Our tests of compliance with certain provisions of laws, regulations, contracts, and grant agreements, as described in the Responsibilities section of this report, exclusive of those referred to in the *Federal Financial Management Improvement Act of 1996* (FFMIA),

disclosed one instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards* and OMB Bulletin No. 01-02, and is described below.

- **Anti-Deficiency Act.** As reported in the prior year audit, we were informed by the National Oceanic and Atmospheric Administration (NOAA) that during fiscal year 2004, it identified two reimbursable agreements, one signed in fiscal year 2000 and the other in fiscal year 2001, between NOAA and nonprofit entities that contained indemnification clauses. As of November 9, 2004, the date of our fiscal year 2004 Independent Auditors' Report, the two agreements were amended, eliminating future Anti-Deficiency Act (ADA) concerns and the Department's Office of General Counsel (OGC) was reviewing this matter to determine whether an ADA violation occurred. Subsequently, OGC determined that the indemnification clauses were *prima facie* violations of the ADA because those clauses constituted open-ended obligations of the Government, even though no liability claims were filed under the agreements. The Department reported these violations to the President and Congress on December 20, 2004, as required by United States Code (USC) Title 31 Section 1517 and 1351. The OGC also reported these violations to the Comptroller General of the United States on March 14, 2005.

  In a separate OGC review, OGC identified a license that also contained an indemnification clause. NOAA reviewed other real property arrangements (such as leases and licenses), to ensure that those agreements did not contain indemnification clauses. NOAA found that 80 of 2,130 real property agreements, with the earliest signed in 1923, included indemnification clauses or provisions involving an indeterminate liability, or both. The OGC determined that these clauses or provisions also were *prima facie* violations of the ADA. Each individual who signed those agreements and who is still a NOAA employee has been given administrative discipline under the Department of Commerce Table of Offenses and Penalties. The Department reported these violations to OMB for their review and forwarding to the President. OMB has not yet forwarded the report to the President. On the day it does so, the Department will simultaneously send letters to Congress and the Comptroller General of the United States as required by 31 USC Section 1517(b), as amended.

The results of our tests of compliance with certain provisions of other laws and regulations, exclusive of those referred to in FFMIA, disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* or OMB Bulletin No. 01-02.

FFMIA. The results of our tests of FFMIA disclosed no instances in which the Department's financial management systems did not substantially comply with the three requirements discussed in the Responsibilities section of this report.

Additional Concern. The OGC informed us that during fiscal year 2005, the Economic and Statistics Administration (ESA) identified a one-year agreement between ESA and a foreign government that contained an indemnification clause. As a result of this

discovery, ESA conducted an investigation and located six previously executed one-year agreements for subscription services with the same party containing the same indemnification clause. The agreements have been provided to OGC to determine whether an ADA violation occurred, but a conclusion has not yet been reached. ESA has confirmed that no claims have been made against ESA or the Department based on these agreements. Since OGC's review is not complete, the outcome of this matter, and any resulting ramifications, is not presently known.

RESPONSIBILITIES

Management's Responsibilities. The *Government Management Reform Act of 1994*, *Accountability of Tax Dollars Act,* and *Government Corporation Control Act* require agencies to report annually to Congress on their financial status and any other information needed to fairly present their financial position and results of operations. To meet these reporting requirements, the Department prepares and submits consolidated financial statements in accordance with Part A of OMB Circular A-136.

Management is responsible for the consolidated financial statements, including:

- Preparing the consolidated financial statements in conformity with accounting principles generally accepted in the United States of America;

- Preparing the Management Discussion and Analysis (including the performance measures), Required Supplementary Information, and Required Supplementary Stewardship Information;

- Establishing and maintaining internal controls over financial reporting; and

- Complying with laws, regulations, contracts, and grant agreements, including FFMIA.

In fulfilling this responsibility, management is required to make estimates and judgments to assess the expected benefits and related costs of internal control policies. Because of inherent limitations in internal control, misstatements due to error or fraud may nevertheless occur and not be detected.

Auditors' Responsibilities. Our responsibility is to express an opinion on the fiscal year 2005 and 2004 consolidated financial statements of the Department 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*, and OMB Bulletin No. 01-02. Those standards and OMB Bulletin No. 01-02 require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Department's internal control over financial reporting. Accordingly, we express no such opinion.

An audit also includes:

- Examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements;
- Assessing the accounting principles used and significant estimates made by management; and
- Evaluating the overall consolidated financial statement presentation.

We believe that our audits provide a reasonable basis for our opinion.

In planning and performing our fiscal year 2005 audit, we considered the Department's internal control over financial reporting by obtaining an understanding of the Department's internal control, determining whether internal controls had been placed in operation, assessing control risk, and performing tests of controls in order to determine our auditing procedures for the purpose of expressing our opinion on the consolidated financial statements. We limited our internal control testing to those controls necessary to achieve the objectives described in *Government Auditing Standards* and OMB Bulletin No. 01-02. We did not test all internal controls relevant to operating objectives as broadly defined by the *Federal Managers' Financial Integrity Act of 1982*. The objective of our audit was not to provide assurance on the Department's internal control over financial reporting. Consequently, we do not provide an opinion thereon.

As required by OMB Bulletin No. 01-02, in our fiscal year 2005 audit, we considered the Department's internal control over the Required Supplementary Stewardship Information by obtaining an understanding of the Department's internal control, determining whether these internal controls had been placed in operation, assessing control risk, and performing tests of controls. Our procedures were not designed to provide assurance on internal control over the Required Supplementary Stewardship Information and, accordingly, we do not provide an opinion thereon.

As further required by OMB Bulletin No. 01-02, in our fiscal year 2005 audit, with respect to internal control related to performance measures determined by management to be key and reported in the Management Discussion and Analysis and Performance sections, we obtained an understanding of the design of significant internal controls relating to the existence and completeness assertions. Our procedures were not designed to provide assurance on internal control over reported performance measures and, accordingly, we do not provide an opinion thereon.

As part of obtaining reasonable assurance about whether the Department's fiscal year 2005 consolidated financial statements are free of 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 consolidated financial statement amounts, and certain provisions of other laws and regulations specified in OMB Bulletin No. 01-02, including certain provisions referred to in FFMIA. We limited our tests of compliance to the provisions described in the preceding sentence, and we did not test compliance with all laws, regulations, contracts, and grant agreements applicable to the Department. However, providing an opinion on compliance with laws, regulations, contracts, and grant agreements was not an objective of our audit and, accordingly, we do not express such an opinion.

Under OMB Bulletin No. 01-02 and FFMIA, we are required to report whether the Department's financial management systems substantially comply with (1) Federal financial management systems requirements, (2) applicable Federal accounting standards, and (3) the United States Government Standard General Ledger at the transaction level. To meet this requirement, we performed tests of compliance with FFMIA Section 803(a) requirements.

DISTRIBUTION

This report is intended solely for the information and use of the Department's management, the Department's Office of Inspector General, OMB, the Government Accountability Office, and the U.S. Congress and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

November 8, 2005

U.S. Department of Commerce
Independent Auditors' Report
Exhibit I – Reportable Conditions

Financial Management Systems Need Improvement ***(Repeat Condition Since 1998)***

For many years, the U.S. Department of Commerce (Department) Office of Inspector General (OIG), U.S. Government Accountability Office (GAO), and departmental self-assessments have identified weaknesses in the Department's information technology (IT) and financial systems controls. Our fiscal year 2005 assessment of the Department's general IT and financial systems controls, performed in support of the fiscal year 2005 consolidated financial statement audit, found that although the Department needs to make further progress with its general IT control environment, progress has been made in addressing many prior weaknesses. For example, during FY 2005 Commerce took several positive steps with its IT control processes, not only to improve controls and processes, but also to help address previously reported IT control weaknesses, including an IT security material weakness reported under the *Federal Managers' Financial Integrity Act* (FMFIA).

As in FY 2004, Commerce continued to focus on improving the Department's information security certification and accreditation program, which is a key information security management and technical control process. Additionally, in June 2005, the Department successfully met its goal of publishing a major revision to the *Department of Commerce IT Security Program Policy and Minimum Implementation Standards*. The guidance defines updated DOC mandatory minimally acceptable standards for the implementation of effective IT security programs at all bureaus and operating units. The newly published version incorporates, by reference, the most current Public Laws, Federal requirements, and Departmental policies and procedures affecting security of Federal information systems. It also includes recommended management practices of the Federal government and private industry.

Despite these improvements, we continued to identify weaknesses in general IT controls that we consider to be a reportable condition as defined by the American Institute of Certified Public Accountants. As part of the Department's fiscal year 2005 FMFIA evaluation, the Department determined (and the OIG also confirmed) that a material weakness, related to IT information security, continues to exist.

Effective general IT controls add assurance that data used to prepare and report financial information and statements is complete, reliable, and has integrity. Our fiscal year 2005 IT assessment was focused on the general IT controls over the Department's major financial management systems and supporting network infrastructure, using GAO's *Federal Information System Controls Audit Manual* (FISCAM) as a guide. The six FISCAM general IT control review elements, and our related findings, are as follows:

- **Entity-wide security program.** An entity-wide security program for security planning and management is the foundation of an organization's information security control structure. The program should provide a framework and continuing cycle of activity for managing risk, developing security policies, assigning responsibilities, and monitoring the adequacy of computer-related security controls.

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Independent Auditors' Report
Exhibit I – Reportable Conditions, Continued

Although the Department has made improvements in this area, our audit identified that entity-wide security can still be improved at several bureaus, primarily in the areas of: (1) updating system security plans, (2) execution of non-disclosure agreements by contractors, and (3) security awareness and specialized security training. We also noted that during the year one bureau had not re-certified a system after a major upgrade.

Office of Management and Budget (OMB) Circular A-130, *Management of Federal Information Resources*, provides key guidance for establishing and maintaining an entity-wide information security program. Collectively, the identified entity-wide security planning and management issues, coupled with the access control issues described below, reduce the overall effectiveness of the entity-wide security programs for the individual bureaus and operating units, and the overall Department. The *Department of Commerce IT Security Program Policy and Minimum Implementation Standards*, reiterates OMB Circular A-130 guidance, and implements key elements of such guidance as Department-wide policy.

- **Security access controls.** In close concert with an organization's entity-wide information security program, access controls for general support systems and financial systems 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, loss, or impairment. Access controls are facilitated by an organization's entity-wide security program. Such controls include physical controls and logical controls.

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

  During fiscal year 2005, we noted that access controls should be improved at all Department bureaus, primarily in the areas of improved: (1) management of user accounts, (2) logical controls for network and remote access, (3) requirements for obtaining signed user Rules of Behavior, and (4) technical controls for system devices to protect against vulnerabilities associated with malicious threats and attacks. We recognize that the Department and its bureaus have some compensating controls in place to help reduce the risk of the identified vulnerabilities, and we have considered

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Independent Auditors' Report
Exhibit I – Reportable Conditions, Continued

such compensating controls as part of our overall consolidated financial statement audit.

- **Application software development and change control**. The primary focus of application software development and change control is on controlling the changes that are made to software systems in operation. Establishing controls over the modification of application software programs ensures that only authorized programs and authorized modifications are implemented. This is accomplished by instituting policies, procedures, and techniques to determine that all programs and program modifications are properly authorized, tested, and approved, and that access to and distribution of programs is carefully controlled. 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.

  During fiscal year 2005, we noted that application software development and change controls should be improved at three bureaus, primarily in the areas of better: (1) processes for the removal of unauthorized personal and public software, (2) monitoring of access to the production environment, and (3) tracking of access to software libraries.

- **System software.** System software is a set of programs designed to operate and control the processing activities of computer equipment. System software helps control the input, processing, output, and data storage associated with all of the applications that run on a system. Controls over access to and modification of system software are essential in providing reasonable assurance that operating system-based security controls are not compromised and that the system will not be impaired.

  During fiscal year 2005, we noted that system software controls should be improved at two bureaus, primarily in the areas of: (1) restricting and monitoring the use of system software, and (2) improving patch management processes.

- **Segregation of duties.** Work responsibilities should be segregated so that an individual does not control more than one critical function within a process. Inadequately segregated duties increase the risk that erroneous or fraudulent transactions could be processed, improper program changes could be implemented, and computer resources could be damaged or destroyed. Key areas of concern for segregation of duties involves 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. The prevention and/or detection of unauthorized or erroneous actions by personnel require effective supervision and review by management, as well as formal operating procedures.

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Independent Auditors' Report
Exhibit I – Reportable Conditions, Continued

During fiscal year 2005, we noted that controls over segregation of duties should be improved at two bureaus, primarily related to segregating key IT functions and better documentation of IT-related position descriptions.

- **Service continuity**. Losing the capability to process, retrieve, and protect information maintained electronically can significantly affect an agency's ability to accomplish its mission. For this reason, an agency should have: (1) procedures in place to protect information resources and minimize the risk of unplanned interruptions, and (2) a plan to recover critical operations should interruptions occur.

  During fiscal year 2005, we noted that service continuity controls should be improved at several Department bureaus, primarily in the areas of: (1) testing disaster recovery and continuity plans, (2) procuring alternate processing sites, (3) including key elements, such as emergency processing priorities, in documented plans, and (4) providing for the regular maintenance and testing of data center environmental controls. We also noted that one bureau had not conducted a business impact analysis as a part of their contingency planning activities.

Recommendations

Specific recommendations are included in a separate limited distribution IT general controls report, issued as part of the fiscal year 2005 consolidated financial statement audit. The Department should monitor bureau actions to ensure effective implementation of our recommendations.

Management's Response

Management agreed with our findings, conclusions, and recommendations related to improving the Department's financial management systems controls. The Department is in the process of finalizing corrective action plans to address the recommendations presented in the separate limited distribution IT general controls report.

Accounting for NIST Construction-In-Progress Needs Improvement

During our audit, the NIST Finance Division (NIST Finance) informed us that its Construction-in-Process (CIP) account did not reconcile to the dollar amount of active CIP projects. NIST determined that its CIP account was overstated by approximately \$127 million, related to (1) costs incurred on fiscal year 2004 and prior projects that had since been completed and not transferred to a completed property account, and (2) costs recorded in CIP that were not capitalizable. A detailed analysis of this issue, performed by NIST and its consultants, was hindered because NIST did not maintain documentation to support costs incurred in the CIP account prior to fiscal year 1999. NIST ultimately determined that \$68 million should be transferred to completed projects with the associated \$6 million of accumulated depreciation added to the general ledger and \$59

U.S. Department of Commerce
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Exhibit I – Reportable Conditions, Continued

million should be expensed. The expense adjustment relates to over eight years of costs incurred associated with the Construction of Research Facilities (CRF) appropriation that were recorded in CIP, even though the CRF appropriation includes funding for non-capitalizable items (such as routine repairs and maintenance expenditures for existing facilities). Adjustments were made to NIST's CIP account in FY 2005 to correct the Department's consolidated financial statements for these misstatements.

The CIP accounting issues occurred because NIST did not have sufficient controls in place to segregate capitalizable versus non-capitalizable costs. Prior to March 31, 2005, NIST did not have a policy requiring a periodic reconciliation of the CIP account balance, by project, to active construction project files maintained by the NIST facilities management personnel in Gaithersburg, Maryland and Boulder, Colorado. NIST also did not have a procedure to annually validate the status of project balances in the CIP account.

Recommendations

We recommend that the NIST Chief Financial Officer (CFO) establish and enforce routine controls to ensure that completed construction projects are removed timely from CIP and only capitalizable costs are added to NIST's CIP balance. Specifically:

- A routine process should be established that requires communication between NIST Finance and NIST facilities management personnel in Gaithersburg, Maryland and Boulder, Colorado regarding the status of active construction projects to ensure that completed projects are transferred from CIP into completed asset accounts, timely.

- The NIST CFO and Chief Facilities Management Officer should coordinate efforts to ensure that NIST Finance is performing timely quarterly reconciliations of CIP cost reports to ensure that all costs in the CIP account are capitalizable and relate to active construction projects. Additionally, they should also coordinate efforts to ensure that NIST facilities management personnel in Gaithersburg, Maryland and Boulder, Colorado is maintaining complete and current project files and is communicating timely capitalization information to NIST Finance.

- NIST Finance should finalize and implement policies and procedures relating to accounting and reporting of CIP costs. These policies and procedures should incorporate all aspects of accounting for and managing CIP costs, including reviewing appropriation and budget language, monitoring and validating project activities, performing timely quarterly reconciliations, and performing proper capitalization.

U.S. Department of Commerce
Independent Auditors' Report
Exhibit I – Reportable Conditions, Continued

Management's Response

Management agreed with our findings, conclusions, and recommendations related to improving NIST's accounting for CIP. The Department is in the process of finalizing corrective action plans to address the above recommendations.

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Independent Auditors' Report
Exhibit II – Status of Prior Year Reportable Condition

Reported Issue	Prior Year Recommendation	Fiscal Year 2005 Status
Financial Management Systems Need Improvement		
Weaknesses in general controls were identified in all six FISCAM review areas.	The Department should monitor bureau actions to ensure effective implementation of our recommendations.	Reportable Condition (see comments in Exhibit I).

APPENDICES

PERFORMANCE AND RESOURCE TABLES

To make the report more useful, this FY 2005 Performance and Accountability Report (PAR) reports on targets and measures from the FY 2006 Annual Performance Plan (APP), which more accurately reflects updated targets of each performance measure. Individual bureau-specific APPs can be found on the Department of Commerce Web site at http://www.osec.doc.gov/bmi/budget/budgetsub_perf_strategicplans.htm. The resource tables with the performance tables are also combined to make the information easier to follow.

The following tables provide an array of information that previously was shown in separate tables. The information should help the reader clearly understand the resources expended for each Strategic Goal, Objective, and Performance Goal.

The system of reporting does not currently allow the Department to report on resources at the performance measure level but it is Commerce's hope to develop this capability in the future. It is important to note that if a performance measure has been met, a green circle will appear. A measure that was slightly below target (95 percent - 99 percent of the target) appears as yellow, while a measure that was definitely not met appears as red.

The information in the tables will follow the following format:

- Strategic Goal and Resources
- Objective and Resources
- Performance Goal and Resources
- Performance Measure

Note: Unless otherwise noted, measures that do not have targets, are new, or are baseline are not included in any count in this document. Resources for each performance goal are estimates and may be updated in the budget for FY 2007.

STRATEGIC GOAL 1

Provide the information and tools to maximize U.S. competitiveness and enable economic growth for American industries, workers, and consumers

STRATEGIC GOAL 1 TOTAL RESOURCES (Dollars in Millions)				
	FY 2002 Actual	FY 2003 Actual	FY 2004 Actual	FY 2005 Actual
Total Funding FTE[1]	$1,704.1 11,827	$1,745.7 11,306	$1,854.0 11,778	$1,888.5 11,877
[1] FTE – Full-Time Equivalent				

STRATEGIC OBJECTIVE 1.1

Enhance economic growth for all Americans by developing partnerships with private sector and nongovernmental organizations

OBJECTIVE 1.1 RESOURCES (Dollars in Millions)				
	FY 2002 Actual	FY 2003 Actual	FY 2004 Actual	FY 2005 Actual
Total Funding FTE[1]	$677.5 1,990	$662.2 2,288	$681.4 2,272	$605.8 1,910
[1] FTE – Full-Time Equivalent				

PERFORMANCE GOAL: Increase private enterprise and job creation in economically distressed communities (EDA)

PERFORMANCE GOAL RESOURCES (Dollars in Millions)				
	FY 2002 Actual	FY 2003 Actual	FY 2004 Actual[2]	FY 2005 Actual
Total Funding FTE[1]	$296.6 155	$258.3 149	$252.4 134	$213.9 134
[1] FTE – Full-Time Equivalent [2] Actuals reflect direct obligations for economic development assistance programs (EDAP) and salaries and expenses (S&E); totals do not include one-time, disaster investments or reimbursable funding.				

PERFORMANCE GOAL MEASURES							
	MEASURE	FY 2002 Actual	FY 2003 Actual	FY 2004 Actual	FY 2005 Target	FY 2005 Actual	FY 2005 Met/Not Met
EDA	**Private sector dollars invested in distressed communities as a result of EDA investments**	$640M	$1,251M from FY 2000 investments and $2,475M from FY 1997 investments	$1,740M from FY 1998 investments (6 year) and $947M from FY 2001 investments (3 year)[1]	$270M by 2008, $674M by 2011, $1,349M by 2014	$1,781M from FY 1999 investments and $1,791M from FY 2002 investments	

PERFORMANCE GOAL MEASURES *(continued)*

	MEASURE	FY 2002 Actual	FY 2003 Actual	FY 2004 Actual	FY 2005 Target	FY 2005 Actual	FY 2005 Met/Not Met
EDA	**Jobs created or retained in distressed communities as a result of EDA investments**	29,912 from FY 1999 investments	39,841 from FY 2000 investments and 47,607 from FY 1997 investments	68,109 from FY 1998 investments (6 year) and 21,901 from FY 2001 investments (3 year) [2]	7,251 by 2008, 18,128 by 2011, 36,255 by 2014	47,374 from FY 1999 investments and 19,672 from FY 2002 investments	

[1] Targets were $650M from FY 1998 investments (6 year) and $480M from FY 2001 investments (3 year).
[2] Targets were 27,000 from FY 1998 investments (6 year) and 14,400 from FY 2001 investments (3 year).

PERFORMANCE GOAL: Improve community capacity to achieve and sustain economic growth (EDA)

PERFORMANCE GOAL RESOURCES *(Dollars in Millions)*

	FY 2002 Actual	FY 2003 Actual	FY 2004 Actual[2]	FY 2005 Actual
Total Funding	$68.8	$67.3	$71.9	$71.3
FTE[1]	84	80	72	73

[1] FTE – Full-Time Equivalent
[2] Actuals reflect direct obligations for EDAP and S&E; totals do not include one-time, disaster investments or reimbursable funding.

PERFORMANCE GOAL MEASURES

	MEASURE	FY 2002 Actual	FY 2003 Actual	FY 2004 Actual	FY 2005 Target	FY 2005 Actual	FY 2005 Met/Not Met
EDA	**Percentage of economic development districts and Indian tribes implementing economic development projects from the comprehensive economic development strategy process that lead to private investment and jobs**	New	98.7%	97%	95%	97%	
EDA	**Percentage of sub-state jurisdiction members actively participating in the economic development district program**	95.3%	96.7%	90.1%	89-93%	91%	
EDA	**Percentage of University Center clients taking action as a result of the assistance facilitated by the University Center**	New	78.1%	78.4%	75%	79%	
EDA	**Percentage of those actions taken by University Center clients that achieved the expected results**	New	85.7%	87.5%	80%	87%	

PERFORMANCE GOAL MEASURES *(continued)*							
MEASURE		FY 2002 Actual	FY 2003 Actual	FY 2004 Actual	FY 2005 Target	FY 2005 Actual	FY 2005 Met/Not Met
EDA	Percentage of Trade Adjustment Assistance Centers (TAACs) clients taking action as a result of the assistance facilitated by the TAACs	New	92.4%	90%	90%	95%	
EDA	Percentage of those actions taken by Trade Adjustment Assistance Center clients that achieved the expected results	New	98.4%	98%	95%	97%	

PERFORMANCE GOAL: Strengthen U.S. industries (ITA)

PERFORMANCE GOAL RESOURCES *(Dollars in Millions)*				
	FY 2002 Actual[2]	FY 2003 Actual[2]	FY 2004 Actual[2]	FY 2005 Actual
Total Funding	$208.5	$210.7	$206.3	$52.5
FTE[1]	1,236	1,064	1,250	255

[1] FTE – Full-Time Equivalent

[2] In FY 2005 ITA reorganized its performance structure, reducing the number of goals from four to two goals for this objective. FY 2002-2004 actuals shown here reflect the level for the strengthen U.S. industries goal and the two discontinued goals.

PERFORMANCE GOAL MEASURES							
MEASURE		FY 2002 Actual	FY 2003 Actual	FY 2004 Actual	FY 2005 Target	FY 2005 Actual	FY 2005 Met/Not Met
ITA	Customer perception of ease of access to export and trade information and data	New	74	74	74	74	

PERFORMANCE GOAL: Expand U.S. exporter base (ITA)

PERFORMANCE GOAL RESOURCES *(Dollars in Millions)*				
	FY 2002 Actual	FY 2003 Actual	FY 2004 Actual	FY 2005 Actual
Total Funding	$75.3	$97.2	$121.9	$238.6
FTE[1]	423	903	724	1,352

[1] FTE – Full-Time Equivalent

PERFORMANCE GOAL MEASURES							
MEASURE		FY 2002 Actual	FY 2003 Actual	FY 2004 Actual	FY 2005 Target	FY 2005 Actual	FY 2005 Met/Not Met
ITA	Percentage of undertaken advocacy actions completed successfully	11.8%	10%	13%	10% to 15%	12%	
ITA	Number of U.S. exporters entering a new market	5,740	6,278	4,759	4,760 to 5,500	4,888	

PERFORMANCE GOAL MEASURES *(continued)*							
	MEASURE	FY 2002 Actual	FY 2003 Actual	FY 2004 Actual	FY 2005 Target	FY 2005 Actual	FY 2005 Met/Not Met
ITA	**Number of U.S. firms exporting for the first time**	699	896	704	700-850	620	
ITA	*Performance was not met, because:* External factors have impacted this effort. Although the weak dollar has increased exports overseas, rising energy costs, market uncertainties, and trade disruptive externalities such as the Tsunami and recent Hurricanes have impacted many companies seeking to expand to new markets overseas.						
ITA	*Strategies for Improvement:* ITA continues to encourage U.S. firms to enter exporting, especially in regions of the world least impacted by the above stated externalities. ITA has outlined strategies to increase the number of new clients through targeting New-to-Export and New-to-Market companies, as well as rural and minority firms, e.g., ITA developed a strategy for ASEAN market to increase accessibility and efficiency for U.S. exporters.						
ITA	**Number of export transactions made as a result of ITA involvement**	12,178	14,090	11,382	11,385 to 13,500	12,518	
ITA	**Percentage of TP/US&FCS program fee funded**	New	New	1%	2%	2%	

PERFORMANCE GOAL: Increase access to the marketplace and financing for minority-owned businesses (MBDA)

PERFORMANCE GOAL RESOURCES *(Dollars in Millions)*				
	FY 2002 Actual	FY 2003 Actual	FY 2004 Actual	FY 2005 Actual
Total Funding	$28.3	$29.0	$28.9	$29.5
FTE[1]	92	92	92	95

[1] FTE – Full-Time Equivalent

PERFORMANCE GOAL MEASURES							
	MEASURE	FY 2002 Actual	FY 2003 Actual	FY 2004 Actual	FY 2005 Target	FY 2005 Actual	FY 2005 Met/Not Met
MBDA	**Clients receiving services**	New	7,228	29,475[1]	25,000	20,000[3]	
MBDA	*Performance was not met, because:* MBDA expects to achieve only 80 percent of this target in FY 2005. MBDA's strategic growth initiative encourages funded centers to assist minority firms with gross receipts of at least $500,000. As these larger firms require more complex and time-intensive services, the number of clients centers are able to assist has declined somewhat. The value of financials and contracts continues to increase as MBDA provides services to larger firms.						
MBDA	*Strategies for Improvement:* MBDA plans to revise the target to reflect this trend in 2006. Additionally in 2006, MBDA has a new efficiency measure to increase staff support and emergency response to projects to meet critical goals.						
MBDA	**Dollar value of contract awards obtained**	$1.3B	$0.7B	$0.9B[2]	$0.8B	$0.9B[3]	
MBDA	**Dollar value of financial awards obtained**	$0.4B	$0.4B	$0.55B[2]	$0.45B	$0.5B[3]	

	PERFORMANCE GOAL MEASURES *(continued)*						
	MEASURE	**FY 2002 Actual**	**FY 2003 Actual**	**FY 2004 Actual**	**FY 2005 Target**	**FY 2005 Actual**	**FY 2005 Met/Not Met**
MBDA	**Number of new job opportunities created**	New	New	New	1,800	2,000[3]	
MBDA	**Percent increase in client gross receipts**	New	New	New	5%	15%[3]	
MBDA	**Percent increase in American customer satisfaction index**	New	New	New	5%	5%[3]	
MBDA	**Number of national and regional strategic partnerships**	6	8	231	200	220[3]	

[1] As a result of an IG report request, MBDA has broken this amount out to the following categories: BDC program clients (5,214), MBOC program clients (739), portal clients serviced (22,900), staff clients served (22), and roundtable project (600).
[2] These changes were made as a result of an IG review.
[3] FY 2005 actual projection.

STRATEGIC OBJECTIVE 1.2

Advance responsible economic growth and trade while protecting American security

OBJECTIVE 1.2 RESOURCES *(Dollars in Millions)*				
	FY 2002 Actual	**FY 2003 Actual**	**FY 2004 Actual**	**FY 2005 Actual**
Total Funding FTE[1]	$160.4 929	$162.0 795	$163.4 943	$187.7 992

[1] FTE – Full-Time Equivalent

PERFORMANCE GOAL: Ensure fair competition in international trade (ITA)

PERFORMANCE GOAL RESOURCES *(Dollars in Millions)*				
	FY 2002 Actual	**FY 2003 Actual**	**FY 2004 Actual**	**FY 2005 Actual**
Total Funding FTE[1]	$92.8 571	$85.8 341	$89.5 576	$110.7 630

[1] FTE – Full-Time Equivalent

	PERFORMANCE GOAL MEASURES						
	MEASURE	**FY 2002 Actual**	**FY 2003 Actual**	**FY 2004 Actual**	**FY 2005 Target**	**FY 2005 Actual**	**FY 2005 Met/Not Met**
ITA	**Percentage of antidumping/ countervailing duty cases completed on time**	100%	100%	100%	100%	100%	

PERFORMANCE GOAL MEASURES *(continued)*							
	MEASURE	FY 2002 Actual	FY 2003 Actual	FY 2004 Actual	FY 2005 Target	FY 2005 Actual	FY 2005 Met/Not Met
ITA	Number of market access and trade compliance cases initiated	253	144	161	160 to 170	160	
ITA	Number of market access and trade compliance cases concluded	New	158	116	75 to 85	85	

PERFORMANCE GOAL: Advance U.S. national security, foreign policy, and economic interests by enhancing the effectiveness and efficiency of the export control system (BIS)

PERFORMANCE GOAL RESOURCES *(Dollars in Millions)*				
	FY 2002 Actual	FY 2003 Actual	FY 2004 Actual	FY 2005 Actual
Total Funding FTE[1]	$27.6 156	$29.8 190	$25.8 163	$23.8 148

[1] FTE – Full-Time Equivalent

PERFORMANCE GOAL MEASURES							
	MEASURE	FY 2002 Actual	FY 2003 Actual	FY 2004 Actual	FY 2005 Target	FY 2005 Actual	FY 2005 Met/Not Met
BIS	Median processing time for referral of export licenses to other agencies (days)	New	4	3	9	3	
BIS	Median processing time for export licenses not referred to other agencies (days)	New	9	9	15	7	
BIS	Median processing time for issuing draft regulations (months)	New	7	2	3	1	
BIS	Level of exporter understanding of BIS export control requirements: Value of information (average score on scale of 1-5)	4.2	4.2	4.2	4.2	4.2	

PERFORMANCE GOAL MEASURES *(continued)*

	MEASURE	FY 2002 Actual	FY 2003 Actual	FY 2004 Actual	FY 2005 Target	FY 2005 Actual	FY 2005 Met/Not Met
BIS	Level of exporter understanding of BIS export control requirements: Percent knowledge gained (index)	New	New	45%	45%	46%	

PERFORMANCE GOAL: Ensure U.S. industry compliance with the Chemical Weapons Convention (CWC) agreement (BIS)

PERFORMANCE GOAL RESOURCES *(Dollars in Millions)*

	FY 2002 Actual	FY 2003 Actual	FY 2004 Actual	FY 2005 Actual
Total Funding FTE[1]	$4.5 22	$5.9 29	$7.0 22	$7.3 34
[1] FTE – Full-Time Equivalent				

PERFORMANCE GOAL MEASURES

	MEASURE	FY 2002 Actual	FY 2003 Actual	FY 2004 Actual	FY 2005 Target	FY 2005 Actual	FY 2005 Met/Not Met
BIS	Number of site assistance visits conducted to assist companies prepare for international inspections	16	12	12	12	12	

PERFORMANCE GOAL: Prevent illegal exports and identify violators of export prohibitions and restrictions for prosecution (BIS)

PERFORMANCE GOAL RESOURCES *(Dollars in Millions)*

	FY 2002 Actual	FY 2003 Actual	FY 2004 Actual	FY 2005 Actual
Total Funding FTE[1]	$30.0 171	$35.0 226	$33.4 173	$36.0 170
[1] FTE – Full-Time Equivalent				

PERFORMANCE GOAL MEASURES

	MEASURE	FY 2002 Actual	FY 2003 Actual	FY 2004 Actual	FY 2005 Target	FY 2005 Actual	FY 2005 Met/Not Met
BIS	Number of investigative actions that result in the prevention of a violation and cases which result in a criminal and/or administrative prosecution	82	250	310	275	583	
BIS	Number of Post-Shipment Verifications (PSV) completed	415	397	401	400	512	

PERFORMANCE GOAL: Enhance the export and transit controls of nations seeking to improve their export control system (BIS)

PERFORMANCE GOAL RESOURCES *(Dollars in Millions)*				
	FY 2002 Actual	FY 2003 Actual	FY 2004 Actual	FY 2005 Actual
Total Funding FTE[1]	$5.5 9	$6.0 9	$7.7 9	$9.9 10
[1] FTE – Full-Time Equivalent				

PERFORMANCE GOAL MEASURES							
MEASURE		FY 2002 Actual	FY 2003 Actual	FY 2004 Actual	FY 2005 Target	FY 2005 Actual	FY 2005 Met/Not Met
BIS	Number of targeted deficiencies remedied in the export control system of program nations	25	39	41	40	40	

STRATEGIC OBJECTIVE 1.3

Enhance the supply of key economic and demographic data to support effective decision-making of policymakers, businesses, and the American public

OBJECTIVE 1.3 RESOURCES *(Dollars in Millions)*				
	FY 2002 Actual	FY 2003 Actual	FY 2004 Actual	FY 2005 Actual
Total Funding FTE[1]	$866.2 8,908	$921.2 8,223	$1,009.2 8,563	$1,095.0 8,976
[1] FTE – Full-Time Equivalent				

PERFORMANCE GOAL: Meet the needs of policymakers, businesses, non-profit organizations, and the public for current and benchmark measures of the U.S. population, economy, and governments (ESA/Census)

PERFORMANCE GOAL RESOURCES *(Dollars in Millions)*				
	FY 2002 Actual	FY 2003 Actual	FY 2004 Actual[2]	FY 2005 Actual
Total Funding FTE[1]	$799.5 8,420	$846.9 7,729	$930.4 8,038	$1,010.9 8,433
[1] FTE – Full-Time Equivalent [2] Total obligations for performance goal excludes the Working Capital Fund obligations financed by other Census Bureau funds and are already reflected in the results for the other funds.				

PERFORMANCE GOAL MEASURES

	MEASURE	FY 2002 Actual	FY 2003 Actual	FY 2004 Actual	FY 2005 Target	FY 2005 Actual	FY 2005 Met/Not Met[1]
ESA/CENSUS	**Achieve pre-determined collection rates for Census Bureau censuses and surveys in order to provide statistically reliable data to support effective decision-making of policymakers, businesses, and the public**	New	New	(1) 92.3% response rate for the Current Population Survey (CPS).	(1) 90% response rate for CPS.	(1) 91.9% response rate for CPS.	
				(2) 91.6% response rate for the National Crime Victimization Survey (NCVS).	(2) 89% response rate for NCVS.	(2) 91.6% response rate for NCVS.	
				(3) 90.8% response rate for the American Housing Survey (AHS).	(3) 89% response rate for AHS.	(3) 89.2% response rate for AHS.	
				(4) 72% response rate for the Survey of Income and Program Participation (SIPP).	(4) 80% response rate for SIPP.	(4) 85.2% response rate for SIPP.	
ESA/CENSUS				(5) 96.7% response rate for the American Community Survey (ACS).	(5) At least a 94% overall weighted response rate using three modes of data collection – mail, telephone and personal visit for ACS.	(5) 96.8% overall weighted response rate using three modes of data collection – mail, telephone and personal visit for ACS.	
				(6) 85.5% response rate for the Boundary and Annexation Survey (BAS).	(6) 85% response rate for BAS.	(6) 85.5% response rate for BAS.	
				(7) 81% response rate for the Annual Trade Survey (ATS).			

PERFORMANCE GOAL MEASURES *(continued)*							
	MEASURE	FY 2002 Actual	FY 2003 Actual	FY 2004 Actual	FY 2005 Target	FY 2005 Actual	FY 2005 Met/Not Met[1]
ESA/CENSUS	**Release data products for Census Bureau programs on time to support effective decision-making of policymakers, businesses, and the public**	New	New	(1) 10 data products released for SIPP. (2) 2 data products released for the Survey of Program Dynamics (SPD). (3) 4 data products released for Census of Govern-ments. (4) Economic Census Advance Report issued on schedule, in March 2004. (5) 577 Economic Census reports released.	(1) 2 SIPP data products released by 9/30/2005. (2) 12 CPS data products released by 9/30/2005. (3) 6 CPS Supplement data products released by 9/30/2005. (4) 1 AHS data product released by 9/30/2005. (5) Economic Census: Issue all the geographic series reports by 9/30/2005; Issue 2 Survey of Business Owners (SBO) reports by 9/30/2005; Issue Business Expenses Survey (BES) Report by 6/30/2005.	(1) 2 SIPP data products were released by 9/30/2005. (2) 12 CPS data products were released by 9/30/2005. (3) 6 CPS Supplement data products were released by 9/30/2005. (4) 1 AHS data product was released by 9/30/2005. (5) Economic Census: Issued 883 (100%) of the geographic series reports by 9/30/2005; Issued 2 SBO reports by 9/30/2005; Issued BES Report by 6/30/2005.	

PERFORMANCE GOAL MEASURES *(continued)*							
	MEASURE	FY 2002 Actual	FY 2003 Actual	FY 2004 Actual	FY 2005 Target	FY 2005 Actual	FY 2005 Met/Not Met[1]
ESA/CENSUS	*(continued)*			(6) All 116 principal Economic Indicators were released on time.	(6) Release all 116 monthly and quarterly principal economic indicators according to pre-announced time schedule.	(6) Released all 116 monthly and quarterly principal economic indicators a ccording to pre-announced time schedule.	
					(7) Annual Survey of Manufactures (ASM) released as scheduled.	(7) ASM was released as scheduled.	
					(8) Annual Trade Survey (ATS) released as scheduled.	(8) ATS was released as scheduled.	
					(9) Annual Retail Trade Survey (ARTS) released as scheduled.	(9) ARTS was released as scheduled.	
					(10) Service Annual Survey (SAS) released as scheduled.	(10) SAS was released as scheduled.	
ESA/CENSUS	**Introduce Census 2000-based samples as scheduled so that the household surveys can continue through the next decade, and so that policymakers, businesses, and the public can continue to be confident in the major federal socioeconomic indicators these surveys provide**	New	New	(1) New samples implemented for the Survey of Income and Program Participation (SIPP) in February 2004.	(1) Consumer Expenditures Survey - Quarterly (CE-Q) samples introduced by 11/30/2004.	(1) CE-Q samples introduced by 11/30/2004.	
				(2) New samples implemented for the Current Population Survey (including State Children's Health Insurance Program) in April 2004.	(2) Consumer Expenditures Survey - Daily (CE-D) samples introduced by 1/31/2005.	(2) CE-D samples introduced by 1/31/2005.	
					(3) National Crime Victimization Survey (NCVS) samples introduced by 1/31/2005.	(3) NCVS samples introduced by 1/31/2005.	
					(4) American Housing Survey –National (AHS-N) samples introduced by 5/31/2005.	(4) AHS-N samples introduced by 5/31/2005.	

PERFORMANCE GOAL MEASURES *(continued)*							
	MEASURE	FY 2002 Actual	FY 2003 Actual	FY 2004 Actual	FY 2005 Target	FY 2005 Actual	FY 2005 Met/Not Met[1]
ESA/CENSUS	**Correct street features in TIGER (geographic) database to more effectively support: Census Bureau censuses and surveys, facilitate the geographic partnerships between federal, state, local and tribal governments, and support the E-Government initiative in the President's Management Agenda**	New	250 counties were completed in FY 2003.	600 counties were completed in FY 2004.	610 counties to be completed in FY 2005.	623 counties were completed in FY 2005.	●
ESA/CENSUS	**Complete key activities for cyclical census programs on time to support effective decision-making by policymakers, businesses, and the public and meet constitutional and legislative mandates**	New	New	(1) Completed initial mailing of 2002 Survey of Business Owners forms by 7/31/2004. (2) Decennial Census: Implemented the activities that supported the following objectives of the 2004 census test: • Questionnaire content • Hand held computers (HHC) devices for field work • Coverage improvements • Special place/ group quarters • Residence rules	(1) Detailed project plan for FY 2007 Economic Census by 9/30/2005. (2) Detailed project plan for FY 2007 Census of Governments by 9/30/2005.	(1) Completed detailed project plan for FY 2007 Economic Census by 9/30/2005. (2) Completed detailed project plan for FY 2007 Census of Governments by 9/30/2005.	●
					(3) Intercensal Demographic Estimates: Improve controls for the 2004 ACS released by 5/30/2005. (4)Intercensal Demographic Estimates: CPS controls released each month in time for weighting monthly estimates. (5) Complete evaluations of the 2004 census test.	(3) Intercensal Demographic Estimates: Improved controls for the 2004 ACS released by 5/30/2005. (4) Intercensal Demographic Estimates: CPS controls were released each month in time for weighting monthly estimates. (5) Completed evaluations of the 2004 census test.	

PERFORMANCE GOAL MEASURES *(continued)*							
	MEASURE	FY 2002 Actual	FY 2003 Actual	FY 2004 Actual	FY 2005 Target	FY 2005 Actual	FY 2005 Met/Not Met[1]
	(continued)				(6) Determine design requirements and select sites for the 2006 census test. (7) Complete preparation for and begin implementation of the 2005 National Census Test. (8) Use research, testing, and development efforts to date to update relevant 2010 Census action plans.	(6) Determined design requirements and selected sites for the 2006 census test. (7) Completed preparation for and began implementation of the 2005 National Census Test. (8) Used research, testing, and development efforts to date to update relevant 2010 Census action plans.	
ESA/CENSUS	**Meet or exceed overall federal score of customer satisfaction on the American Customer Satisfaction Index (ACSI)**	New	New	71% score on ACSI.	73% score on ACSI.	73% score on ACSI.	

[1] Each assessment is for each measure as a whole. In order to be considered met, at least 75% of the sub-targets must have been met.

PERFORMANCE GOAL: Promote a better understanding of the U.S. economy by providing the most timely, relevant, and accurate economic data in an objective and cost-effective manner (ESA/BEA)

PERFORMANCE GOAL RESOURCES *(Dollars in Millions)*				
	FY 2002 Actual	FY 2003 Actual	FY 2004 Actual	FY 2005 Actual
Total Funding FTE[1]	$66.7 488	$74.3 494	$78.8 525	$84.1 543

[1] FTE – Full-Time Equivalent

PERFORMANCE GOAL MEASURES							
	MEASURE	FY 2002 Actual	FY 2003 Actual	FY 2004 Actual	FY 2005 Target	FY 2005 Actual	FY 2005 Met/Not Met
ESA/BEA	**Timeliness: Reliability of delivery of economic data (number of scheduled releases issued on time)**	50 of 50	48 of 48	54 of 54	54 of 54	54 of 54[1]	

PERFORMANCE GOAL MEASURES *(continued)*

	MEASURE	FY 2002 Actual	FY 2003 Actual	FY 2004 Actual	FY 2005 Target	FY 2005 Actual	FY 2005 Met/Not Met
ESA/BEA	**Relevance: Customer satisfaction with quality of products and services** (mean rating on a 5-point scale)	4.3	4.4	4.3	Greater than 4.0	4.4[1]	
ESA/BEA	**Accuracy: Percent of GDP estimates correct**	83%	88%	88%	Greater than 85%	96%[1]	
ESA/BEA	**Budget Related: Improving GDP and the Economic Accounts[1]**	Developed new measures to address gaps and updated BEA's accounts; designed prototype of new quarterly survey of international services; devel-oped new pilot estimates that provide better integration with other accounts.	BEA completed all major Strategic Plan milestones related to improving the economic accounts .	BEA completed all major Strategic Plan milestones related to improving the economic accounts.	Successful completion of related Strategic Plan milestones.	BEA completed all major Strategic Plan milestones related to improving the economic accounts.[1]	
ESA/BEA	**Budget Related: Accelerating Economic Estimates[2]**	New	BEA completed all major Strategic Plan milestones related to accelerating economic estimates.	BEA completed all major Strategic Plan milestones related to accelerating economic estimates.	Successful completion of related Strategic Plan milestones.	BEA completed all major Strategic Plan milestones related to accelerating economic estimates.	
ESA/BEA	**Budget Related: Meeting U.S. international obligations[1]**	New	BEA completed all major Strategic Plan milestones related to meeting U.S. international obligations.	BEA completed all major Strategic Plan milestones related to meeting U.S. international obligations.	Successful completion of related Strategic Plan milestones.	BEA completed all major Strategic Plan milestones related to meeting U.S. international obligations.	

[1] FY 2005 actual projection.

[2] Strategic Plan milestones are available in the BEA Strategic Plan on www.bea.gov, "About BEA." A report card of completed milestones also is available at www.bea.gov.

STRATEGIC GOAL 2

Foster science and technological leadership by protecting intellectual property, enhancing technical standards, and advancing measurement science

STRATEGIC GOAL 2 TOTAL RESOURCES *(Dollars in Millions)*				
	FY 2002 Actual	**FY 2003 Actual**	**FY 2004 Actual**	**FY 2005 Actual**
Total Funding	$2,153.7	$2,241.3	$2,147.5	$2,456.5
FTE[1]	10,068	10,074	10,005	10,022
[1] FTE – Full-Time Equivalent				

STRATEGIC OBJECTIVE 2.1

Develop tools and capabilities that improve the productivity, quality, dissemination, and efficiency of research

OBJECTIVE 2.1 RESOURCES *(Dollars in Millions)*				
	FY 2002 Actual	**FY 2003 Actual**	**FY 2004 Actual**	**FY 2005 Actual**
Total Funding	$913.5	$952.8	$830.1	$878.2
FTE[1]	3,231	3,242	3,109	2,938
[1] FTE – Full-Time Equivalent				

PERFORMANCE GOAL: Promote innovation, facilitate trade, ensure public safety and security, and help create jobs by strengthening the nation's measurements and standards infrastructure (NIST)

PERFORMANCE GOAL RESOURCES *(Dollars in Millions)*				
	FY 2002[2] Actual	**FY 2003[2] Actual**	**FY 2004[2] Actual**	**FY 2005[2] Actual**
Total Funding	$579.2	$614.1	$576.8	$621.6
FTE[1]	2,707	2,725	2,672	2,503
[1] FTE – Full-Time Equivalent [2] The OTP and NIST-Baldrige performance goals were discontinued in FY 2005. FY 2002 – FY 2004 amounts are included in this goal.				

PERFORMANCE GOAL MEASURES							
	MEASURE	**FY 2002 Actual**	**FY 2003 Actual**	**FY 2004 Actual**	**FY 2005 Target**	**FY 2005 Actual**	**FY 2005 Met/Not Met**
NIST	**Qualitative assessment and review of technical quality and merit using peer review**	Completed	Completed	Completed	Complete	Completed	
NIST	**Peer-reviewed technical publications produced**	New	1,267	1,070	1,100	1,148	
NIST	**Standard reference materials (SRMs) sold**	30,906	29,527	30,490	29,500	32,163	
NIST	**NIST-maintained datasets downloaded**	New	55,653,972	73,601,352	80,000,000	93,305,136	

	PERFORMANCE GOAL MEASURES *(continued)*						
	MEASURE	FY 2002 Actual	FY 2003 Actual	FY 2004 Actual	FY 2005 Target	FY 2005 Actual	FY 2005 Met/Not Met
NIST	Number of items calibrated	2,924	3,194	3,373	2,700	3,145	

PERFORMANCE GOAL: Accelerate private investment in and development of high-risk, broad-impact technologies* (NIST)

PERFORMANCE GOAL RESOURCES *(Dollars in Millions)*				
	FY 2002 Actual	FY 2003 Actual	FY 2004 Actual	FY 2005 Actual
Total Funding FTE[1]	$198.1 249	$199.7 247	$187.2 204	$138.3 207
[1] FTE – Full-Time Equivalent				

	PERFORMANCE GOAL MEASURES						
	MEASURE	FY 2002 Actual	FY 2003 Actual	FY 2004 Actual	FY 2005 Target	FY 2005 Actual	FY 2005 Met/Not Met
NIST	Cumulative number of publications	747 from cumulative funding through FY 2001	969 from cumulative funding through FY 2002	1,245 from cumulative funding through FY 2003	990 from cumulative funding through FY 2004	1,462 from cumulative funding through FY 2004	
NIST	Cumulative number of patents	800 from cumulative funding through FY 2001	939 from cumulative funding through FY 2002	1,171 from cumulative funding through FY 2003	1,220 from cumulative funding through FY 2004	1,254 from cumulative funding through FY 2004	
NIST	Cumulative number of projects with technologies under commercialization	195 from cumulative funding through FY 2001	244 from cumulative funding through FY 2002	271 from cumulative funding through FY 2003	250 from cumulative funding through FY 2004	296 from cumulative funding through FY 2004	

PERFORMANCE GOAL: Raise the productivity and competitiveness of small manufacturers* (NIST)

PERFORMANCE GOAL RESOURCES *(Dollars in Millions)*				
	FY 2002 Actual	FY 2003 Actual	FY 2004 Actual	FY 2005 Actual
Total Funding FTE[1]	$108.5 89	$111.3 89	$46.9 68	$102.4 71
[1] FTE – Full-Time Equivalent				

* Actuals for this performance goal lagged at least six months. Therefore, beginning with the FY 2005 PAR, NIST shifted to a format in which they report actuals one year later, i.e. FY 2004 actuals in the FY 2005 PAR, FY 2005 actuals in the FY 2006 PAR, etc...

PERFORMANCE GOAL MEASURES							
	MEASURE	FY 2002 Actual	FY 2003 Actual	FY 2004 Actual	FY 2005 Target[1]	FY 2005 Actual[2]	FY 2005 Met/Not Met
NIST	Number of clients served by Manufacturing Extension Partnership (MEP) Centers receiving federal funding	21,420 from FY 2001 funding	18,748 from FY 2002 funding	18,422 from FY 2003 funding	6,517 from FY 2004 funding	16,090 from FY 2004 funding	
NIST	Increased sales attributed to MEP Centers receiving federal funding	$636M from FY 2001 funding	$953M from FY 2002 funding	$1,483M from FY 2003 funding	$228M from FY 2004 funding	$2,025M from FY 2004 funding	
NIST	Capital investment attributed to MEP Centers receiving federal funding	$680M from FY 2001 funding	$940M from FY 2002 funding	$912M from FY 2003 funding	$285M from FY 2004 funding	$1,023M from FY 2004 funding	
NIST	Cost savings attributed to MEP Centers receiving federal funding	$442M from FY 2001 funding	$681M from FY 2002 funding	$686M from FY 2003 funding	$156M from FY 2004 funding	$754M from FY 2004 funding	

[1] Targets based on FY 2004 consolidated appropriations bill, which included an annual level for MEP of $39.6M (which, less rescissions, netted $38.7M).
[2] Reported data reflect the impact of MEP services primarily on small manufacturing establishments. On some occasions, Centers will elect to serve establishments over 500 employees.

PERFORMANCE GOAL: Enhance public access to worldwide scientific and technical information through improved acquisition and dissemination activities (NTIS)

PERFORMANCE GOAL RESOURCES *(Dollars in Millions)*				
	FY 2002 Actual	FY 2003 Actual	FY 2004 Actual	FY 2005 Actual
Total Funding	$27.7	$27.7	$19.2	$15.9
FTE[1]	186	181	165	157

[1] FTE – Full-Time Equivalent

PERFORMANCE GOAL MEASURES							
	MEASURE	FY 2002 Actual	FY 2003 Actual	FY 2004 Actual	FY 2005 Target	FY 2005 Actual	FY 2005 Met/Not Met
NTIS	Number of new items available (annual)	514,129	530,910	553,235	530,000	658,138	
NTIS	Number of information products disseminated (annual)	16,074,862	29,134,050	25,476,424	25,800,000	26,772,015	
NTIS	Customer satisfaction	98%	97%	96%	98%	98%	

STRATEGIC OBJECTIVE 2.2

Protect intellectual property and improve the patent and trademark system

OBJECTIVE 2.2 RESOURCES *(Dollars in Millions)*				
	FY 2002 Actual	FY 2003 Actual	FY 2004 Actual	FY 2005 Actual[2]
Total Funding FTE[1]	$1,144.0 6,593	$1,190.9 6,581	$1,233.0 6,627	$1,508.4 6,825

[1] FTE – Full-Time Equivalent.
[2] Actuals as of September 17, 2005. Funding numbers by goal represent a preliminary distribution which is subject to revision.

PERFORMANCE GOAL: Improve the quality of patent products and services and optimize patent processing time (USPTO)

PERFORMANCE GOAL RESOURCES *(Dollars in Millions)*				
	FY 2002 Actual	FY 2003 Actual	FY 2004 Actual	FY 2005 Actual[2]
Total Funding FTE[1]	N/A	$1,019.6 5,815	$1,059.0 5,832	$1,179.2 6,021

[1] FTE – Full-Time Equivalent
[2] Actuals as of September 17, 2005. Funding numbers by goal represent a preliminary distribution which is subject to revision.

PERFORMANCE GOAL MEASURES

	MEASURE	FY 2002 Actual	FY 2003 Actual	FY 2004 Actual	FY 2005 Target	FY 2005 Actual	FY 2005 Met/Not Met
USPTO	**Patent allowance error rate**	4.2%	4.4%	5.3%	4.0	4.6%[1]	
USPTO	*Performance was not met, because:* USPTO did not implement a second review2 process until the second half of the fiscal year. Therefore, the error rates were well above the target for the first half leading to not making the year target.						
USPTO	*Strategies for Improvement:* USPTO has implemented quality initiatives to address the current shortcomings. These initiatives are already making an impact; the error rate for the second half of FY 2005 improved significantly. USPTO anticipates further long-term quality improvements in 2006.						
USPTO	**Patent in-process examination compliance rate**	N/A	N/A	82%	84%	86.2%[1]	
USPTO	**Patent first action pendency (months)**	16.7	18.3	20.2	21.3	21.1[1]	
USPTO	**Patent total pendency (months)**	24.0	26.7	27.6	31.0	29.1[1]	
USPTO	**Patent efficiency[2]**	$3,376	$3,329	$3,556	$4,122	$3,877[1]	

[1] FY 2005 actual projection.
[2] This measure is calculated by dividing total annual USPTO costs associated with the examination and processing of patents, including associated overhead and support expenses, by annual volumes (production units).

PERFORMANCE GOAL: Improve the quality of trademark products and services and optimize trademark processing time (USPTO)

PERFORMANCE GOAL RESOURCES *(Dollars in Millions)*				
	FY 2002 Actual	FY 2003 Actual	FY 2004 Actual	FY 2005 Actual[2]
Total Funding	N/A	$119.4	$112.0	$124.1
FTE[1]		719	693	730

[1] FTE – Full-Time Equivalent
[2] Actuals as of September 17, 2005. Funding numbers by goal represent a preliminary distribution which is subject to revision.

PERFORMANCE GOAL MEASURES							
	MEASURE	FY 2002 Actual	FY 2003 Actual	FY 2004 Actual	FY 2005 Target	FY 2005 Actual	FY 2005 Met/Not Met
USPTO	Trademark final action deficiency rate	4.3%	5.3%	5.8%	5.0%	5.9%[1]	
USPTO	*Performance was not met, because:* In FY 2005 USPTO focused on first improving first action quality, which is intended to result in a high quality initial examination of applications. In FY 2005 USPTO exceeded the first action deficiency rate by over 60 percent in FY 2005. The Office believes that building quality at the beginning of the process will yield higher quality throughout the process.						
USPTO	*Strategies for Improvement:* USPTO plans on meeting this goal next year as it has implemented quality initiatives to address the current shortcomings. These initiatives are already making an impact; the error rate for the second half of FY 2005 was significantly lower than the error rate at the start of the year. USPTO anticipates further long-term quality improvements in 2006.						
USPTO	Trademark first action pendency (months)	4.3	5.4	6.6	6.4	6.3[1]	
USPTO	Trademark average total pendency (months)	19.9	19.8	19.5	20.3	19.6[1]	
USPTO	Trademark first action deficiency rate	N/A	N/A	7.9%	7.5%	4.7%[1]	
USPTO	Trademark efficiency[2]	$487	$433	$539	$701	$677[1]	

[1] FY 2005 actual projection.
[2] This measure is calculated by dividing total USPTO costs associated with the examination and processing of trademarks, including associated overhead and support expenses, by volumes (office disposals).

PERFORMANCE GOAL: Create a more flexible organization through transitioning patent and trademark operations to an e-government environment and advancing intellectual property development worldwide (USPTO)

PERFORMANCE GOAL RESOURCES *(Dollars in Millions)*				
	FY 2002 Actual[2]	FY 2003 Actual	FY 2004 Actual	FY 2005 Actual[3]
Total Funding	NA	$51.9	$62.0	$205.1
FTE[1]	NA	47	102	74

[1] FTE – Full-Time Equivalent
[2] The funding and FTE amounts for FY 2002 reflect the e-commerce and enhanced telecommunications and information services portion of this goal.
[3] Actuals as of September 17, 2005. Funding numbers by goal represent a preliminary distribution which is subject to revision.

PERFORMANCE GOAL MEASURES

	MEASURE	FY 2002 Actual	FY 2003 Actual	FY 2004 Actual	FY 2005 Target	FY 2005 Actual	FY 2005 Met/Not Met
USPTO	**Patent applications filed electronically**	N/A	1.3%	1.5%	4.0%	2.2%[1]	
	Performance was not met, because: The FY 2005 target of 4.0 percent was aggressive given the FY 2003 actual of 1.3 percent and FY 2004 actual of 1.5 percent. USPTO did continue to rise to 2.2 percent. The lower actual reflected a reluctance to file electronically. We anticipate that this actual will continue to rise since the Agency held multiple forums to identify specific components of patent applicants' reluctance to file electronically.						
	Strategies for Improvement: For next year's target we are implementing user-community suggested changes to increase acceptance of our electronic filing system.						
USPTO	**Patent applications managed electronically**	N/A	Baseline	88%	90%	96.7%[1]	
USPTO	**Trademark applications filed electronically**	38%	57.5%	73%	70%	88%[1]	
USPTO	**Trademark applications managed electronically**	N/A	Baseline	98%	99%	99%[1]	
USPTO	**Technical assistance activities completed**	N/A	N/A	Baseline	80	59[1]	
	Performance was not met, because: While the raw number of activities extracted for this measure was lower than the target, many activities were regional or consolidated, involving multiple countries. This multiplier effect is evidenced by the fact the internal measure of the number of countries involved greatly exceeded that target.						
	Strategies for Improvement: USPTO plans on meeting our goal next year by offering technical advice and assistance in the form of our technical experts providing a review of developing countries' intellectual property laws and legal system (patents, trademarks, copyrights, enforcement of IP rights through criminal penalties, customs requirements and prosecutorial and judicial training) for compliance with the international trade standard of the World Trade Organization (WTO) Trade Related Aspects of Intellectual Property (TRIPS). USPTO feels this proactive technical assistance will help the Agency achieve its goal.						

[1] FY 2005 actual projection.

STRATEGIC OBJECTIVE 2.3

Advance the development of global e-commerce and enhanced telecommunications and information services

OBJECTIVE 2.3 RESOURCES *(Dollars in Millions)*				
	FY 2002 Actual	**FY 2003 Actual**	**FY 2004 Actual**	**FY 2005 Actual**
Total Funding	$96.2	$97.6	$84.4	$69.9
FTE[1]	244	251	269	259
[1] FTE – Full-Time Equivalent				

PERFORMANCE GOAL: Ensure that the allocation of radio spectrum provides the greatest benefit to all people (NTIA)

PERFORMANCE GOAL RESOURCES *(Dollars in Millions)*				
	FY 2002 Actual	**FY 2003 Actual**	**FY 2004 Actual**	**FY 2005 Actual**
Total Funding	$23.4	$24.5	$28.5	$30.4
FTE[1]	141	147	159	169
[1] FTE – Full-Time Equivalent				

PERFORMANCE GOAL MEASURES							
	MEASURE	**FY 2002 Actual**	**FY 2003 Actual**	**FY 2004 Actual**	**FY 2005 Target**	**FY 2005 Actual**	**FY 2005 Met/Not Met**
NTIA	**Timeliness of processing**	New	15	<12 business days[1]	12 business days	10 business days	
NTIA	**Number of frequency bands evaluated to determine possible improvements that could be made to use spectrum more efficiently**	New	New	New	1	1	

[1] NTIA has reduced the average time to process frequency assignment actions from 15 to less than 10 days. NTIA's long-term goal is to improve spectrum management processes throughout the federal government so that time for spectrum assignments can be reduced from more than 15 days to 3 days or fewer by 2008, and ultimately to near instantaneously, supporting long-term goals for efficiency and effectiveness of spectrum use.

PERFORMANCE GOAL: Promote the availability, and support new sources, of advanced telecommunications (NTIA)

PERFORMANCE GOAL RESOURCES *(Dollars in Millions)*				
	FY 2002[2] Actual	FY 2003[2] Actual	FY 2004[2] Actual	FY 2005[2] Actual
Total Funding	$72.8	$73.1	$55.9	$39.5
FTE[1]	103	104	110	90

[1] FTE – Full-Time Equivalent
[2] Amounts for FY 2002-2004 include those for the discontinued goal "Increase competition within the telecommunications sector and promote universal access to telecommunications services for all Americans."

PERFORMANCE GOAL MEASURES

	MEASURE	FY 2002 Actual	FY 2003 Actual	FY 2004 Actual	FY 2005 Target	FY 2005 Actual	FY 2005 Met/Not Met
NTIA	Support new telecom and information technology by advocating Administration views in FCC docket filings and Congressional proceedings	New	New	New	5 docket and proceedings	5 docket and proceedings	
NTIA	Quality of basic research as reflected in peer reviewed publications	New	5 Publications	7 Publications	6 Publications	6 Publications	
NTIA	Level of technology transfer activities conducted with the private sector through the Cooperative Research and Development Agreements (CRADA)	New	5 CRADAs	5 CRADAs	3 CRADAs	4 CRADAs	

STRATEGIC GOAL 3

Observe, protect, and manage the Earth's resources to promote environmental stewardship

STRATEGIC GOAL 3 TOTAL RESOURCES *(Dollars in Millions)*				
	FY 2002 Actual	FY 2003 Actual	FY 2004 Actual	FY 2005 Actual
Total Funding	$3,398.4	$3,458.6	$3,802.0	$4,064.0
FTE[1]	11,585	11,898	11,868	11,918

[1] FTE – Full-Time Equivalent

STRATEGIC OBJECTIVE 3.1

Advance understanding and predict changes in the Earth's environment to meet America's economic, social, and environmental needs

OBJECTIVE 3.1 RESOURCES *(Dollars in Millions)*				
	FY 2002[2] Actual	FY 2003[2] Actual	FY 2004[2] Actual	FY 2005 Actual
Total Funding	$1,500.8	$1,631.6	$1,123.1	$1,155.0
FTE[1]	5,885	5,537	5,363	5,253

[1] FTE – Full-Time Equivalent
[2] In the FY 2004 PAR, the 2002-2004 amounts for the mission support goal were distributed among the four goals. In this PAR, the 2002-2004 mission support levels were separated out resulting in lower 2002-2004 levels than as reported in the FY 2004 PAR for the other four goals.

PERFORMANCE GOAL: Understand climate variability and change to enhance society's ability to plan and respond* (NOAA)

PERFORMANCE GOAL RESOURCES *(Dollars in Millions)*				
	FY 2002[2] Actual	FY 2003[2] Actual	FY 2004[2] Actual	FY 2005 Actual
Total Funding	$312.0	$347.5	$239.5	$256.9
FTE[1]	785	625	603	599

[1] FTE – Full-Time Equivalent
[2] In the FY 2004 PAR, the 2002-2004 amounts for the mission support goal were distributed among the four goals. In this PAR, the 2002-2004 mission support levels were separated out resulting in lower 2002-2004 levels than as reported in the FY 2004 PAR for the other four goals.

PERFORMANCE GOAL MEASURES							
	MEASURE	FY 2002 Actual	FY 2003 Actual	FY 2004 Actual	FY 2005 Target	FY 2005 Actual	FY 2005 Met/Not Met
NOAA	**U.S. temperature forecasts (cumulative skill score)**	18	17	17	18	19	

*Targets and actuals have been updated since the FY 2004 PAR as a result of more recent and accurate data. Amounts also may differ from those reported in the Congressional Justification exhibits due to the inclusion of mandatory funds in the amounts cited above.

	PERFORMANCE GOAL MEASURES *(continued)*						
	MEASURE	FY 2002 Actual	FY 2003 Actual	FY 2004 Actual	FY 2005 Target	FY 2005 Actual	FY 2005 Met/Not Met
NOAA	**Reduce the uncertainty in the magnitude of the North American (NA) carbon uptake**	Identified five pilot carbon profiling sites and four new oceanic carbon tracks.	Established five pilot atmospheric profiling sites. Established one oceanic carbon track; identified two additional oceanic carbon tracks.	Reduced uncertainty of atmospheric estimates of NA carbon uptake to +/- 0.5 Gt. carbon per year.	Reduce uncertainty of atmospheric estimates of NA carbon uptake to +/- 0.48 Gt. carbon per year.	Reduced uncertainty of atmospheric estimates of NA carbon uptake to +/- 0.4 Gt. carbon per year.	●
NOAA	**Determine the national explained variance (%) for temperature and precipitation for the contiguous United States using USCRN stations**	Captured more than 85% of the annual national temperature trend and more than 55% of the annual national precipitation trend for the contiguous United States.	Captured more than 95% of the annual national temperature trend and 84% of the annual national precipitation trend for the contiguous United States.	Captured more than 96% of the annual national temperature trend and more than 90% of the annual national precipitation trend for the contiguous United States.	Capture 96.7% of the annual national temperature trend and 90% of the annual national precipitation trend for the contiguous United States.	Captured 96.9% of the annual national temperature trend and 91.4% of the annual national precipitation trend for the contiguous United States.	●
NOAA	**New climate observations introduced**	192	282	529	1,014	1,133	●
NOAA	**Assess and model carbon sources and sinks globally**	Established three new global background sites as part of the global flask network.	Completed a working prototype of a coupled carbon-climate model.	Developed carbon climate scenarios for input to assessment.	Submit quality-controlled Atlantic Ocean carbon datasets from the CO2/CLIVAR hydrographic cruises to national data centers.[1]	Submitted quality-controlled Atlantic Ocean carbon datasets from the CO2/CLIVAR hydrographic cruises to national data centers.	●

[1] This FY 2005 target was incorrectly listed in the FY 2006 Annual Performance Plan (APP) as "Improve measurements of North Atlantic and North Pacific Ocean basin carbon dioxide fluxes to within +/-0.1 petagrams carbon/year."

PERFORMANCE GOAL: Secure society's needs for weather and water information* (NOAA)

PERFORMANCE GOAL RESOURCES *(Dollars in Millions)*				
	FY 2002[2] Actual	FY 2003[2] Actual	FY 2004[2] Actual	FY 2005 Actual
Total Funding FTE[1]	$1,188.8 5,100	$1,284.1 4,912	$883.6 4,760	$898.1 4,654

[1] FTE – Full-Time Equivalent

[2] In the FY 2004 PAR, the 2002-2004 amounts for the mission support goal were distributed among the four goals. In this PAR, the 2002-2004 mission support levels were separated out resulting in lower 2002-2004 levels than as reported in the FY 2004 PAR for the other four goals.

*Targets and actuals have been updated since the FY 2004 PAR as a result of more recent and accurate data. Amounts also may differ from those reported in the Congressional Justification exhibits due to the inclusion of mandatory funds in the amounts cited above.

PERFORMANCE GOAL MEASURES

	MEASURE		FY 2002 Actual	FY 2003 Actual	FY 2004 Actual	FY 2005 Target	FY 2005 Actual	FY 2005 Met/Not Met
NOAA	Lead time (minutes), accuracy (%), and false alarm rate (FAR, %) for tornado warnings	Lead Time	12	13	13	13	FY 2005 data through July 2005: 13	●
		Accuracy	76%	79%	75%	73%	FY 2005 data through July 2005: 76	●
		FAR	73%	76%	74%	73%	FY 2005 data through July 2005: 77	●

Performance was not met, because:
NOAA's National Weather Service (NWS) is currently not meeting the FY 2005 target for tornado false alarm ratio. There is a strong statistical relationship between accuracy and FAR using current technology and operational methodology. A higher rate of accuracy results in a higher FAR. National Emergency Manager and media surveys have indicated that higher FAR is "tolerable" if it results in longer lead times and increased accuracy.

Strategies for Improvement:
Training: Enhanced Mesocyclone and Tornado Vortex Signature Algorithms delivered during FY 2005 have improved Advanced Weather Interactive Processing System (AWIPS) tornado and analysis detection tools. The Open Radar Data Acquisition (ORDA) platform will be deployed in Builds 7 and 8, and Super Resolution WSR-88D data will be added to the ORDA in Build 9. Super resolution data provides forecasters the capability to view more precise images of tornadic signatures on radar displays, enabling earlier decisions on tornado warning, and reducing false alarms.

	MEASURE		FY 2002 Actual	FY 2003 Actual	FY 2004 Actual	FY 2005 Target	FY 2005 Actual	FY 2005 Met/Not Met
NOAA	Lead time (minutes) and accuracy (%) for flash flood warnings	Lead Time	52	41	47	48	FY 2005 data through July 2005: 54	●
		Accuracy	89%	89%	89%	89%	FY 2005 data through July 2005: 89	●
NOAA	Hurricane forecast track error (48 hours)	Nautical Miles	122	107	94	128	FY 2005 data available December 2005	N/A
NOAA	Accuracy (%) (threat score) of Day 1 precipitation forecasts		30	29	29	27	29	●
NOAA	Lead time (hours) and accuracy (%) for winter storm warnings	Lead Time	13	14	15	15	FY 2005 data through June 2005: 17	●
		Accuracy	89%	90%	91%	90%	FY 2005 data through June 2005: 91	●
NOAA	Cumulative percentage of U.S. shoreline and inland areas that have improved ability to reduce coastal hazard impacts		8%	17%	17%	28%	28%	●

STRATEGIC OBJECTIVE 3.2

Enhance the conservation and management of coastal and marine resources to meet America's economic, social, and environmental needs

OBJECTIVE 3.2 RESOURCES *(Dollars in Millions)*				
	FY 2002[2] Actual	FY 2003[2] Actual	FY 2004[2] Actual	FY 2005 Actual
Total Funding FTE[1]	$1,584.1 3,984	$1,576.5 4,365	$1,461.3 4,327	$1,554.5 4,228

[1] FTE – Full-Time Equivalent
[2] In the FY 2004 PAR, the 2002-2004 amounts for the mission support goal were distributed among the four goals. In this PAR, the 2002-2004 mission support levels were separated out resulting in lower 2002-2004 levels than as reported in the FY 2004 PAR for the other four goals.

PERFORMANCE GOAL: Protect, restore, and manage the use of coastal and ocean resources through an ecosystem approach to management* (NOAA)

PERFORMANCE GOAL RESOURCES *(Dollars in Millions)*				
	FY 2002[2] Actual	FY 2003[2] Actual	FY 2004[2] Actual	FY 2005 Actual
Total Funding FTE[1]	$1,334.2 3,042	$1,314.9 3,361	$1,268.5 3,611	$1,379.5 3,479

[1] FTE – Full-Time Equivalent
[2] In the FY 2004 PAR, the 2002-2004 amounts for the mission support goal were distributed among the four goals. In this PAR, the 2002-2004 mission support levels were separated out resulting in lower 2002-2004 levels than as reported in the FY 2004 PAR for the other four goals.

PERFORMANCE GOAL MEASURES

	MEASURE	FY 2002 Actual	FY 2003 Actual	FY 2004 Actual	FY 2005 Target	FY 2005 Actual	FY 2005 Met/Not Met
NOAA	**Number of overfished major stocks of fish**	45	42[2]	42[3]	40[4]	42[1]	[4]
NOAA	*Performance was not met, because:* Stocks did not rebuild as anticipated in the rebuilding plan.						
NOAA	*Strategies for Improvement:* Rebuilding plans have been revised to reflect altered conditions.						
NOAA	**Number of major stocks with an "unknown" stock status**	88	94	77[5]	81[6]	73[1]	
NOAA	**Percentage of plans to rebuild overfished major stocks to sustainable levels**	90%	96%	96%	98%	96%[1]	
NOAA	*Performance was not met, because:* Rebuilding plan for Northern Albacore was not completed by September 30, 2005.						
NOAA	*Strategies for Improvement:* A draft rule was published August 19, 2005 and the final rule is expected spring 2006.						
NOAA	**Increase in number of threatened species with lowered risk of extinction**	7	7	8[7]	6	8[1]	

*Targets and actuals have been updated since the FY 2004 PAR as a result of more recent and accurate data. Amounts also may differ from those reported in the Congressional Justification exhibits due to the inclusion of mandatory funds in the amounts cited above.

	MEASURE	FY 2002 Actual	FY 2003 Actual	FY 2004 Actual	FY 2005 Target	FY 2005 Actual	FY 2005 Met/Not Met
	PERFORMANCE GOAL MEASURES ***(continued)***						
NOAA	**Number of commercial fisheries that have insignificant marine mammal mortality**	3	3	3	8	3[1]	
	Performance was not met, because: Completion of regulations that would reduce the mortality of bottlenose dolphins in the Atlantic Ocean was delayed. The target date of December 2004 for the finalized Bottlenose Dolphin Take Reduction Plan was not met due to extended negotiations of conservation measures among members of the Take Reduction Team, state, industry, and environment groups.						
	Strategies for Improvement: The proposed rule was published in November 2004. The rule is now in the clearance phase. The currently anticipated date for the Take Reduction Plan to be finalized is now March 2006. Following implementation of the plan, the fisheries will be monitored for one year to determine whether mortality has been reduced to insignificant levels.						
NOAA	**Increase in number of endangered species with lowered risk of extinction**	5	5	5	7	5[1]	
	Performance was not met, because: Though many conservation actions have been implemented, resulting improvements in species condition were not deemed large enough to reduce the overall risk of extinction for any endangered species in FY 2005. The shortnose sturgeon and the smalltooth sawfish had the most likely chance of succeeding to meet the target. High water temperatures and low dissolved oxygen levels inhibited recovery of the southern populations of shortnose sturgeon, while habitat loss and degradation due to development and the four Florida hurricanes of 2004 inhibited the recovery of smalltooth sawfish.						
	Strategies for Improvement: NOAA is working with other federal agencies and states to reduce or eliminate these threats.						
NOAA	**Number of habitat acres restored (annual/cumulative)**	4,300/5,820	5,200/11,020	5,563/16,583	4,500/21,083	8,333/24,916	

[1] FY 2005 actual projection.
[2] The baseline was reduced from 46 stocks to 44 due to one stock having mistakenly been listed as overfished in 2000 and two other stocks being merged into one. This reduction is in addition to the previous reduction caused by 10 pacific salmon stocks being listed as endangered and therefore removed from the fishery management regime. This number had been reported erroneously as 43 in the FY 2004 Performance and Accountability Report (PAR) and 44 in the FY 2006 Annual Performance Plan (APP). The procedures that led to these errors have been overhauled.
[3] Actual revised from 43 to 42 due to restatement of FY 2003 actual.
[4] The original target was 42 of the original 46 baseline stocks. However, the baseline reduction to 44 stocks technically revised this target to 40 (see footnote 2).
[5] The FY 2004 actual reflects technical changes in the way stocks are reported that reduced the baseline by 10 stocks.
[6] This target was based on an earlier estimate for FY 2004 rather than on the FY 2004 actual, which was not available until August 2005.
[7] Preliminarily reported as 7. Revised to 8 due to significant increase in abundance of Middle Columbia River O. mykiss.

PERFORMANCE GOAL: Support the nation's commerce with information for safe, efficient, and environmentally sound transportation* (NOAA)

PERFORMANCE GOAL RESOURCES
(Dollars in Millions)

	FY 2002[2] Actual	FY 2003[2] Actual	FY 2004[2] Actual	FY 2005 Actual
Total Funding	$249.9	$261.6	$192.8	$175.0
FTE[1]	942	1,004	716	749

[1] FTE – Full-Time Equivalent
[2] In the FY 2004 PAR, the 2002-2004 amounts for the mission support goal were distributed among the four goals. In this PAR, the 2002-2004 mission support levels were separated out resulting in lower 2002-2004 levels than as reported in the FY 2004 PAR for the other four goals.

*Targets and actuals have been updated since the FY 2004 PAR as a result of more recent and accurate data. Amounts also may differ from those reported in the Congressional Justification exhibits due to the inclusion of mandatory funds in the amounts cited above.

	PERFORMANCE GOAL MEASURES						
	MEASURE	**FY 2002 Actual**	**FY 2003 Actual**	**FY 2004 Actual**	**FY 2005 Target**	**FY 2005 Actual**	**FY 2005 Met/Not Met**
NOAA	**Reduce the hydrographic survey backlog within navigationally significant areas (square nautical miles surveyed per year)**	1,514	1,762	2,070	2,700	3,079	●
NOAA	**Percentage of U.S. counties rated as enabled or substantially enabled with accurate positioning capacity[1]**	New	New	25%	28%	32.2%	●
NOAA	**Percentage of National Spatial Reference System (NSRS) completed (cumulative %)**	83%	84%	88.3%[2]	89%[3]	89.7%	●
NOAA	**Accuracy (%) and FAR (%) of forecasts of ceiling and visibility (3 miles / 1000 feet)**	45%/71%	48%/64%	45%/65%	46%/68%	FY 2005 data through August 2005: 46%/63%	●
NOAA	**Accuracy (%) of forecast for wind speed and wave height**	52%/68%	57%/71%	57%/67%	57%/67%	FY 2005 data through August 2005 57%/67%	●

[1] This is a new measure for FY 2006. FY 2004 and FY 2005 amounts are provided for informational purposes.
[2] FY 2004 Actual incorrectly stated in FY 2004 PAR.
[3] The FY 2005 target was incorrectly understated in the FY 2005 Annual Performance Plan (APP) and FY 2006 APP as 87%. The correct target is 89%.

PERFORMANCE GOAL: Provide critical support for NOAA's mission* (NOAA)

PERFORMANCE GOAL RESOURCES *(Dollars in Millions)*				
	FY 2002[2] Actual	**FY 2003[2] Actual**	**FY 2004[2] Actual**	**FY 2005 Actual**
Total Funding	$313.5	$250.5	$1,217.6	$1,354.5
FTE[1]	1,716	1,996	2,178	2,437

[1] FTE – Full-Time Equivalent
[2] In the FY 2004 PAR, the 2002-2004 amounts for the mission support goal were distributed among the four goals. In this PAR, the 2002-2004 mission support levels were separated out resulting in lower 2002-2004 levels than as reported in the FY 2004 PAR for the other four goals.

* There are no GPRA measures for this performance goal since the activities of this goal support the outcomes of the other performance goals in Strategic Goal 3.

MANAGEMENT INTEGRATION GOAL

Achieve organizational and management excellence

MANAGEMENT INTEGRATION GOAL RESOURCES *(Dollars in Millions)*				
	FY 2002 Actual	FY 2003 Actual	FY 2004 Actual	FY 2005 Actual
Total Funding FTE[1]	$75.1 319	$73.4 326	$77.1 310	$79.2 292

[1] FTE – Full-Time Equivalent

PERFORMANCE GOAL: Identify and effectively manage human and material resources critical to the success of the Department's strategic goals (DM)

PERFORMANCE GOAL RESOURCES *(Dollars in Millions)*				
	FY 2002 Actual	FY 2003 Actual	FY 2004 Actual	FY 2005 Actual
Total Funding FTE[1]	$54.2 183	$51.4 186	$56.1 182	$57.8 177

[1] FTE – Full-Time Equivalent

PERFORMANCE GOAL MEASURES

	MEASURE	FY 2002 Actual	FY 2003 Actual	FY 2004 Actual	FY 2005 Target	FY 2005 Actual	FY 2005 Met/Not Met
DM	**Provide accurate and timely financial information and conform to federal standards, laws, and regulations governing accounting and financial management**	New	New	New	Eliminate any reportable condition within one year of the determination that there is a reportable condition; 90% of management that have access to the Consolidated Reporting System (CRS) have financial data / reports available within one day of the 15th of the month after submitting the raw data to the CRS.	Corrective action plan (CAP) met Reportable condition not eliminated	

Performance was not met, because:
Substantial progress was made on the findings that resulted in this reportable condition last year, but one bureau's corrective actions were taken too late in the fiscal year to have avoided this reportable condition this year, despite the bureau's best efforts.

Strategies for Improvement:
This year's corrective actions are being addressed early in the fiscal year by that bureau, with the expectation that the basis for the reportable condition will be corrected early in the fiscal year.

PERFORMANCE GOAL MEASURES *(continued)*							
	MEASURE	FY 2002 Actual	FY 2003 Actual	FY 2004 Actual	FY 2005 Target	FY 2005 Actual	FY 2005 Met/Not Met
DM	**Effectively use competitive sourcing**	New	New	New Departmental FAIR Inventory Guidance has been developed	Complete feasibility studies for 168 commercial FTEs to determine potential new FY 2005-2006 studies	New FY 2005-2006 feasibility studies have been nominated. FY 2005 FAIR inventory has been scrubbed to determine candidates for feasibility studies	
DM	**Obligate funds through performance-based contracting**	New	New	42% of $806M	50% of eligible service contracting dollars	< 50% of eligible service contracting dollars	
DM	*Performance was not met, because:* Federal Procurement Regulations led to the creation of a new formula that excluded certain types of research contracts that would have been included under the formula used in FY 2004. For the first three quarters the target was being met, however, it dipped below the target in the fourth quarter when not as many performance-based contracts were awarded.						
DM	*Strategies for Improvement:* DM will re-examine the data, looking at the definition of the data, and examine the Federal Procurement Data System-Next Generation (FPDS-NG) to determine better targets and to clean up the data.						
DM	**Obligate contracts to small businesses**	New	New	Small business 62%	44.8% of contracts	61.7% of contracts	
DM	**Acquire and maintain diverse and highly qualified staff in mission-critical occupations**	New	New	Implement learning management online system in the Office of the Secretary (70%); continue improving representation of underrepresented RNO group within targeted critical job groups (10%); maintain fill-time standard of 30 days (10%) and assess applicants' and bureaus' satisfaction with COOL (10%).	Improve representation of underrepresented RNO groups; evaluate implementation of learning management system; maintain 30 days fill-time standard.	Underrepresented RNO groups improved from 28% to 29%; increased number of courses and established baseline of 26,845 users from evaluation of learning management system; maintained 30-day fill-time.	

PERFORMANCE GOAL MEASURES *(continued)*							
	MEASURE	FY 2002 Actual	FY 2003 Actual	FY 2004 Actual	FY 2005 Target	FY 2005 Actual	FY 2005 Met/Not Met
DM	**Improve the management of information technology**	New	New	New	IT investments under development have cost/schedule overruns and performance shortfalls averaging less than 10%; POA&M action items to complete C&A's are documented and on schedule	IT investments under development have cost/schedule overruns and performance shortfalls averaging less than 10%; POA&M action items to complete C&A's are documented and on schedule	

PERFORMANCE GOAL: Promote improvements to Commerce programs and operations by identifying and completing work that (1) promotes integrity, efficiency, and effectiveness; and (2) prevents and detects fraud, waste, and abuse (OIG)

PERFORMANCE GOAL RESOURCES *(Dollars in Millions)*				
	FY 2002 Actual	FY 2003 Actual	FY 2004 Actual	FY 2005 Actual
Total Funding	$20.9	$22.0	$21.0	$21.4
FTE[1]	136	140	128	115

[1] FTE – Full-Time Equivalent

PERFORMANCE GOAL MEASURES							
	MEASURE	FY 2002 Actual	FY 2003 Actual	FY 2004 Actual	FY 2005 Target	FY 2005 Actual	FY 2005 Met/Not Met
OIG	**Percentage of OIG recommendations accepted by departmental and bureau management**	95%	97%	97.5%	90%	99%	
OIG	**Dollar value of financial benefits identified by OIG**	Modified	$43,323,124	$26,000,000	$23,000,000	$32,084,247	
OIG	**Percentage of criminal and civil matters that are accepted for prosecution**	Modified	50%	67%	62%	81%	

PERFORMANCE GOALS AND MEASURES THAT HAVE BEEN DISCONTINUED OR CHANGED

STRATEGIC GOAL 1

Provide the information and tools to maximize U.S. competitiveness and enable economic growth for American industries, workers, and consumers

STRATEGIC OBJECTIVE 1.1

Enhance economic growth for all Americans by developing partnerships with private sector and nongovernmental organizations

Performance Goal	Increase private enterprise and job creation in economically distressed communities (EDA)
Corresponding Measures	• State and local dollars committed per EDA dollar • Percentage of investments in regions of highest distress • Percentage of EDA dollars invested in technology-related projects in distressed areas
Change	Measures discontinued
Justification	EDA discontinued these performance measures because they did not reflect its outcome efforts. These measures were originally designed to provide results the same year as the investment was awarded in lieu of actual job and private investment data that had not yet been realized and reported yet. EDA will continue to track these measures internally for quality assurance.

Performance Goal	Improve community capacity to achieve and sustain economic growth (EDA)
Corresponding Measure	Percentage of local technical assistance and economic adjustment strategy investments awarded in regions of highest distress
Change	Measure discontinued
Justification	EDA discontinued this measure because it did not reflect its outcome efforts. EDA will continue to track this measure internally for quality assurance.

Performance Goal	Increase trade opportunities for U.S. firms to advance the United States international commerce and strategic interests (ITA)
Change	Goal reworded as "Strengthen U.S industries (ITA)"
Justification	ITA reorganized in FY 2004 with a greater focus on the U.S. manufacturing industry. Strengthening the U.S. manufacturing sector is a top priority of the President. This performance goal was redrafted to reflect the expanded goal to "Strengthen U.S. industries."
Corresponding Measure	Number of new or enhanced ITA partnerships with public and private sector entities to promote U.S. exports
Change	Measure deleted
Justification	Measuring the partnership build rate from an established baseline was not a critical result and obtaining the information was difficult and unreliable.

Performance Goal	Increase trade opportunities for U.S. firms to advance the United States international commerce and strategic interests (ITA) *(continued)*
Corresponding Measure	Trade policy and negotiations advancement
Change	Measure deleted
Justification	In FY 2004 this was a new measure with no targets yet established. As part of ITA's consolidation of goals and measures, ITA has chosen not to report on this measure for this report.
Corresponding Measure	Dollar exports in targeted products and markets
Change	Measure deleted
Justification	This measured a macro-economic trend that was not an effective indicator of ITA's involvement.

Performance Goal	Expand U.S. exporter base (ITA)
Corresponding Measure	Dollar value of completed advocacies (U.S. export content)
Change	Measure deleted
Justification	ITA determined that the "dollar value" data is less valid because it is influenced by the dollar exchange rate, a significant external factor.

Performance Goal	Improve customer and stakeholder satisfaction (ITA)
Corresponding Measures	• Customer satisfaction with ITA's products and services • Customer perception of ease of access to export and trade information and data • Level of awareness of ITA products and services • Number of U.S. exporter activities undertaken per customer surveyed
Change	Goal and measures discontinued
Justification	ITA reorganized in FY 2004, streamlining its performance management so as to work under three major agency-specific goals. The three goals are more closely aligned with changes to ITA's mission. The work associated with these goals will continued to be measured with activities and results incorporated into the three goals.

Performance Goal	Improve the U.S. competitive advantage through global e-commerce (ITA)
Corresponding Measures	• Number of new subscribers using BuyUSA.com e-services • Customer perception of (Export.gov) portal ease of use • Percentage of ITA's significant products and services provided electronically to external customers
Change	Goal and measures discontinued
Justification	ITA reorganized in FY 2004, streamlining its performance management so as to work under three major agency-specific goals. The three goals are more closely aligned with changes to ITA's mission. The work associated with these goals will continued to be measured with activities and results incorporated into the three goals.

Performance Goal	Increase opportunities and access of minority-owned businesses to the marketplace and financing (MBDA)
Change	Goal reworded as "Increase access to the marketplace and financing for minority-owned businesses (MBDA)"
Justification	MBDA determined that the new wording of this performance goal better reflects the outcome orientation of the goal.
Corresponding Measure	Total number of all clients receiving assistance
Change	Measure reworded as "Clients receiving services"
Justification	Ther term "services" better reflects MDBA's role rather than "assistance."
Corresponding Measures	• Number of contract awards obtained • Number of financial awards obtained • Employees training hours
Change	Measures discontinued
Justification	These measures represent outputs rather than outcomes. MBDA will continue to track them internally.

STRATEGIC OBJECTIVE 1.2

Advance responsible economic growth and trade while protecting American security

Performance Goal	Protect the U.S. national security and economic interests by enhancing the efficiency of the export control system (BIS)
Change	Goal reworded as "Protect the U.S. national security, foreign policy, and economic interests by enhancing the effectiveness and efficiency of the export control system (BIS)"
Justification	The goal was reworded to better reflect the activities of BIS while adding an emphasis on foreign policy.

Performance Goal	Prevent illegal exports and identify violators of export prohibitions and restrictions for prosecution (BIS)
Corresponding Measure	Number of cases opened that result in the prevention of a criminal violation of the prosecution of a criminal or administrative case
Change	Measure reworded as "Number of investigative actions that result in the prevention of a violation and cases which result in a criminal and/or administrative prosecution"
Justification	This performance measure was reworded to more accurately reflect the measure. Data collected and the methodology used were unchanged.

Performance Goal	Enhance the export and transit control system of nations that lack effective control arrangements (BIS)
Change	Goal reworded as "Enhance the export and transit controls of nations seeking to improve their export control system (BIS)"
Justification	The goal was reworded to remove the negative connotation, that these countries lacked effective export control arrangements, when in fact export control arrangements in many of these countries do not exist to begin with.

STRATEGIC OBJECTIVE 1.3

Enhance the supply of key economic and demographic data to support effective decision-making of policymakers, businesses, and the American public

Performance Goals	• Meet the needs of policymakers, businesses and non-profit organizations, and the public for current measures of the U.S. population, economy, and governments (ESA/Census) • Support the economic and political foundations of the United States by producing benchmark measures of the economy and population for the administration and equitable funding of federal, state, and local programs (ESA/Census) • Meet constitutional and legislative mandates by implementing a re-engineered 2010 Census that is cost-effective, provides more timely data, improves coverage accuracy, and reduces operational risk (ESA/Census) • Support innovation, promote data use, minimize respondent burden, respect individual privacy, and ensure confidentiality (ESA/Census)
Change	These goals have been combined into one performance goal, "Meet the needs of policymakers, businesses, non-profit organizations, and the public for current and benchmark measures of the U.S. population, economy, and governments (ESA/Census)"
Corresponding Measures	All of the performance measures appearing in these four goals in the FY 2004 PAR have been consolidated into the following six measures appearing under the newly combined goal. For a crosswalk between the old and new measures, see exhibit 3A of the Census Bureau chapter of the FY 2006 Department of Commerce budget submission. • Achieve pre-determined collection rates for Census Bureau censuses and surveys in order to provide statistically reliable data to support effective decision-making of policymakers, businesses, and the public • Release data products for Census Bureau programs on time to support effective decision-making of policymakers, businesses, and the public • Introduce Census 2000-based samples as scheduled so that the household surveys can continue through the next decade, and so that policymakers, businesses, and the public can continue to be confident in the major federal socioeconomic indicators these surveys provide • Correct street features in TIGER (geographic) database to more effectively support: Census Bureau censuses and surveys, facilitate the geographic partnerships between federal, state, local and tribal governments, and support the E-Government initiative in the President's Management Agenda • Complete key activities for cyclical census programs on time to support effective decision-making by policymakers, businesses, and the public and meet constitutional and legislative mandates • Meet or exceed overall federal score of customer satisfaction on the American Customer Satisfaction Index
Justification	The FY 2005 PAR reflects a shift to more customer-focused Census Bureau measures based on the Government Performance and Results Act (GPRA). The Census Bureau has reduced the number of its performance measures, and made the remaining measures more outcome-oriented. These performance measures have been realigned under one goal with the exception of "Expanding Web-based technology solutions" which has been removed from GPRA reporting as it is an internal measure.

Performance Goal	Promote a better understanding of the U.S. economy by providing the most timely, relevant, and accurate economic data in an objective and cost-effective manner (ESA/BEA)
Corresponding Measure	Budget-Related: Upgrading information technology systems
Change	Measure discontinued
Justification	This performance measure was designed to monitor the progress in implementing the BEA budget-related initiative to upgrade information technology. From its inception in FY 2002 through FY 2004, BEA had successfully completed all planned milestones related to this budget-specific performance measure and discontinued reporting the measure in FY 2005.

STRATEGIC GOAL 2

Foster science and technological leadership by protecting intellectual property, enhancing technical standards, and advancing measurement science

STRATEGIC OBJECTIVE 2.1

Develop tools and capabilities that improve the productivity, quality, dissemination, and efficiency of research

Performance Goal	Provide leadership in promoting national technology policies that facilitate U.S. preeminence in key areas of science and technology (TA/OTP)
Corresponding Measures	• Support and improve American innovation system • Advance role of technology in U.S. economic growth and homeland security • Strengthen competitive position of American technology industries • Strengthen OTP's organization, capabilities, and resources to maximize the effectiveness of its activities and services
Change	Goal and measures discontinued
Justification	OTP's activities are largely policy-related and thus vary substantially from year to year. Because of this along with an effort to limit the number of measures, this goal and corresponding measures are being discontinued.

Performance Goals	Provide technical leadership for the nation's measurement and standards infrastructure. Assure the availability and efficient transfer of measurement and standards capabilities essential to established industries (NIST-A and NIST-B)
Change	Goal reworded as "Promote innovation, facilitate trade, ensure public safety and security, and help create jobs by strengthening the nation's measurements and standards infrastructure (NIST)"
Justification	The single goal better represents the focus of the NIST Laboratory Program and allows for more effective reporting of financial information against program goals.
Corresponding Measure	Citation Impact of NIST-authored publications
Change	Measure discontinued
Justification	To streamline the reporting process and focus on measures that demonstrate NIST's major dissemination channels, this measure was discontinued as a formal GPRA measure in the FY 2006 Annual Performance Plan. NIST still continues to track the citation impact of its publications as one indicator of the demand for or relevance of its published research.
Corresponding Measure	Economic Impact Studies
Change	Measure discontinued
Justification	To streamline the reporting process and focus on measures that demonstrate NIST's major dissemination channels, this measure was discontinued as formal GPRA measure in the FY 2006 Annual Performance Plan. NIST values the data received from the retrospective microeconomic impact studies and continues to conduct the studies to assess the long-term impact that derive from specific research programs or projects. Currently, NIST is in the process of conducting a retrospective study on its work with the semiconductor industry.

Performance Goal	Catalyze, reward, and recognize quality and performance improvement practices in U.S. businesses and other organizations (NIST)
Corresponding Measures	• Number of Baldrige criteria disseminated • Percent of applicants indicating satisfaction with the relevance of the feedback report
Change	Goal and measures discontinued
Justification	With a focus on streamlining the number of GPRA goals and measures, the Department issued general guidance for new and existing goals and measures. One criteria focused on the Program's funding level so that smaller scale programs have limited or no formal GPRA goals and measures. Currently, the Baldrige National Quality Program (BNQP) receives approximately $5M per year in appropriated funds. Based on the criteria, the GPRA goals and measures for this program have been discontinued. NIST still continues to track and report progress on these and other BNQP measures and successes via other reporting mechanisms.

STRATEGIC OBJECTIVE 2.2

Protect intellectual property and improve the patent and trademark system

Performance Goal	Improve the quality of patent products and services and optimize patent processing time (USPTO)
Corresponding Measures	• Patent examiner certification • Patent examiner re-certification • Patent in-process reviews
Change	Measures discontinued
Justification	Patent and Trademark pendency and quality are the key measures of the effectiveness of USPTO operations. *The 21st Century Strategic Plan* outlines the actions necessary to begin to reverse the upward trend in pendency that has resulted from increased filings and the growing complexity of applications. While training and certifying examiners is an important aspect of quality, they are just three of many internal measures that are useful for planning and developing strategies for improving pendency and quality. These measures do not serve as indicators of the effectiveness of the overall USPTO strategic and performance goals and should not be included in the Annual Performance Plan. USPTO will continue to track these measures internally for quality assurance.
Corresponding Measure	Patent in-process reviews error rate
Change	Measure reworded as "Patent in-process examination compliance rate"
Justification	The new wording better reflects what USPTO is seeking to accomplish by focusing on the positive aspects of USPTO's work.

Performance Goal	Improve the quality of trademark products and services and optimize trademark processing time (USPTO)
Corresponding Measure	Trademark in-process reviews
Change	Measure reworded as "Trademark first action deficiency rate"
Justification	The new wording better reflects what USPTO is seeking to accomplish, that is, decreasing the number of errors within the trademark review process.

Corresponding Measure	Trademark productivity
Change	Measure discontinued, though this measure did not have historical data reported in past PARs.
Justification	Patent and Trademark pendency and quality are the key measures of the effectiveness of USPTO operations. *The 21st Century Strategic Plan* outlines the actions necessary to begin to reverse the upward trend in pendency that has resulted from increased filings and the growing complexity of applications. While productivity is an important measure, it is just one of many internal measures that are useful for planning and developing strategies for improving the key measures of pendency and quality. These measures do not serve as indicators of the effectiveness of the overall USPTO strategic and performance goals and should not be included in the Annual Performance Plan.

Performance Goal	Create a more flexible organization through transitioning patent and trademark applications to e-goverment operations and participating in intellectual property development worldwide (USPTO)
Change	Goal reworded as "Create a more flexible organization through transitioning patent and trademark operations to an e-government environment and advancing intellectual property development worldwide (USPTO) "
Justification	Wording change reflects a more active role of USPTO in intellectual property development worldwide.

STRATEGIC OBJECTIVE 2.3

Advance the development of global e-commerce and enhanced telecommunications and information services

Performance Goal	Increase competition within the telecommunications sector and universal access to telecommunication services for all Americans (NTIA)
Corresponding Measures	• Provide the policy framework for introduction of new technology • Policy customer survey
Change	Goal and measures deleted
Justification	After discussions with the Department and OMB, activities under this goal have been combined with those under "Ensure broader availability, and support new sources, of advanced telecommunications and information services (NTIA)." These measures have been discontinued as they don't reflect NTIA's policy activities particularly well.

Performance Goal	Efficient and effective allocation of radio spectrum (NTIA)
Change	Goal reworded as "Ensure that the allocation of radio spectrum provides the greatest benefit to all people (NTIA)"
Justification	NTIA determined that the new wording of this performance goal better reflects the outcome orientation of the goal.
Corresponding Measures	• Percentage of requests accomplished online • Completeness and accuracy of agency assignment request • Customer satisfaction survey on training course
Change	Measures have been discontinued
Justification	After discussions with The Department and OMB, these measures have been discontinued as unnecessary to assess the outcome of the program. These measures are maintained internally, however.

Performance Goal	Ensure broader availability, and support new sources, of advanced telecommunications and information services (NTIA)
Change	Goal reworded as "Promote the availability, and support new sources, of advanced telecommunications (NTIA)"
Justification	After discussions with the Department and OMB, activities under this goal have been combined with those under "Increase competition within the telecommunications sector and universal access to telecommunication services for all Americans (NTIA)."
Corresponding Measure	Digital broadcasting conversion
Change	Measure deleted
Justification	The conversion of public television is essentially complete.

STRATEGIC GOAL 3

Observe, protect and manage the Earth's resources to promote environmental stewardship

STRATEGIC OBJECTIVE 3.1

Advance understanding and predict changes in the Earth's environment to meet America's economic, social and environmental needs

Performance Goal	Increase understanding of climate variability and change (NOAA)
Change	Goal reworded as "Understand climate variability and change to enhance society's ability to plan and respond (NOAA)"
Justification	NOAA determined that the new wording of this performance goal better reflects the outcome orientation of the goal.
Corresponding Measure	Determine the actual long-term changes in temperature and precipitation over the United States
Change	Measure reworded as "Determine the national explained variance (%) for temperature and precipitation for the contiguous United States using USCRN stations"
Justification	Revised measure wording in response to OIG audit report 159894-0001/September 2004.
Corresponding Measure	Assess and model carbon sources and sinks throughout the United States
Change	Measure reworded as "Reduce the uncertainty in the magnitude of the North American (NA) carbon uptake"
Justification	Revised measure wording in response to OIG audit report 159894-0001/September 2004.

Performance Goal	Improve accuracy and timeliness of weather and water information (NOAA)
Change	Goal reworded as "Serve society's needs for weather and water information (NOAA) "
Justification	NOAA determined that the new wording of this performance goal better reflects the outcome orientation of the goal.

STRATEGIC OBJECTIVE 3.2

Enhance the conservation and management of coastal and marine resources to meet America's economic, social, and environmental needs

Performance Goal	Improve protection, restoration, and management of coastal and ocean resources through an ecosystem-based management (NOAA)
Change	Goal reworded as "Protect, restore, and manage the use of coastal and ocean resources through an ecosystem approach to management (NOAA) "
Justification	NOAA determined that the new wording of this performance goal better reflects the outcome orientation of the goal.

MANAGEMENT INTEGRATION GOAL

Achieve organizational and management excellence

Performance Goals	• Ensure effective resource stewardship in support of the Department's programs (DM) • Strategic management of human capital (DM) • Acquire and manage the technology resources to support program goals (DM)
Change	Goals consolidated into one goal "Identify and effectively manage human and material resources critical to the success of the Department's strategic goals (DM)"
Justification	DM has consolidated the three previous performance goals into one comprehensive performance goal that better defines how our performance measures help us achieve organizational and management excellence.

Performance Goal	Ensure effective resource stewardship in support of the Department's programs (DM)
Corresponding Measures	• Clean audit opinion on Department's consolidated financial statements • Consolidate Commerce-wide integrated financial management system platforms
Change	Measures consolidated into one measure "Provide accurate and timely financial information and conform to federal standards, laws, and regulations governing accounting and financial management"
Justification	Along with two other goals, this goal was consolidated into one goal, "Identify and effectively manage human and material resources critical to the success of the Department's strategic goals." These measures were consolidated into the new measure "Provide accurate and timely financial information and conform to federal standards, laws, and regulations governing accounting and financial management."
Corresponding Measure	Implement competitive sourcing
Change	Measure reworded as "Effectively use competitive sourcing"
Justification	This performance measure was revised to reflect the progress that had been made with the competitive sourcing initiative.
Corresponding Measure	Funds obligated through performance-based contracting
Change	Measure reworded as "Obligate funds through performance-based contracting"
Justification	Revised wording to state in active tense.
Corresponding Measure	Increase percentage of total obligations awarded as contracts to small businesses
Change	Measure reworded as "Obligate contracts to small businesses"
Justification	Reworded slightly to fit with other measures.
Corresponding Measures	• Small purchases made using credit cards • Ensure a secure workplace for all Commerce employees • Ensure a safe workplace for all Commerce employees
Change	Measures discontinued
Justification	These performance measures have been consistently met or exceeded since reporting began. DM will continue to track these indicators, but will no longer include them as performance measures.

Performance Goal	Strategic management of human capital
Corresponding Measures	• Strategic competencies—ensure competency in leadership and in mission-critical occupations • Strategic competencies—ensure diverse candidate recruitment • Efficiency and effectiveness of hiring systems using the Commerce Opportunities On-Line (COOL) System • Increase the alignment of performance management with mission accomplishment
Change	Measures consolidated into one measure "Acquire and maintain diverse and highly qualified staff in mission critical occupations"
Justification	This new measure reflects a more outcome orientation.

Performance Goal	Acquire and manage the technology resources to support program goals (DM)
Corresponding Measure	Transactions converted to electronic format
Change	Measure discontinued
Justification	This performance measure has been consistently met or exceeded since reporting began. DM will continue to track this indicator, but will no longer include it as a performance measure.
Corresponding Measures	• IT planning and investment review program maturity (on a scale of 0-5) • IT architecture program maturity (on a scale of 0-5) • IT security program maturity (on a scale of 0-5) • Percentage of IT system security plans completed • Percentage of IT systems certified and accredited • Percentage of unsuccessful intrusion attempts
Change	Measures consolidated into one measure "Improve the management of information technology"
Justification	Along with two other goals, this goal was consolidated into one goal, "Identify and effectively manage human and material resources critical to the success of the Department's strategic goals." These corresponding measures were consolidated into a new performance measure, "Improve the management of information technology" under the new performance goal.

Performance Goal	Promote improvements to Commerce programs and operations by identifying and completing work that (1) promotes integrity, efficiency, and effectiveness; and (2) prevents and detects fraud, waste, and abuse (OIG)
Corresponding Measure	Percentage of Commerce's management challenges, stakeholder concerns and other critical issues addressed by OIG work products
Change	Measure deleted
Justification	By deleting this measure, OIG can focus on the key few measures that best reflect organizational performance.

IMPROPER PAYMENTS INFORMATION ACT (IPIA)

REPORTING DETAILS

I. Describe your agency's risk assessment premise(s) and process(es) that you performed subsequent to compiling your full program inventory.

To determine the nature and extent of possible improper payments, and to assess the level of internal controls and the overall risk of erroneous payments within the Department, a comprehensive questionnaire on erroneous payment was issued to the Department's payment offices in fiscal year (FY) 2003. The Department separated the risk assessment into different categories of payment such as Grants, Purchase Orders, Contracts, Purchase Cards, and Travel Reimbursements. The payment offices' responses were analyzed and a consolidated risk assessment was completed. In performing the risk analysis, the Department also looked at the results of different audits.

II. List the risk-susceptible program identified through your risk assessment. Don't omit the programs previously identified in the former Section 57 of OMB (Office of Management and Budget) Circular A-11.

The results of Department assessments revealed no risk-susceptible program, and demonstrated that overall the Department has strong internal controls over the disbursement process, the amounts of erroneous payments in the Department are immaterial, and the risk of erroneous payments is low.

III. Describe the statistical sampling process conducted to estimate the improper payment rate for each program identified.

In FY 2005, the Department conducted a systematic sampling process to draw and review random samples of disbursements from a Department-wide universe of disbursements. It then subjected each selected sample item to a rigorous review of original 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 significant improper payments. The same results were achieved following a similar test in FY 2004.

Also, in FY 2005, the Department received the results of an Office of Inspector General's (OIG) audit involving a comprehensive review of disbursements for improper payments at the Department's largest payment office. The audit revealed no significant erroneous payments.

IV. Explain the corrective action plan(s) your agency plans to implement to reduce the estimated rate of improper payments. Include in this discussion what is seen as the cause(s) of errors and the corresponding steps necessary to prevent future occurrences. If efforts are already underway, and/or have been ongoing for some length of time, it is appropriate to include that information in this section.

The results of Department assessments demonstrate that overall the Department has strong internal controls over the disbursement process, the amounts of erroneous payments in the Department are immaterial, and the risk of erroneous payments is low. However, the Department has further enhanced its current process and is actively working with each

of its payment offices to identify and implement additional procedures to prevent and detect erroneous payments. In FY 2005, the Department continued with its procedures that include quarterly reporting by its bureaus to the Department on erroneous payments, identifying the nature and magnitude of the erroneous payment along with any necessary control enhancements

Additionally, the Department has reviewed all financial statement audit findings and results of other payment reviews for indications of a breach of those controls. None of these reviews or audits has uncovered any problems with erroneous payments or the internal controls that surround disbursements. If future financial statement audits reveal problems with erroneous payments, the Department will prepare corrective actions to address them.

V. A. Based on the rate(s) obtained in Step III, set annual improvement targets through FY 2007.

The results of the Department's review did not reveal any significant improper payments. Also, in FY 2005, the Department received the results of an OIG's audit involving a comprehensive review of disbursements for improper payments at the Department's largest payment office. The audit revealed no significant erroneous payments.

Due to the low level of erroneous payments and assessed low risk, Commerce is still determining the feasibility of a reduction goal.

VI. Discussion of your agency's recovery auditing effort, if applicable to your agency, including the amount of recoveries expected, the actions taken to recover them, and the changes to business process and internal controls instituted to prevent further occurrences.

During FY 2005, in compliance with Section 831 of the Defense Authorization Act of 2002 (P.L. 107-107, Title VIII, Subtitle D, Sec. 831; 31 USC 3561-3567), which requires federal agencies to identify and recover overpayments to contractors due to payment errors, the Department contracted with a private vendor to perform recovery auditing. The audit included thorough reviews of sample invoices from two of the Department's largest payment offices, and an independent confirmation of open items with key vendors. Results of the audit and confirmation efforts revealed no significant improper payments or internal control deficiencies

VII. Description of the steps (including timeline) the agency has taken and plans to take to ensure that agency managers (including the agency head) are held accountable for reducing and recovering improper payments.

The Department has not identified any significant problems with erroneous payments; however, it recognizes the importance of maintaining adequate internal controls to ensure proper payments, and the Department's commitment to the continuous improvement in the disbursement management process remains very strong. The Chief Financial Officer (CFO) has responsibility for establishing policies and procedures for assessing agency and program risks of improper payments, taking actions to reduce those payments, and reporting the results of the actions to agency management for oversight and other actions as deemed appropriate. The CFO has designated the Deputy CFO and Director for Financial Management to oversee initiatives related to reducing erroneous payments within the Department, and work closely with the bureau CFOs in this area.

In FY 2005, the Department continued its reporting procedures that required quarterly reporting to the Department by its bureaus on any erroneous payments, identifying the nature and magnitude of the erroneous payment, along with any

necessary control enhancements to prevent further occurrence of the type of erroneous payments identified. Department analysis of the data collected from the bureaus shows that Department-wide erroneous payments were below one tenth of one percent in FY 2005, as was the case in FY 2004.

For FY 2006 and beyond, the Department will continue its efforts to ensure the integrity of its programs' payments.

VIII. A statement of whether the agency has the information systems and other infrastructure it needs in order to reduce improper payments to the levels the agency has targeted.

The Department has ensured that internal controls—manual, as well as system—relating to payments are in place throughout the Department, and has reviewed all financial statement audit findings and results of other payment reviews for indications of a breach of those controls. None of these reviews or audits has uncovered any problems with erroneous payments or the internal controls that surround disbursements.

IX. A description of any statutory or regulatory barriers, which may limit the agencies' corrective actions in reducing improper payments.

The Department has not identified any barriers to date but will notify OMB and Congress on any barriers that inhibit actions to reduce improper payments if they occur.

X. The Department's Disbursement Best Practices

The following are some examples of the internal control procedures used by the Department's bureaus:

- Limited/controlled access to vendor files–access to basic vendor information (e.g., name, address, tax identification number (TIN), business size, etc.) is available to system users; however access to banking information is strictly limited by system security to certain Office of Finance staff only.

- Controlled access to the accounts payable screens — authority to create, edit, approve, process, and amend payment records is limited to essential Office of Finance system users only. Also, authority to add records to or revise records in the vendor database is limited to separate Office of Finance system users only.

- Segregation of duties for data entry and review prior to transmitting disbursement file 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 that is an entirely automated process.

- System-edit reports that 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. In addition, 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, thereby preventing erroneous payments from occurring.

- The system edits 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 Citibank statement for Purchase Cards is interfaced into the accounting system and automatically paid after appropriate review and approval, thereby reducing data entry error.

- An accountant or supervisor reviews individual payments before releasing for payment to ensure that the correct banking information or addresses are used, and that the correct amount will be paid.

- Monthly post-payment random sample audits 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 under either a commercial item or a noncommercial item contract.

GLOSSARY OF KEY ACRONYMS

	Abbreviation	Title
A	**ACS**	American Community Survey
	ACSI	American Customer Satisfaction Index
	AD	Antidumping
	ADP	Automated Data Processing
	AHS	American Housing Survey
	AML	Advanced Measurement Laboratory (NIST)
	APP	Annual Performance Plan
	ASAP	Automated Standard Application for Payments
	ATP	Advanced Technology Program (NIST)
	ATS	Annual Trade Survey
	AWIPS	Advanced Weather Interactive Processing System
B	**BAS**	Boundary and Annexation Survey
	BDC	Business Development Centers (MBDA)
	BEA	Bureau of Economic Analysis
	BIS	Bureau of Industry and Security
	BLS	Bureau of Labor Statistics
	BNQP	Baldrige National Quality Program
C	**CBP**	U.S. Customs and Border Protection
	CBS	Commerce Business System
	CCSPS	Climate Change Science Program Strategic Plan
	CEDS	Comprehensive Economic Development Strategies
	CEIP	Coastal Energy Impact Program (NOAA)
	CFO	Chief Financial Officer
	CFO/ASA	Chief Financial Officer and Assistant Secretary for Administration (OS)
	CIO	Chief Information Officer
	CIRT	Computer Incident Response Team
	COOL	Commerce Opportunities Online
	COOP	Continuity of Operations Plan
	COTR	Contracting Officer Technical Representative
	CPD	Coastal Programs Division
	CPI	Consumer Price Index
	CPS	Current Population Survey
	CRADA	Cooperative Research and Development Agreements
	CSRS	Civil Service Retirement System
	CVD	Countervailing Duty
	CWC	Chemical Weapons Convention
	CWCIA	CWC Implementation Act
	CZM	Coastal Zone Management (NOAA)
	CZMA	CZM Act
	CZMP	CZM Program
D	**DFI**	Digital Freedom Initiative
	DHS	U.S. Department of Homeland Security
	DM	Departmental Management
	DOJ	U.S. Department of Justice
	DOL	U.S. Department of Labor
	DOL/OLMS	DOL Online Labor Management System
	DPAS	Defense Priorities and Allocations System
E	**EAA**	Export Administration Act
	EAR	Export Administration Regulations
	ECASS	Export Control Automated Support System
	EDA	Economic Development Administration
	EDD	Economic Development Districts
	EEEL	Electronics and Electrical Engineering Laboratory (NIST)
	EFT	Electronic Funds Transfer

	Abbreviation	Title
	ELGP	Emergency Oil and Gas and Steel Loan Guarantee Programs
	ENC	Electronic Navigational Chart
	ENSO	El Niño/Southern Oscillation
	EPO	European Patent Office
	ESA	Economics and Statistics Administration
F	FAIR	Federal Activities Inventory Reform
	FAR	False Alarm Rate
	FCC	Federal Communications Commission
	FECA	Federal Employees Compensation Act
	FEGLI	Federal Employees Group Life Insurance Program
	FEHB	Federal Employees Health Benefit Program
	FEMA	Federal Emergency Management Agency
	FERS	Federal Employees Retirement System
	FFMIA	Federal Financial Management Improvement Act of 1996
	FICA	Federal Insurance Contributions Act
	FISMA	Federal Information Security Management Act
	FMFIA	Federal Managers' Financial Integrity Act of 1982
	FMP	Fishery Management Plan
	FR	Field Representative
	FTA	Free Trade Agreement
	FTAA	Free Trade Area of the Americas
	FTE	Full-Time Equivalent
	FVOG	Fishing Vessel Obligation Guarantee Program (NOAA)
	FWC	Future Workers' Compensation
	FY	Fiscal-year
G	G&B	Gifts and Bequests (a fund that is part of DM)
	GAAP	Generally Accepted Accounting Principles
	GAO	U.S. Government Accountability Office
	GDP	Gross Domestic Product
	GFDL	Geophysical Fluid Dynamics Laboratory (NOAA)
	GLERL	Great Lakes Environmental Research Laboratory
	GPRA	Government Performance and Results Act of 1993
	GPS	Global Positioning System
	GSA	U.S. General Services Administration
	GSP	Gross State Product
	GSS	Geographic Support System
H	HR	Human Resources
	HRDS	HR Data System
	HSS	Heidke Skill Scores
I	IA	Import Administration (ITA)
	ICANN	Internet Corporation for Assigned Names and Numbers
	ICEP	International Catalog Exhibition Program (ITA)
	ICT	Information and Communication Technology
	IDS	Intrusion Detection Software
	IFQ	Individual Fishing Quota Direct Loans (NOAA)
	IFW	Image File Wrapper
	IG	Immediate Office of the Inspector General (OIG)
	IP	Intellectual Property
	IP	Internet Protocol
	IRAC	Interdepartmental Radio Advisory Committee
	IRC	Investment Review Committees
	IRS	Internal Revenue Service
	ISI	Institute for Scientific Information
	IT	Information Technology
	ITA	International Trade Administration

	Abbreviation	Title
	ITL	Information Technology Laboratory (NIST)
	ITS	Institute for Telecommunication Sciences (NTIA)
	ITU	International Telecommunication Union
K	KSA	Knowledge, Skills, and Abilities
L	LMS	Learning Management System
M	MAF	Master Address File
	MAP	Measurement Assurance Programs (NIST)
	MBDA	Minority Business Development Agency
	MBDC	Minority Business Development Centers (MBDA)
	MBE	Minority Business Enterprise
	MBIP	Minority Business Internet Portal
	MBNQA	Malcolm Baldrige National Quality Award
	MBOC	Minority Business Opportunity Committee Program (MBDA)
	MDCP	Market Development Cooperator Program (ITA)
	MECA	Minority Equity Capital Access Program (MBDA)
	MED	Minority Enterprise Development
	MEL	Manufacturing Engineering Laboratory (NIST)
	MEP	Manufacturing Extension Partnership (NIST)
	MEPNAB	MEP National Advisory Board
	MOU	Memorandum of Understanding
	MSEL	Materials Science and Engineering Laboratory (NIST)
	MTS	U.S. Marine Transportation System
N	NABDC	Native American Business Development Centers (MBDA)
	NAICS	North American Industry Classification System
	NAO	North Atlantic Oscillation
	NAPA	National Academy of Public Administration
	NASA	National Aeronautics and Space Administration
	NBS	National Bureau of Standards
	NCDC	National Climatic Data Center (NOAA)
	NERR	National Estuarine Research Reserve
	NIH	National Institutes for Health
	NIPA	National Income and Product Accounts
	NIPC	National Intellectual Property Law Enforcement Coordination Council
	NIST	National Institute of Standards and Technology
	NM	Nautical Miles
	NMFS	National Marine Fisheries Service (NOAA)
	NOAA	National Oceanic and Atmospheric Administration
	NOS	National Ocean Service (NOAA)
	NPV	Net Present Value
	NRC	National Research Council
	NSRS	National Spatial Reference System
	NTIA	National Telecommunications and Information Administration
	NTIS	National Technical Information Service
	NWLON	National Water Level Observation Network
O	OA	Office of Audits (OIG)
	OAM	Office of Acquisition Management (OS)
	OCAD	Office of Compliance and Administration (OIG)
	OCS	Office of Computer Services (Franchise Fund)
	OECD	Organization for Economic Cooperation and Development
	OFM	Office of Financial Management (OS)
	OFPP	Office of Federal Procurement Policy
	OHRM	Office of Human Resources Management (OS)
	OI	Office of Investigations (OIG)

Abbreviation	Title
OIG	Office of Inspector General (DM)
OIPE	Office of Inspections and Program Evaluations (OIG)
OMB	Office of Management and Budget
OPEM	Office of Planning, Evaluation and Management (BIS)
OPM	U.S. Office of Personnel Management
OS	Office of the Secretary (DM)
OSDBU	Office of Small and Disadvantaged Business Utilization (OS)
OSE	Office of Systems Evaluation (OIG)
OSM	Office of Spectrum Management (NTIA)
OSY	Office of Security (OS)
OTE	Office of Technology Evaluation
OTP	Office of Technology Policy (TA)
P	
PALM	Patent Application Location and Monitoring System
PAIR	Patent Application and Information Retrieval
PAR	Performance and Accountability Report
PART	Program Assessment Rating Tool
PBSA	Performance-based Service Acquisitions
PBSC	Performance-based Service Contracting
PBViews	Panorama Business Views
PKI	Public Key Infrastructure
PL	Physics Laboratory (NIST)
PMA	President's Management Agenda
PNA	Pacific North America
PORTS®	Physical Oceanographic Real-time System
PP&E	Property, Plant, and Equipment, Net
PPS	Post-project Survey
PRT	Program Review Team (NOAA)
PSV	Post-shipment Verification
PTFP	Public Telecommunications Facilities Program (NTIA)

Abbreviation	Title
Q	
QFR	Quarterly Financial Report
QPF	Quantitative Precipitation Forecasts
R	
R&D	Research and Development
RLF	Revolving Loan Fund (EDA)
ROP	Reserve's Operations Plan (NOAA)
S	
S&E	Salaries and Expenses
S&T	Science and Technology
SAS	Services Annual Survey
SAV	Site Assistance Visits
SBA	U.S. Small Business Administration
SBR	Combined Statement of Budgetary Resources
SCNP	Consolidated Statement of Changes in Net Position
SDDS	Special Data Dissemination Standards
SES	Senior Executive Service
SIPP	Survey of Income and Program Participation
SME	Small and Medium-sized Enterprise
SNM	Square Nautical Miles
SPD	Survey of Program Dynamics
SRD	Standard Reference Data
SRM	Standard Reference Materials
STEP	Standard for the Exchange of Product Model Data
T	
3G	Third Generation
TA	Technology Administration
TAA	Trade Adjustment Assistance Program (EDA)
TAAC	Trade Adjustment Assistance Center
TABD	Trans-Atlantic Business Dialogue
TCC	Trade Compliance Center (ITA)
TECI	Transshipment Country Export Control Initiative
TIC	Trade Information Center (ITA)

Abbreviation	Title
TIGER	Topologically Integrated Geographic Encoding and Referencing System
TIS	Trademark Information System
TPA	Trade Promotion Authority
TPC	Tropical Prediction Center (NOAA)
TPCC	Trade Promotion Coordinating Committee
TRAM	Trademark Reporting and Monitoring System
Treasury	U.S. Department of the Treasury
TROR	Treasury Report on Receivables
TRP	Take Reduction Plan
TRT	Take Reduction Team
TSP	Thrift Savings Plan
TVA	Tennessee Valley Authority
U	
UAE	United Arab Emirates
UC	University Center
US&FCS	U.S. and Foreign Commercial Service
USCRN	U. S. Climate Reference Network
USDA	U.S. Department of Agriculture
USPTO	U.S. Patent and Trademark Office
USTR	Office of the U.S. Trade Representative
USWRP	U.S. Weather Research Program
UWB	Ultra-wideband
V	
VCAT	Visiting Committee on Advanced Technology (NIST)
VoIP	Voice over Internet Protocol
W	
WCF	Working Capital Fund (DM)
WMD	Weapons of Mass Destruction
WTO	World Trade Organization

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- NIST Performance Evaluation
  http://www.nist.gov/director/planning/impact_assessment.htm#recent
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http://www.spo.noaa.gov/

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