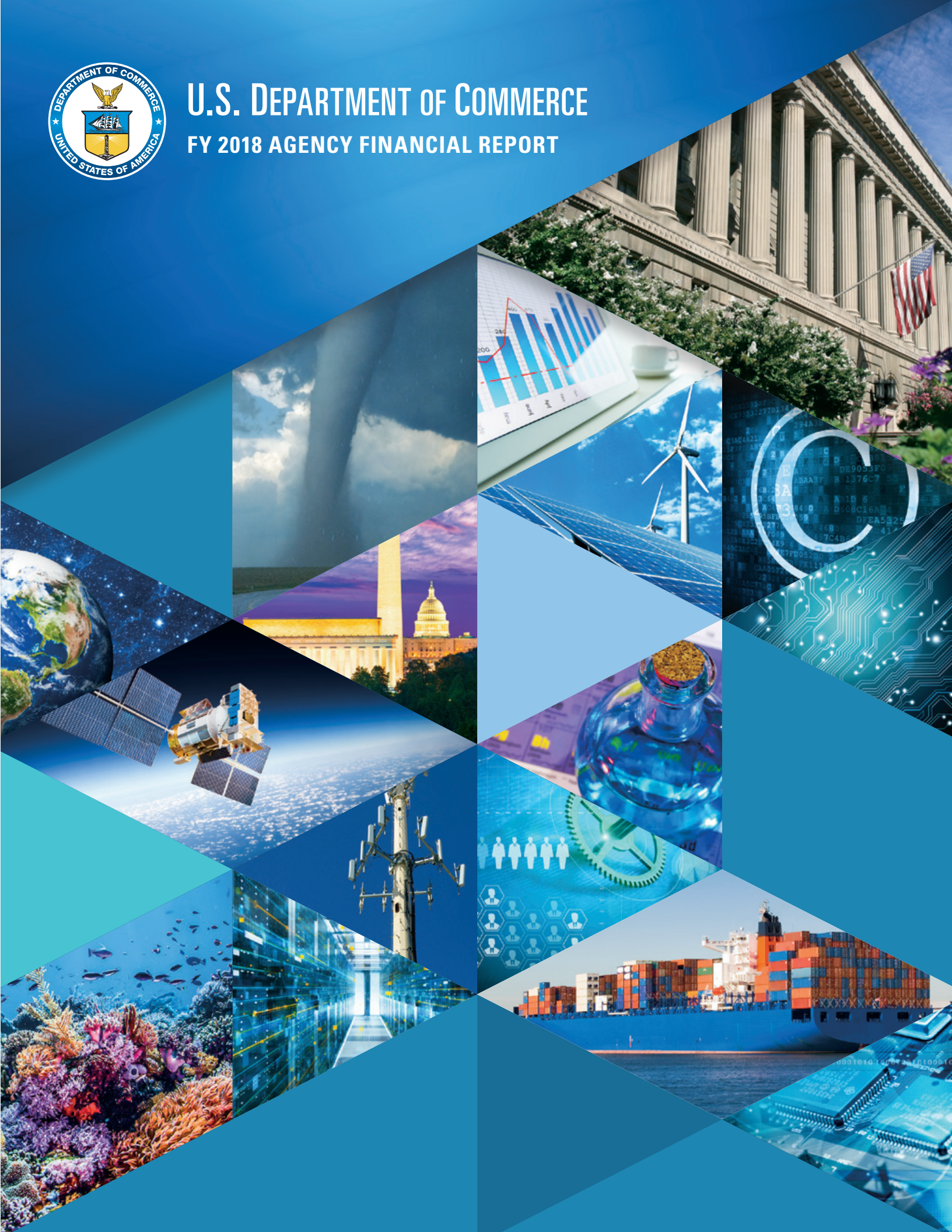




U.S. DEPARTMENT OF COMMERCE

FY 2018 AGENCY FINANCIAL REPORT



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

*If you have questions or comments regarding
this report, please contact the Department's
Office of Financial Management
by phone at (202) 482-1207 or
by email at AFRcomments@doc.gov.*

*Office of Financial Management
U.S. Department of Commerce
1401 Constitution Avenue NW
Washington, DC 20230*



U.S. DEPARTMENT OF COMMERCE

FY 2018 AGENCY FINANCIAL REPORT





THE DEPARTMENT AT A GLANCE

HISTORY AND ENABLING LEGISLATION

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

MISSION

The Department of Commerce creates the conditions for economic growth and opportunity.

ORGANIZATION

The Department is composed of 12 bureaus and Departmental Management.

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

STRATEGIC GOALS

- Strategic Goal 1: Accelerate American Leadership
- Strategic Goal 2: Enhance Job Creation
- Strategic Goal 3: Strengthen U.S. Economic and National Security
- Strategic Goal 4: Fulfill Constitutional Requirements and Support Economic Activity
- Strategic Goal 5: Deliver Customer-Centric Service Excellence

LOCATION

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

EMPLOYEES

As of September 30, 2018, the Department had approximately 46 thousand employees.

BUDGET AUTHORITY

The Department’s FY 2018 net budget authority was approximately \$16.86 billion.

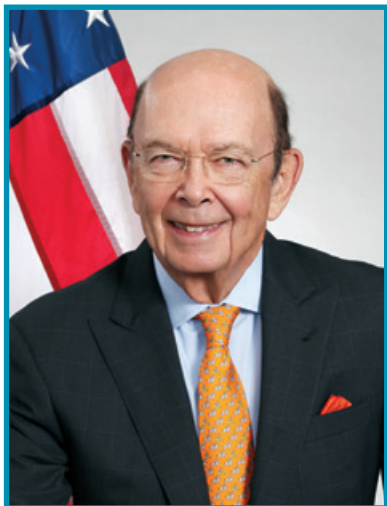
INTERNET

The Department’s Internet address is www.commerce.gov.

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MESSAGE FROM SECRETARY ROSS



I am pleased to present the fiscal year (FY) 2018 *Agency Financial Report* (AFR) for the Department of Commerce. The AFR is an overview of how we manage our resources and provides some highlight of our accomplishments and plans.

The mission of the Department of Commerce is to create the conditions for economic growth and opportunity. In February of 2018 we published our new Strategic Plan for carrying out that mission. The Strategic Plan for FY 2018 – 2022 structures our work into five goal areas that outline Department priorities: American Economic Leadership; Job Creation; Strong Economic and National Security; Constitutional and Economic Requirements for Data; and Service Excellence. Although we are in the first year of the plan, much has been accomplished. Now that Department leadership and implementation processes are in place, much more will be done.

The plan calls for strong enforcement of trade laws and scrutiny of technology that is exported. We promote exports and aim for U.S. companies to be preeminent in Space Commerce. We are facilitating aquaculture because of its potential for creating jobs and addressing the trade imbalance. Commerce scientists are at the bleeding edge of quantum computing and materials science and are working to speedup commercialization of our innovations. The level of effort to achieve cybersecurity has been intensified. The cost of doing business is being reduced by streamlining regulations. The Decennial Census will be completed using 21st century technology.

This report creates transparency on the sources and uses of the taxpayer funds that support these efforts. The American public deserves no less.

I am pleased to report that our financial management systems have been found to be in substantial compliance with the Federal Financial Management Improvement Act (FFMIA) of 1996, applicable financial systems requirements, the federal accounting standards and the U.S. Standard General Ledger at the transaction level. In accordance with Office of Management and Budget (OMB) Circulars A-136 and A-11, the financial and performance data published in this report is substantially complete and reliable.

For the twentieth year in a row, the independent auditors tasked with reviewing our financial statements have provided an unmodified opinion. However, the Department received a material weakness relating to needed improvements over the controls for capitalizing internal use software costs, a material weakness relating to the due diligence over accounting treatment of National Telecommunications and Information Administration's (NTIA) Digital Television Transition and Public Safety Fund, and a significant deficiency relating to additional improvements needed in information technology general controls.

The Federal Managers' Financial Integrity Act of 1982 (FMFIA) and OMB Circular A-123 provide the framework within which Departmental and operating unit managers may determine whether adequate internal controls are in place and operating as they should. We rely on a wide range of studies conducted by programmatic and administrative managers, the Office of Inspector General, the Government Accountability Office, and others to assist in this effort. Based on activities undertaken during FY 2018, the Department is able to provide an unmodified statement of assurance that its internal controls and financial management systems meet the objectives of FMFIA. Additional detailed performance information and results will be released in the Annual Performance Report in February 2019.

I am proud of the work that employees of the Department of Commerce have achieved and look forward to seeing the accomplishments of the future.



Wilbur Ross
Secretary of Commerce
November 14, 2018

HOW TO USE THIS REPORT



This Agency Financial Report (AFR) for the fiscal year ended September 30 (FY) 2018 provides the Department of Commerce's financial and summary performance information in accordance with OMB Circular A-136, *Financial Reporting Requirements*.

The Department has chosen to produce an AFR. The Department will provide performance results in the FY 2020 Congressional Budget in conjunction with performance plan information as the "FY 2020 Annual Performance Report" for each bureau and will post it on the Department's website at <http://www.osec.doc.gov/bmi/budget/>.

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

This report is organized into the following major components:

STATEMENT FROM THE SECRETARY OF COMMERCE

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

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) (Unaudited)

This section provides an overview of the financial and summary-level performance information contained in the Performance Summary, Financial Section, and Other Information. The MD&A includes an overview of the summary of the performance process and current status of systems, information on management controls and the Department's financial management, analysis of FY 2018 financial condition and results, and a summary of stewardship information.

FINANCIAL SECTION

This section contains details of the Department's finances in FY 2018. A message from the Department's Chief Financial Officer (CFO) (unaudited) is followed by the independent auditors' report, audited financial statements and notes, required supplementary information (unaudited), and required supplementary stewardship information (unaudited).

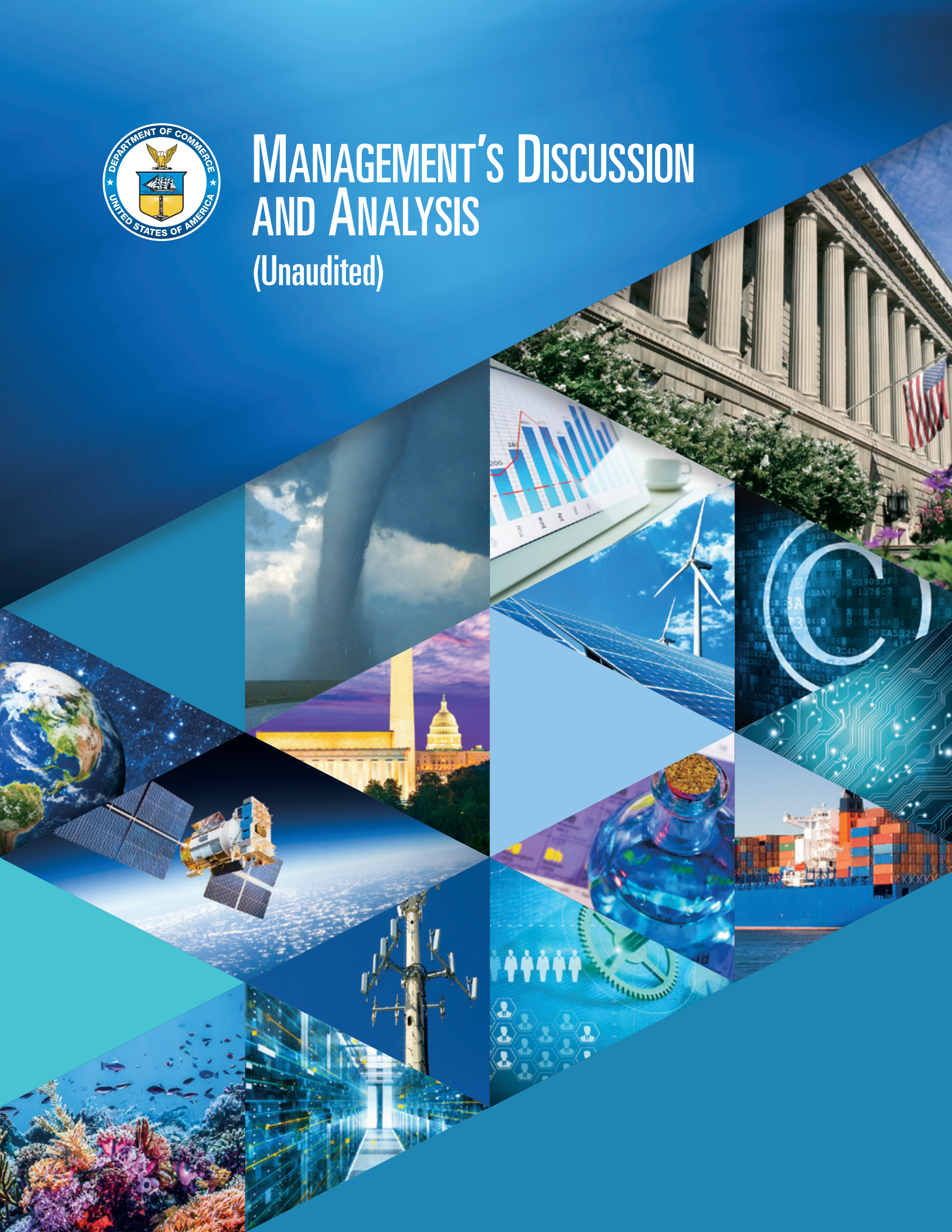
OTHER INFORMATION (Unaudited)

This section provides the Office of Inspector General's (OIG) summary on top management and performance challenges, a summary of financial statement audit and management assurances, payment integrity information, a fraud reduction report, a real property "Reduce the Footprint" report, a schedule of civil monetary penalties' adjustments for inflation, a summary of Grants Oversight and New Efficiency (GONE) Act requirements, a summary of undisbursed balances in expired grant accounts, a glossary of acronyms, and acknowledgements.



MANAGEMENT'S DISCUSSION AND ANALYSIS

(Unaudited)

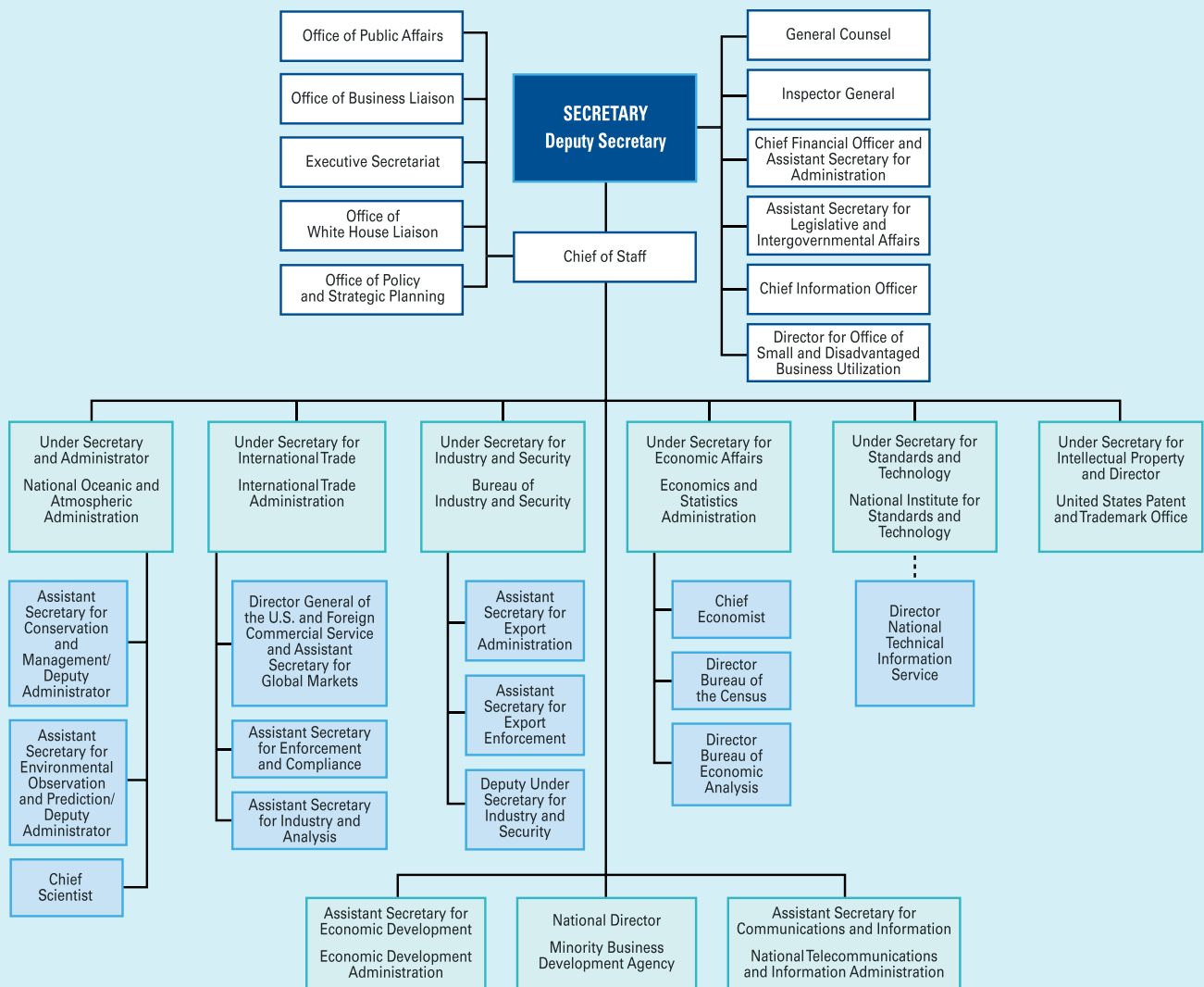


MISSION AND ORGANIZATION

MISSION

TO CREATE THE CONDITIONS FOR ECONOMIC GROWTH AND OPPORTUNITY.

U.S. DEPARTMENT OF COMMERCE



THE DEPARTMENT OF COMMERCE PROCESS FOR STRATEGIC PLANNING AND PERFORMANCE REPORTING

BACKGROUND ON STRATEGIC PLANNING AND REQUIRED MONITORING

The Government Performance and Results Act (GPRA) and the Modernization Act of 2010 (GPRAMA) require that federal agencies publish a new strategic plan by the first Monday in February following the year in which the term of the President begins. In February 2018, the Secretary of Commerce issued a 2018 – 2022 Strategic Plan in accordance with GPRAMA and the rules and timetable established by the Office of Management and Budget (OMB).

Prior to FY 2018, agency strategic plans were developed and published on different schedules. “Synchronizing” plans promoted coordination and collaboration among federal agencies. Further, OMB facilitated a multi-agency view by regularly bringing agency representatives together to discuss their plans as they evolved.

The Department’s Strategic Plan was developed by a team of representatives from across all bureaus in collaboration with the Office of the Secretary. The Secretary and his Office of Strategic Planning and Policy made final decisions on the plan’s structure, content, and emphasis.

In the spring of 2018, the Department conducted the OMB-required Annual Strategic Review (ASR) of progress implementing the Strategic Plan. The ASR report was delivered to OMB in May. Subsequently, Agency leadership met with OMB principals to review progress.

During the summer of 2018, the Department developed a draft Annual Performance Plan and Report (APPR). The draft is sent to OMB in September with the budget proposal. It provides details on strategic objective milestones that have been achieved and sets performance metric targets for the next two fiscal years. The final APPR, which is sent to Congress with the President’s budget, also reports all performance metric results for the fiscal year that ended in the previous September. The published APPR is posted on www.performance.gov for public review.

This Annual Financial Report, issued in November, includes some data on FY 2018 accomplishments. However, in November, results for many performance indicators are not yet available. A full description of accomplishments and full year indicator results will be in the APPR.

COMMERCE SPECIFIC PLAN MONITORING

The Department’s Chief Operating Officer, the Acting Deputy Secretary, has established a series of meetings with the leads for the strategic objectives in the Department Strategic Plan. The meetings are being held between October and April and are used to review data on related performance indicators and progress on milestones.

Bureau-level metric review processes vary in approach and schedule but are systematic. Data on mission support initiatives (Human Resources, Acquisition, Financial Management, etc.) are tracked on an online dashboard and reviewed at quarterly meetings with the Chief Financial Officer/Assistant Secretary for Administration (CFO/ASA). The various “CXO” Councils (Human Resources, Information Technology, Acquisition, CFO) also review dashboards of metrics.

AGENCY PRIORITY GOALS

The GPRAMA requires agencies to establish Agency Priority Goals (APG). APGs set two-year targets for initiatives that are significant and would benefit from a well-orchestrated sprint. Most major departments have three to five APGs that are selected by top leadership and approved by OMB, an extension of the White House. Available data on the FY 2018/2019 APGs are in the Performance Summary section of this report. Quarterly performance indicator data on APGs and Cross-APGs (address multi-agency priorities) are posted to www.performance.gov.

The Office of the Secretary will begin the process of developing APGs for FY 2020/2021 in January of 2019. The proposed APGs will be submitted to OMB for their review in September of 2019.

ORGANIZATION OF THE DEPARTMENT OF COMMERCE STRATEGIC PLAN

The FY 2018 – FY 2022 Department of Commerce Strategic Plan is organized by goal areas, strategic objectives, strategies, and performance indicators. This structure is standard for federal agencies and is established in guidance from OMB. The goal areas are major elements of the Department's mission, i.e., Accelerate American Leadership, Enhance Job Creation, Strengthen U.S. Economic and National Security, Fulfill Constitutional Requirements and Support Economic Activity, and Deliver Customer-Centric Service Excellence. Strategic objectives (two to five per goal area) state specific important outcomes the Department aims to achieve, e.g., "Reduce and Streamline Regulations." Strategies are the approaches that will be used to achieve a strategic objective, e.g., "Streamline permitting processes." Performance indicators are measures of success, e.g., "cost savings from deregulatory action."

The chart on the following page summarizes the strategic goals and objectives established in the FY 2018 – FY 2022 Strategic Plan. The complete plan can be viewed online at <https://www.commerce.gov/about/strategic-plan>

SUMMARY OF STRATEGIC GOALS AND OBJECTIVES

Strategic Goal	Strategic Objectives
Goal 1 – Accelerate American Leadership	1.1 – Expand Commercial Space Activities
	1.2 – Advance Innovation
	1.3 – Strengthen Intellectual Property Protection
Goal 2 – Enhance Job Creation	2.1 – Increase Aquaculture Production
	2.2 – Reduce and Streamline Regulations
	2.3 – Strengthen Domestic Commerce and the U.S. Industrial Base
	2.4 – Increase U.S. Exports
	2.5 – Increase Inward Investment Into the United States
Goal 3 – Strengthen U.S. Economic and National Security	3.1 – Enforce the Nation’s Trade Laws and Security Laws
	3.2 – Enhance the Nation’s Cybersecurity
	3.3 – Reduce Extreme Weather Impacts
	3.4 – Deploy Public Safety Broadband
Goal 4 – Fulfill Constitutional Requirements and Support Economic Activity	4.1 – Conduct a Complete and Accurate Decennial Census
	4.2 – Provide Accurate Data to Support Economic Activity
Goal 5 – Deliver Customer-Centric Service Excellence	5.1 – Engage Commerce Employees
	5.2 – Accelerate Information Technology Modernization
	5.3 – Consolidate Functions for Cost Savings

FY 2018 PERFORMANCE SUMMARY

OVERVIEW

The performance indicators below are organized by the goal areas of the FY 2018 – FY 2022 Department Strategic Plan. They are a representative sample of the 170 measures that are tracked at the Departmental level. The indicators presented in this report were selected based on significance, the availability of FY 2018 data, and whether they are understandable to the general public. Full year data on FY 2018 were not available for many measures by the publication deadline for this report. The Department's full set of performance metrics, trends, and results can be found in the Annual Performance Plan and Report that is part of the annual budget submission to Congress and posted for the public on www.performance.gov.

Note that "NA" on a graph means: the measure was not tracked that year; the measure was calculated differently in that year; or the program/initiative is new.

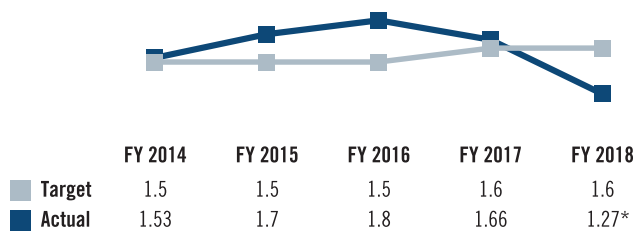
Measures that are an Agency Priority Goal (APG) will be identified with a gray star. ★

Strategic Goal 1 – Accelerate American Leadership

The United States leads the world in research, invention, and innovation. To strengthen our leadership, the Department is supporting the growth of commercial space activities, investing in foundational research, and protecting intellectual property (IP) to ensure creators can be rewarded for their inventions.

The following are some of the measures/data the Department uses to assess its contribution to U.S. competitiveness.

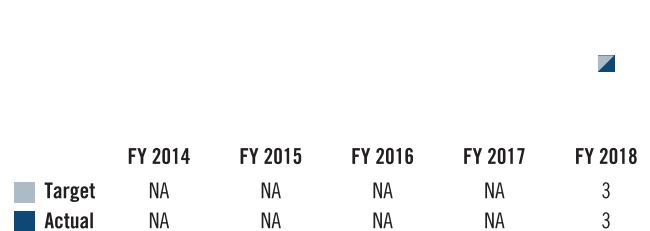
Citation Impact of NIST Publications



*Full year data not yet available

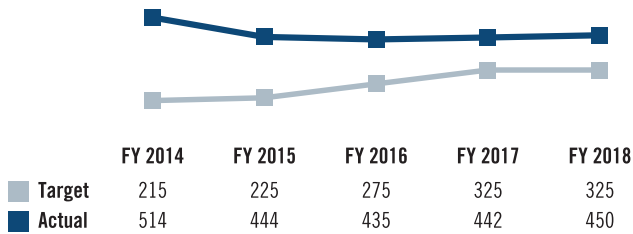
The National Institute of Standards and Technology (NIST) sets a very high standard for this measure. It compares how often NIST research is cited as compared to the best research centers in the country. The index shows that NIST research is being referenced more than publications of these prestigious institutions.

International Adoption of NIST Quantum SI Standards



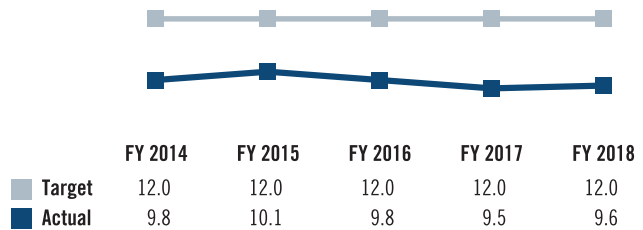
The International System of Units (SI) will be recast from being based on units with reference to artifacts, to being based on fundamental constants and laws of nature. NIST will revolutionize commerce through quantum measurement by leading the transition to the Quantum SI paradigm.

Number of Businesses Using NIST Research Facilities



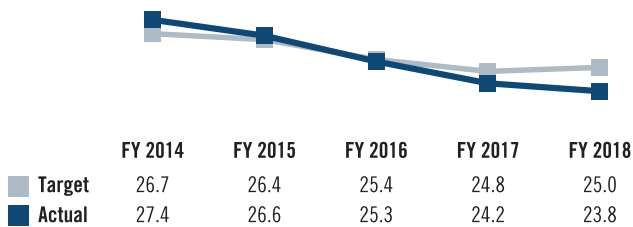
NIST promotes U.S. industrial leadership by making their unique research facilities available to research and development staff from business. Access to these facilities helps push U.S. business to the “bleeding edge” of innovation.

**Accelerate Trademark Processing –
Trademark Average Total Pendency (Months)**



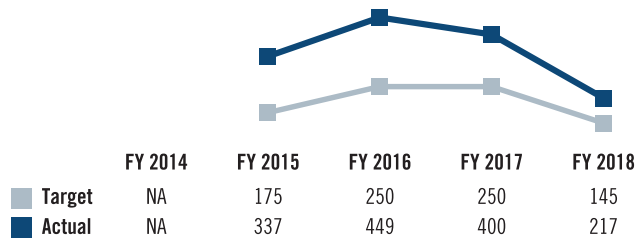
Marketing matters. The U.S. Patent and Trademark Office (USPTO) quickly brands U.S. products so they benefit from their reputation for quality. Actual results that fall below target is an indication of faster trademark processing.

**Accelerate Patent Processing –
Patent Average Total Pendency (Months) (APG) ★**



Accelerating patent processing helps businesses plan and bring innovation to market faster. The faster new ideas are commercialized, the better for the U.S. economy. Actual results that fall below target is an indication of faster patent processing.

**Communities that NTIA Assisted in Gaining
Economic Benefits from Broadband**



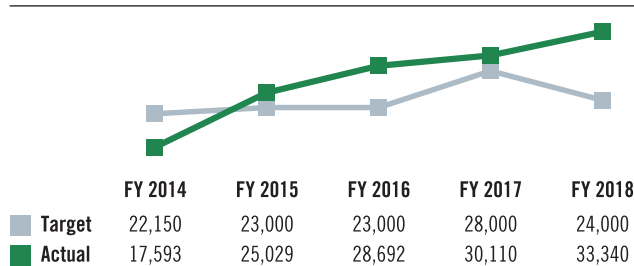
For several years, the National Telecommunications and Information Administration (NTIA) has been helping communities and businesses benefit from broadband access. As technology becomes a part of communities, even in rural areas, this technical assistance is less of a priority. However, targets for providing assistance where it is needed have been exceeded.

Strategic Goal 2 – Enhance Job Creation

Job creation is fundamental to the Department mission. American workers thrive when they are free to develop our abundant natural resources, leverage broadband, use secure digital technology, and are not burdened by excessive regulations. We create these conditions and facilitate job creation through increased exports and foreign direct investment (FDI). Exports and FDI are proven job generators. Goods and services exported supported 10.7 million well-paying U.S. jobs in 2016. In 2015, majority-owned U.S. affiliates of foreign companies directly employed 6.8 million Americans. Our work also facilitates community efforts to attract investment and use the internet to create economic opportunity.

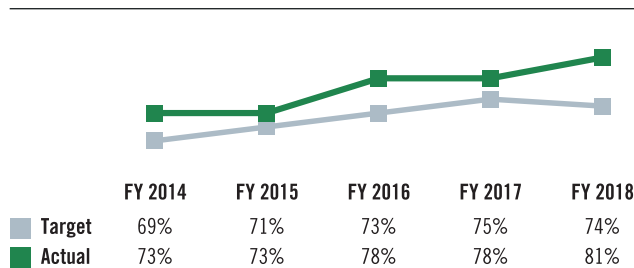
The following are a few of the performance indicators used to monitor the progress of Departmental programs designed to increase employment.

Number of U.S Exporters Assisted



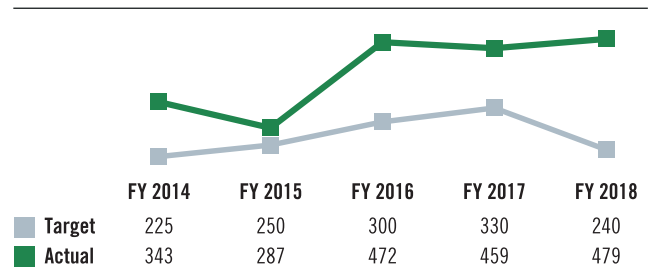
The fastest growing markets are international markets. The International Trade Administration (ITA) helps U.S. business benefit from the expansion of consumer purchasing power abroad. They provide information and technical assistance to more businesses each year and using the internet are planning on vastly extending their reach.

Percentage of U.S. Exporter Clients That Achieved Their Export Objectives



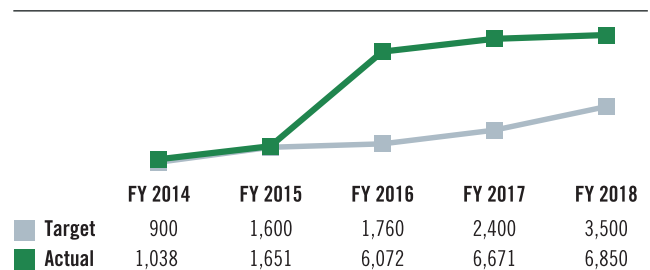
ITA is not only expanding its reach but also the quality of the assistance it provides. Business ratings of their assistance have consistently increased.

Number of Commercial Diplomacy/Advocacy Written Impact Narratives (WINS)



Government contracts are often big deals. ITA advocates for U.S. businesses when other nations are shopping for vendors. Experience matters, the success of this advocacy work is measured in "WINS."

Number of Investment Clients Assisted



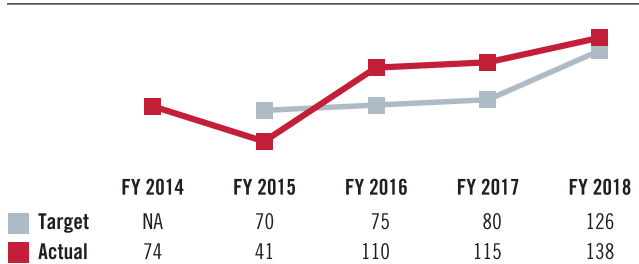
Jobs are also created by foreign investment. When a new U.S. plant is created in partnership with an international company, jobs are created in the plant and the local service industries. The SelectUSA program facilitates foreign investment in the United States and as its network expands, SelectUSA is becoming increasingly effective.

Strategic Goal 3 – Strengthen U.S. Economic and National Security

Economic security is national security. America is safer when important technology and essential products are produced domestically. Today, our Nation's economic prosperity and security are challenged by competitors and adversaries that engage in illegal trade practices, steal intellectual property (IP), and engage in cybercrime. Extreme weather, such as the six Category 4 or higher hurricanes experienced in the United States during 2017, also challenge economic security. We operate on multiple fronts to protect Americans and the U.S. economy. We enforce compliance with trade laws, provide cybersecurity tools to thwart cybercrime, share accurate weather information, and are deploying a first-responder broadband network that will protect lives and property.

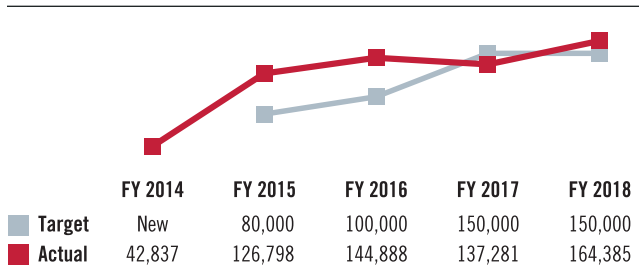
The Department measures its contribution to economic and personal safety; the following are a sample of those measures.

Trade Barriers Removed, Reduced, or Prevented (Annual) (APG) ★



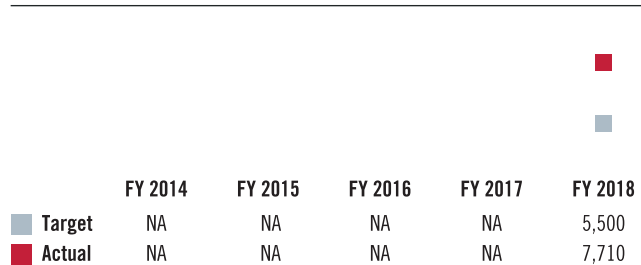
U.S. products can be blocked from a foreign market by plan or accident through rules, regulations, policies, and procedures. ITA carries on an active dialogue with businesses to identify these barriers and build strategies to remove them. When a barrier is removed an entire industry benefits, not just one business. Removing trade barriers is a FY 2018/2019 APG and the target for the goal has been exceeded.

Number of Export Transactions Completed Under the New Authority of Commerce Export Licenses and License Exceptions



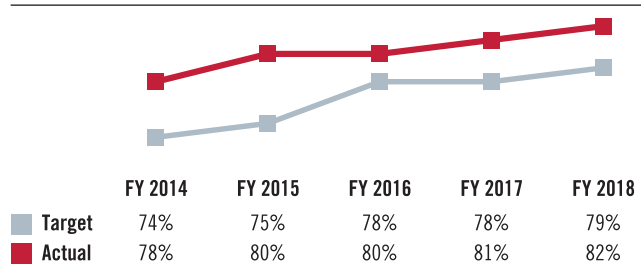
It is in the national interest to regulate the export of products that can be used as weapons or as part of weapons. The Bureau of Industry and Security (BIS) plays a critical and expanding role in that regulation, as evidenced by the trend data.

Number of Companies and Organizations Exposed to NCCoE Produced Cybersecurity Practice Guides and Other Products

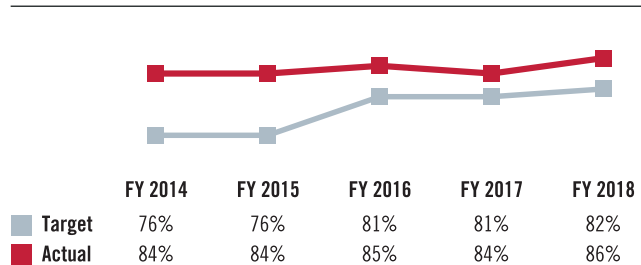


New Cybersecurity standards will be ineffective if they are not disseminated and adopted. The performance indicator above measures deployment. The initial target has been exceeded.

Marine Wind – Percentage of Accurate Forecasts



Marine Wave Heights – Percentage of Accurate Forecasts

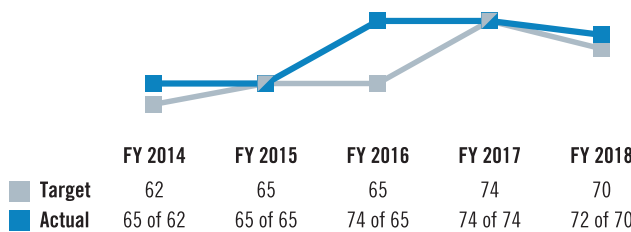


In FY 2018, flooding had a devastating impact on several communities. The impact can be reduced, particularly the impact on personal safety, with accurate forecasts. For many years NOAA has tracked the accuracy and timeliness of forecasts. In addition, they have a FY 2018/2019 APG to create more detailed maps predicting flooding patterns and other tools for emergency preparedness. All the milestones for this initiative have been met and the effort will continue in FY 2019. (APG) ★

Strategic Goal 4 – Fulfill Constitutional Requirements and Support Economic Activity

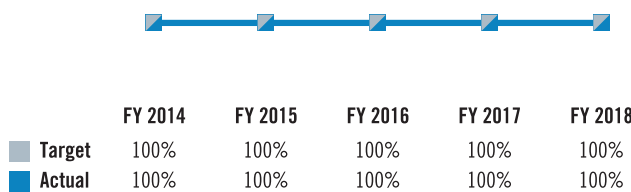
“We the People” is America’s source of strength. As mandated in Article 1, Section 2 of the U.S. Constitution, every 10 years, we conduct a nationwide count of every person living in the United States. Data from the next census in 2020 will be used to allocate seats in the U.S. House of Representatives among the states. The demographic and housing data from the 2020 Census will also help the federal, state, local, and tribal governments make better decisions about how they spend taxpayer money. These datasets, along with others developed by the Department, support research by the private sector and academic institutions, and inform critical business decisions across all sectors of the economy.

Timeliness: Reliability of Delivery of Economic Statistics
(Number of scheduled releases issued on time)



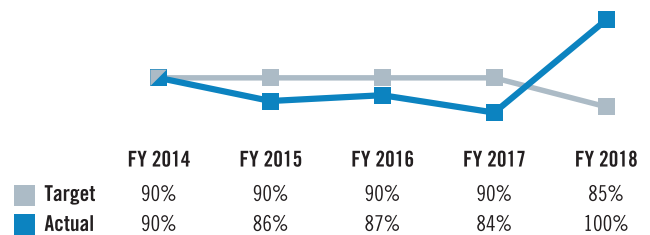
The Bureau of Economic Analysis (BEA) is not only delivering its economic statistics on time, it is creating new indicators for an economy that is changing rapidly as technology evolves. As the data above indicates, BEA has added indicators in some years and therefore exceeded its target for timely statistics.

Percentage of Key Data Products for Census Bureau Programs Released On Time to Support Effective Decision-making of Policymakers, Businesses, and the Public – Economic Indicators



The Census Bureau has a perfect track record for releasing its economic indicators on time.

Percentage of Key Data Products for Census Bureau Programs Released On Time to Support Effective Decision-making of Policymakers, Businesses, and the Public – Other Key Products

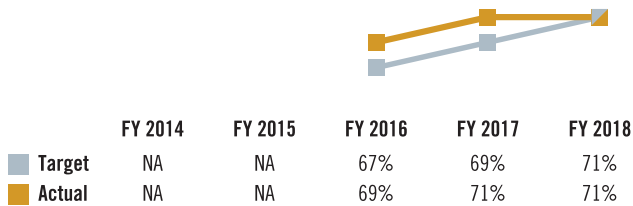


As the data above shows, economic indicators are the priority annual product of the Census Bureau. However, in FY 2018, their other key products achieved the 100 percent on time status. In FY 2018, their main focus was testing and refinement of all systems needed to “conduct a complete and accurate decennial census.” **(APG) ★** The Census Bureau met their many milestones and the process received oversight at the bureau, Department, and OMB levels.

Strategic Goal 5 – Deliver Customer-Centric Service Excellence

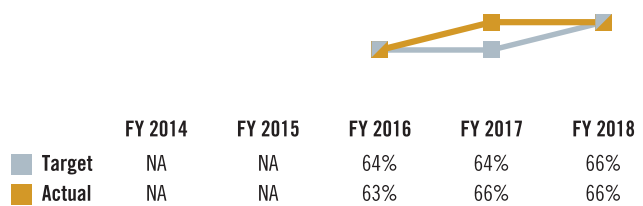
The Department cannot meet its performance targets in Strategic Goals 1 through 4 without quality, timely human resources, information technology (IT), and acquisition services. Success also requires a workforce that is passionate about delivering value to the American public. The President’s Agenda directs federal agencies to increase the cost-effectiveness of services and improve human capital management. We are responding with strategies to improve service and efficiency using technology, and engage employees by better aligning their time and efforts to the Department’s priorities.

Employee Engagement Index – Viewpoint Survey



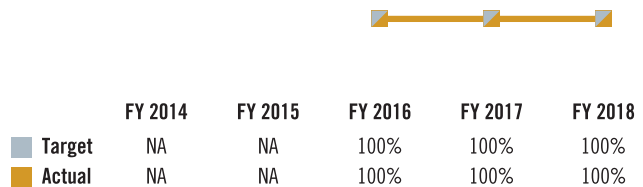
The Department remains above the government average for both the Employee Engagement Index (Government 68 percent; Department 71 percent) and the Inclusion Quotient (Government 61 percent; Department 66 percent). The Employee Engagement Index measures the conditions that lead to engaged employees and are in three subcategories: Leaders Lead, Supervisors, and Intrinsic Work Experience. The Inclusion Quotient is built on the concept that individual behaviors, repeated over time, form habits that create an inclusive work environment. The Inclusion Quotient consists of 20 questions grouped into five habits of inclusion: Fair, Open, Cooperative, Supportive, and Empowering.

Inclusion Quotient – Viewpoint Survey



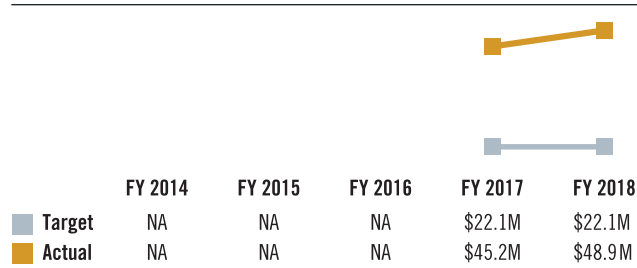
Based on the results of the Federal Employee Viewpoint Survey, the Department remains one of the best places to work in the federal government.

Percentage of High-volume Processes with Feedback Tools

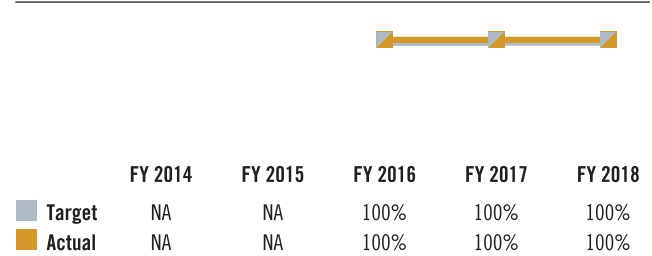


The percent of high-volume processes with a feedback loop demonstrates Department efforts to be customer focused. Feedback loops are also in place for the Department and bureau websites.

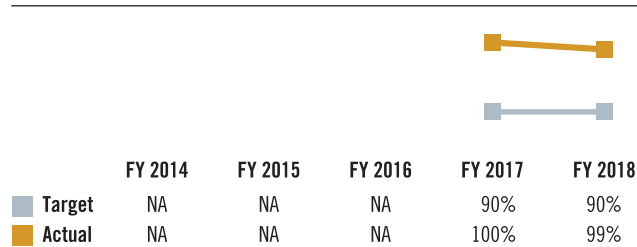
Acquisition Cost Avoidance



Percentage Compliance with Federal Standards to Filter the Internet Against Websites Containing Malicious Activity

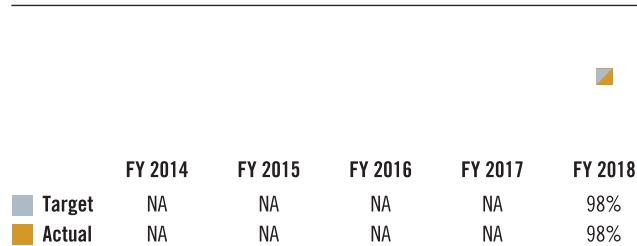


Acquisition Customer Satisfaction



Efforts to modernize IT services and increase Department cybersecurity cannot easily be summarized in non-technical terms. Many best practice cybersecurity measures are being employed. Filtering out malicious activity from the Web is key among them. In addition to these security measures, plans are on track for over a score of modernization efforts including a Grants Enterprise Management System; a new Business Administrative System; Statistical Production Modernization; and Census Enterprise Data Collection.

Personnel Action Requests ES Accuracy



Mission support services, formerly provided by bureaus, are incrementally being consolidated in the Department's Enterprise Services (ES). Services are transitioned to ES when savings and efficiencies can be demonstrated. The acquisition and contracting activities of the new unit are maturing and achieved targets for savings and customer satisfaction. Human Resources functions are in the process of being moved, but some transactional activities are now in place in ES. Currently accuracy for processing Personal Action Requests is at the ambitious standard of 98 percent.



LOOKING FORWARD

The Department of Commerce is committed to creating the conditions for economic growth and opportunity. The strategies for meeting that commitment are in the Strategic Plan for FY 2018 –2022. It is a living plan that will be modified as assessments provide lessons learned. However, based on the first year executing the plan, the basic structure and approach are working well. The infrastructure for increased emphasis on Commercial Space, Aquaculture, and removing trade barriers is in place and now attention will be on increasing impact. The Decennial Census has been a focus at all levels of the organization; that focus will be even greater as 2020 approaches. Other challenges mentioned in Inspector General reports will be central to our management plan. Environmental Satellites, the Nationwide Public Safety Broadband Network, and Cybersecurity are inherently challenging and complex and will receive commensurate resources and disciplined program management.

The President's Management Agenda will continue to provide a framework for efforts to improve Information Technology (IT) Modernization; achieve Data, Accountability, and Transparency; and create a Workforce for the 21st Century. In response to the President's agenda, there will be increased efforts to replace legacy IT systems; deploy data to businesses; and direct staff time and talents to the work that has the most value.

Over the next few years, data and stakeholder consultation will build evidence of what policies and practices create the best "conditions for economic growth and opportunity."

BALANCING RISK AND OPPORTUNITY

Departmental managers and leaders will continue to handle complex and risky mission and mission support activities, such as preparing for and responding to natural disasters, and managing secure IT systems. While it is not possible to eliminate all uncertainties in these types of projects, Department strategies for managing risk will continue to mature.

Enterprise Risk Management (ERM) orchestrates those strategies. The ERM program creates a forum to openly identify and discuss risks and develop mitigation plans. There are cascading roles of leadership and responsibility for ERM across the Department and its bureaus including a governance structure. The chartered Department Management Council focuses on managing the Department's top risks and challenges.

Governance and oversight processes address: the Agency Risk Profile, Government Accountability Office (GAO) High-Risk List, and the Mission Critical Programs and Activities List. Aligned action plans heavily influence the allocation of leadership priorities and Department resources.

FY 2018 Program Management Improvement and Accountability Act brought new federal emphasis on program management. The Department will continue to build upon its existing Commerce Program Acquisition Framework process, review, and oversight to manage Department initiatives on time, on budget, and on scope.

MANAGEMENT CONTROLS

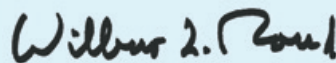
The Department's management is responsible for establishing and maintaining effective internal control and financial management systems that meet the objectives of the Federal Managers' Financial Integrity Act (FMFIA). During FY 2018, the Department assessed its internal control over the effectiveness and efficiency of operations and compliance with applicable laws and regulations in accordance with Office of Management and Budget (OMB) Circular A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control*. Based on the results of this evaluation, the Department can provide reasonable assurance that its internal control over the effectiveness and efficiency of operations and compliance with applicable laws and regulations as of September 30, 2018 was operating effectively and no material weaknesses were found in the design or operation of the internal controls.

In addition, the Department conducted its assessment of the effectiveness of internal control over reporting, which includes safeguarding of assets and compliance with applicable laws and regulations, in accordance with the requirements of Appendix A of OMB Circular A-123. Based on the results of this evaluation, the Department can provide reasonable assurance that its internal control over reporting as of June 30, 2018 was operating effectively and no material weaknesses were found in the design or operation of the internal control over reporting. Furthermore, no material weaknesses related to internal control over financial reporting were identified between July 1 and September 30.

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



Lisa Casias
Acting Chief Financial Officer/
Assistant Secretary for Administration
and Deputy Assistant Secretary for Administration
November 14, 2018



Wilbur Ross
Secretary of Commerce
November 14, 2018

FEDERAL MANAGERS' FINANCIAL INTEGRITY ACT (FMFIA) OF 1982

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

- Obligations and costs are in compliance with applicable laws;
- Assets are safeguarded against waste, loss, unauthorized use, or misappropriation;
- 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.

During FY 2018, the Department reviewed its management control system in accordance with the requirements of FMFIA, and OMB and Departmental guidelines.

SECTION 2 OF FMFIA – INTERNAL MANAGEMENT CONTROLS

Section 2 of FMFIA requires that federal agencies report, on the basis of annual assessments, any material weaknesses that have been identified in connection with their internal and administrative controls. Based on their FY 2018 evaluations, the Department's 12 bureaus signed, certified, and submitted their Statements of Assurance and can provide reasonable assurance that its internal control over the effectiveness and efficiency of operations and compliance with applicable laws and regulations was operating effectively and no material weaknesses were found in the design or operation of the internal controls.

The efficiency of the Department's operations is continually evaluated using information obtained from reviews conducted by the Government Accountability Office (GAO) and the Office of Inspector General (OIG), evaluations conducted by other federal agencies such as the Office of Personnel Management, and other specifically requested studies. The diverse reviews that took place during FY 2018 that were key to the organization provide assurance that Department systems and management controls comply with standards established under FMFIA.

The revised Appendix A to OMB Circular A-123, *Management of Reporting and Data Integrity Risk*, expands assurance for internal controls over reporting beyond the financial domain. In preparing the Department's statement of assurance, attention was given to activities related to the Digital Accountability and Transparency Act of 2014 (DATA Act), OIG Top Management Challenges, GAO High Risk List, performance reporting, strategic plans and performance metrics, real property and asset management, and human resources reporting. Controls related to risks in the Department's Risk Profile were also considered.

The Department is aware of a reoccurring material weakness over internal use software (IUS) at the Census Bureau. As noted in the auditors' report, the Census Bureau has worked to improve controls which included training procurement officers. However, due to the inappropriate design of the new training and timing with completed corrective actions, IUS cost capitalization continues to be an issue at the Census Bureau. In FY 2019, the Department will work directly with the Senior Assessment Team (SAT) and internal audit team to remediate the IUS control deficiency.

The Department also received a material weakness over the due diligence over accounting treatment of National Telecommunications and Information Administration's (NTIA) Digital Television Transition and Public Safety Fund in the Statement of Budgetary Resources. The presentation issue has been resolved following coordinating with OMB in FY 2018.

SECTION 4 OF FMFIA – INTERNAL CONTROLS OVER FINANCIAL MANAGEMENT SYSTEMS

The Department has reported no material weaknesses under FMFIA Section 4 in recent years. Based on reviews conducted by the Department and its bureaus for FY 2018, the financial systems in the Department are compliant with GAO principles and standards, the requirements of the Chief Financial Officers (CFO) Act, and OMB requirements.

FEDERAL FINANCIAL MANAGEMENT IMPROVEMENT ACT (FFMIA) OF 1996

Under FFMIA, the Department is required to have financial management systems that comply with federal financial management system requirements, federal accounting standards, and the U.S. Government Standard General Ledger at the transaction level. In FY 2018, the Department remained in compliance with FFMIA.

BIENNIAL REVIEW OF FEES

OMB Circular A-25 Revised, *User Charges* (July 8, 1993), requires the biennial review of agency programs to determine whether fees should be charged for government goods or services, and to ascertain that existing user charges are adjusted to reflect unanticipated changes in costs or market values.

The Department conducts a review of its programs at least biennially. With the exception of the International Trade Administration (ITA), the Department is in compliance with the requirement to adjust its fees to meet the OMB Circular A-25 Revised requirement of full-cost recovery for user charges.

OMB has granted ITA an exception to the full cost recovery provisions of OMB Circular A-25 Revised for the user fees that ITA charges to small and medium enterprises until September 30, 2019. As ITA continues to review and update its fee structure, it is working towards improving data collection capabilities with regard to sensitivity analysis and revenue projections, with the goal of moving toward a model that more fully recovers the costs of the services it provides.

REPORT ON OIG AUDIT FOLLOW-UP

This report shows audit follow-up activity on OIG audits, as well as the amount of potential monetary benefits the OIG found could be achieved through implementing open recommendations in these reports. The report includes only audits for which there has been resolution, i.e., management and the auditor (OIG) have agreed on an action plan. Reports are closed when final action has been taken to implement all recommendations.

SUMMARY OF ACTIVITY ON AUDIT REPORTS OCTOBER 1, 2017 THROUGH SEPTEMBER 30, 2018

	NUMBER OF REPORTS ¹	POTENTIAL MONETARY BENEFITS OF OPEN RECOMMENDATIONS ²
Beginning Balance	28	\$ 87,094,835
New Reports	14	100,337,715
Total Reports Open During the Period	42	187,432,550
Total Reports Closed During the Period ³	23	(169,361,948)
Ending Balance	19	\$ 18,070,602

¹ The table includes Performance Audits, Evaluations, and Inspections. Audits comply with standards established by the Comptroller General of the United States for audits of federal establishments, organizations, programs, activities, and functions. Evaluations and inspections include evaluations, inquiries, and similar types of reviews that do not constitute an audit or a criminal investigation.

² In some audits, the OIG identifies potential monetary benefits that could be realized when or if the recommendations are implemented. Potential Monetary Benefits of open recommendations include Questioned Costs and Funds to Be Put to Better Use.

- Questioned Costs: This is a cost questioned by the OIG because of (1) an alleged violation of a provision of a law, regulation, contract, grant, cooperative agreement, or other agreement or document governing the expenditure of funds; (2) a finding that, at the time of the audit, such cost is not supported by adequate documentation; or (3) a finding that an expenditure of funds for the intended purpose is unnecessary or unreasonable.
- Funds to Be Put to Better Use: This dollar value results from an OIG recommendation that funds could be used more efficiently if Departmental Management took action to implement and complete the recommendation. Such actions may include (1) reductions in outlays; (2) deobligation of funds from programs or operations; (3) withdrawal of interest subsidy costs on loans or loan guarantees, insurance, or bonds; (4) costs not incurred by implementing recommended improvements related to the Department, a contractor, or a grantee; (5) avoidance of unnecessary expenditures identified in preaward reviews of contracts or grant agreements; or (6) any other savings specifically identified.

³ The Potential Monetary Benefits amount in this row includes potential monetary benefits of recommendations that were closed even though the corresponding reports remained open.

FINANCIAL MANAGEMENT AND ANALYSIS

INTRODUCTION

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

Highlights of accomplishments for FY 2018 and future initiatives are discussed further below.

FINANCIAL MANAGEMENT SYSTEMS

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

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

The Department continues to participate in a government-wide work group for Government Invoicing (G-Invoicing), a Treasury-led initiative to standardize the interagency agreement process across the government. The Department participates in this work group to help guide the implementation of the initiatives across the government as well as to plan for the changes needed to CBS so that the Department is ready to implement by the mandatory date. Additionally, the Department remains dedicated to providing quarterly submissions to meet the Digital Accountability and Transparency Act of 2014 (DATA Act) requirements, as well as addressing any necessary modifications as required.

During FY 2018, the Department accomplished the following initiatives:

- Gathered requirements for changes to the CBS to implement the interface files to and from the SmartPay3 tool, the U.S. General Services Administration-led initiative to transition government purchase and travel cards from the current provider to a new provider;
- Completed development and configuration for TIBCO upgrades, which is software used to translate and validate XML documents from CSTARS (the Department acquisition system) interfaced with CBS;

- Completed design, development, and implementation of the National Oceanic and Atmospheric Administration (NOAA) Corps Retirement System Interface changes to the NFC interface;
- Completed development for Mass Close functionality in E2, the Department's electronic travel management system, which provides the ability to close multiple E2 Travel open obligations in one batch process. Working with bureaus to complete implementation process;
- Continued Tier 2/production support operations for E2;
- Completed development and deployed functionality for Open Authorizations which will assist in last minute mission travel at the Department and increased flexibility for frequent Department travelers;
- Began requirements gathering, design, and development activities in E2 to support functionality for additional employees due to the Census Decennial (approximately 500 thousand new travelers);
- Began analysis and requirements activities to determine impacts of SmartPay3 on E2;
- Successfully led the Department in quarterly DATA Act submissions to Treasury;
- Completed requirements, design, development, and deployment of the Access Management Portal for the Department's Office of Human Resource Management General Support Systems to facilitate user account management;
- Implemented code for Federal Funding Accountability and Transparency Act New Unique Identifier to include Activity Address Codes;
- Completed several technical CBS upgrades, including:
 - Oracle 12C Forms and Reports
 - WebCenter 12.2.1.2 and WebCenter 12.2.1.3
 - Removal of Legacy Portal code
 - Oracle Rest Data Services 18.2
 - Java Runtime Environment/Java WebStart; and
- Conducted operations and maintenance activities for the Department's Chief Financial Officer and Assistant Secretary for Administration (CFO/ASA) Dashboard application. The CFO/ASA Dashboard provides a Department-wide, executive-level overview of the Department's highest priority and highest risk mission and administrative initiatives.

In FY 2019 and beyond, the Department will continue its efforts to enhance its financial systems. The Department plans to accomplish the following:

- Deploy E2 functionality to support Census Decennial employees (approximately 500 thousand new travelers);
- Continue activities to support SmartPay3 implementation of the CBS interface files for both CBS and E2;
- Deployment of the ad hoc reporting capability in E2;
- Continue working with the Office of Management and Budget (OMB) and Treasury to determine the next steps for the Business Application Solutions project;
- Begin requirements gathering for a Business Intelligence solution to meet the Department's needs for DATA Act metrics reporting;
- Conduct analysis and perform requirements gathering and design for G-Invoicing; and
- Complete technical upgrades including:
 - Oracle Database 12CR2
 - Oracle 12C Forms and Reports
 - NOAA and National Institute of Standards and Technology (NIST) hardware refresh.

FINANCIAL REPORTING AND POLICY

The Department accomplished the following initiatives during FY 2018:

- Bureaus identified and reported improper payments data to the Department quarterly, including recaptures of improper payments data, identified reasons for improper payments, and continually implemented appropriate actions to minimize future improper payments. For more information on the Department's payment integrity efforts during FY 2018, see the *Payment Integrity* subsection included in *Other Information*;
- Each of the Department's bureaus/reporting entities updated or prepared in FY 2018 their scheduled program/activity improper payment risk assessments as required by OMB Circular A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control*, Appendix C, *Requirements for Payment Integrity Improvement*. The Department's reporting entities' improper payment risk assessments of their programs/activities are prepared over a one to three year cycle depending on the size of the reporting entity, and also include assessments of the control, procurement, and grants management environments. The Department's improper payment risk assessments are now in the continuous process stage of being updated/prepared every three years, unless significant changes occur, in which case an assessment will be updated more frequently. For more information on the Department's efforts during FY 2018 regarding improper payments risk assessments, see the *Payment Integrity* subsection included in *Other Information*;
- Conducted a review of the criteria set forth in OMB A-123, Appendix C, *Requirements for Payment Integrity Improvement*, and determined that the Department is not able to conduct a cost-effective payment recapture audit program for Department-wide grants and other cooperative agreements and for contracts/obligations, as the costs of the payment recapture audits exceed the benefits. The Department informed both OMB and the Department's Inspector General of this determination and provided the analysis used by the Department to reach the decision;
- Adjusted the Department's civil monetary penalties for inflation in January 2018, in accordance with the Federal Civil Penalties Inflation Adjustment Act of 1990, as amended by the Debt Collection Improvement Act of 1996 and the Federal Civil Penalties Inflation Adjustment Act Improvements Act of 2015. For more information on the Department's civil monetary penalties as of January 15, 2018, see the *Civil Monetary Penalties' Adjustments for Inflation* subsection included in *Other Information*; and
- Implemented, effective FY 2018, the Federal Accounting Standards Advisory Board's (FASAB) Statement of Federal Financial Accounting Standards (SFFAS) 47, *Reporting Entity*, which sets forth guidance to include, in the Department's financial statements or as footnote disclosures, "all organizations (1) budgeted for by elected officials of the federal government; (2) owned by the federal government; or (3) controlled by the federal government with risk of loss or expectation of benefits. As a result of the analysis conducted by the Department during the implementation of SFFAS 47, it was determined that there is one organization to be included in the notes to the financial statements as a disclosure entity. Additional information regarding the Department's FY 2018 implementation of SFFAS 47 is provided in Notes 1A and 25 of the financial section of this report.

In FY 2019 and beyond, the Department plans to accomplish the following amongst other items:

- Adjust the Department's civil monetary penalties for inflation in January 2019, in accordance with the Federal Civil Penalties Inflation Adjustment Act of 1990, as amended by the Debt Collection Improvement Act of 1996 and the Federal Civil Penalties Inflation Adjustment Act Improvements Act of 2015;
- Implement, effective FY 2019, SFFAS 49, *Public-Private Partnerships: Disclosure Requirements*, which "establishes principles to ensure that disclosures about Public-Private Partnerships (P3) are presented in the reporting entity's general purpose federal financial reports (GPFFR). The principles guide financial reporting by establishing a P3 definition



and identifying risk-based characteristics that need to exist before considering the P3 arrangement or transaction for disclosure. SFFAS 49 exempts certain arrangements or transactions from the P3 disclosure requirements contained herein. Such exempt arrangements or transactions are subject to existing disclosure requirements in other SFFASs applicable to such arrangements or transactions;"

- Implement, effective FY 2019, SFFAS 53, *Budget and Accrual Reconciliation (BAR)*, which amends requirements for a reconciliation between budgetary and financial accounting information established by SFFAS 7, *Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting*. To increase informational value and usefulness, and to support the government-wide financial statement reconciling net operating cost to the budget deficit, this statement provides for the BAR to replace Note 23, *Reconciliation of Net Cost of Operations to Budget*, in the financial section of this report. The BAR explains the relationship between an entity's net outlays on a budgetary basis and its net cost of operations during the reporting period; and
- Implement, effective FY 2021, SFFAS 54, *Leases*, which revises the financial reporting standards for federal lease accounting. It provides a comprehensive set of lease accounting standards to recognize federal lease activities in a reporting entity's general purpose federal financial reports and includes appropriate disclosures.

GRANTS MANAGEMENT

Under the CFO/ASA, the Office of Acquisition Management (OAM) is responsible for the Department's enterprise-wide grants management policy, projects, and oversight. The Department's focus is to standardize policy and procedures for its financial assistance programs and to strengthen compliance. In addition, OAM's targeted efforts continue to transform the decentralized Department grants management community into an effective and efficient partnership.

In coordination with the Department's Office of the Chief Information Officer and the Office of Financial Management, OAM is overseeing the development of a Grants Enterprise Management Solution (GEMS) which will be a common grants management system that will replace the currently separated grants management systems in use by the Department's three major grant issuing bureaus, NOAA, NIST, and Economic Development Administration (EDA). The GEMS project has completed Milestone 0 (Concept Initiation) and is in its Conceptual Phase. The GEMS project's development phase is expected to extend through FY 2023 with EDA, NIST and NOAA expected to begin transitioning from their current grants management systems to GEMS in FY 2020.

OAM's Grants Management Division (GMD) coordinates the Department's implementation of all applicable statutes, regulations, Executive Orders, and OMB circulars, as well as the provisions of 2 CFR, Part 200 (Uniform Guidance), to establish more efficient and user-friendly requirements for both Department awarding units and recipients. OAM/GMD collaborates with partners in the Department's financial assistance community to review and update the Department's Grants and Cooperative Agreements Manual (Grants Manual) as well as develop updated Financial Assistance Standard Terms and Conditions (ST&C) consistent with the issued guidance—both the Grants Manual and the ST&Cs undergo annual reviews and updates.

Led by GMD, the Department implemented the Research Terms and Conditions (RT&C) for federal awards, effective October 1, 2017; the RT&Cs address and implement the Uniform Guidance issued by OMB. Additionally, the Department implemented the use of the Research Performance Progress Report (RPPR) on August 9, 2018; federal agencies began using a uniform format for reporting performance progress on federally-funded research projects, thereby making it easier for award recipients to administer federal financial assistance programs through standardization of the types of information required in performance reports. The use of the RPPR reduces award recipient's administrative effort and costs and makes it easier to compare the outputs, outcomes, etc. of research and research-related programs across the government.

GMD conducts Grants Management Reviews to evaluate the internal grants administration policies and procedures of the operating units, including field or remote locations. NIST, NOAA, and EDA grants operating units are evaluated once every three years and more frequent reviews are scheduled when justified by operational issues. The scope of the review includes but is not limited to compliance with applicable public laws, regulations, OMB circulars, the Grants Manual, as well as internal grants administration policies of the operating unit.

OAM/GMD is an active member of the Financial Assistance Committee for E-Government (FACE); the authority of the FACE flows from the Award Committee for E-Government, a governance group chartered under the Chief Acquisition Officers Council. OAM/GMD participates in numerous FACE subcommittees that represent the needs of the financial assistance community, serving as the community voice for the composition, review and feedback on financial assistance policy guidance; the analysis and reporting of outcomes from the Integrated Award Environment portfolio, grants.gov, and other government-wide systems; and, the requirement development and collection of government-wide financial assistance data—which supports the implementation of lessons learned from the DATA Act Pilot Program Report to Congress and the President's Management Agenda Cross-Agency Priority Goal #8, Results-Oriented Accountability for Grants.

HUMAN CAPITAL

The Department of Commerce strives to be a model employer by building and maintaining a highly skilled and diverse workforce. The Department is integrating various aspects of the President's Management Agenda, the OMB Memorandum M-17-22, *Comprehensive Plan for Reforming the Federal Government and Reducing the Federal Civilian Workforce*, and the Department Strategic Plan, including workforce planning for mission-critical occupations, maximizing employee performance, engaging employees in the missions of the bureaus, and applying the lessons learned from the Federal Employee Viewpoint Survey to ensure the Department remains an employer of choice for the next generation of civil servants. As a result, the Department takes pride in ranking 3rd out of 18 large federal agencies in the 2017 Best Places to Work, the most comprehensive and authoritative rating of employee satisfaction and commitment in the federal government produced by the Partnership for Public Service and American University's Institute for the Study of Public Policy Implementation.

Acknowledging that people are the key to mission accomplishment, the Department continues to implement and utilize various programs in order to recruit and retain a highly skilled and diverse workforce. In FY 2018, the Department hosted approximately 431 Pathway Program interns, recent graduates, and Presidential Management fellows. Of these, approximately nine served as accountants, budget analysts, and auditors, including six new hires and two who were converted to permanent positions, within finance and accounting offices in the Bureau of Economic Analysis (BEA), International Trade Administration (ITA), NIST, NOAA, and the Office of Inspector General. Telework is also used by the Department to position itself as an "employer of choice" in attracting qualified employees, facilitating employee work/life balance, increasing employee satisfaction and engagement, and potentially increasing employee productivity. In FY 2018, approximately 46 percent of Departmental employees (72 percent of accounting and budgeting employees) engaged in telework.

Central to the Department's ability to execute strategic human capital is the continued progress with Enterprise Services (ES). ES supports the Department's 2018–2022 Strategic Plan (Strategic Goal 5 – Deliver Customer-Centric Service Excellence), in its implementation of intra-departmental, multi-function enterprise service operations in the areas of human resources (HR), information technology (IT), acquisitions, and financial management to the Office of the Secretary (OS) and the Department's 12 bureaus. Specifically, in support of the Department's HR program, in FY 2018, ES transitioned additional HR services and bureaus receiving those services. In April and May 2018, ES launched the ES Portal and transitioned payroll and benefits

transactional services for the two servicing HR offices already receiving Position Action Request (PAR) processing from ES. In August 2018, ES transitioned PAR, payroll, and benefits services for two additional HR offices, bringing ES' servicing population for PAR, payroll, and benefits processing to over 20 thousand employees in the following bureaus/organizational units: Bureau of Industry and Security, BEA, Census Bureau, EDA, ITA, Minority Business Development Agency, NOAA, National Telecommunications and Information Administration (NTIA) (including the First Responder Network Authority), and OS.

The newly launched ES Portal is a one-stop shop that enables employees to initiate, manage, and track their payroll and benefits service requests; access HR tools, resources, training, and knowledge articles; and submit and track inquiries and incidents. Moving transactional work to ES allows HR professionals to focus on the high value, strategic services important to client bureaus in meeting their mission. Additionally, ES continued to be successful in delivering several critical services in the acquisitions and IT areas, yielding enterprise-wide benefits and cost savings for the Department. Efforts will continue in FY 2019, and beyond, to transition additional HR services (e.g., talent acquisition) and functions (e.g., financial management) to the ES service delivery model. The focus and benefits of ES is on enabling improvements to its customers' experience, performance management, mission focus, and value.

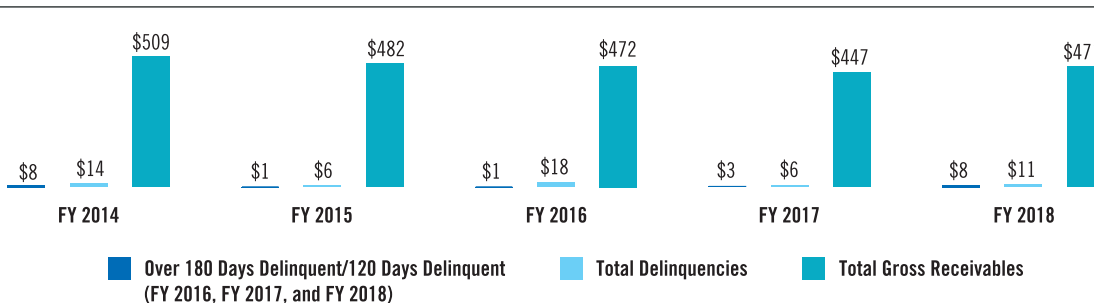
Furthermore, in response to the Office of Personnel Management's (OPM) revised 5 CFR 250 subpart b, requiring agencies to develop a Human Capital Operating Plan (HCOP), the Department submitted the first draft HCOP in November 2017. The Department HCOP is a four-year plan with annual reassessments, providing processes and measures for the implementation of human capital strategies essential to successfully carryout the Agency's Strategic Plan and Performance Plan. In December 2017, OPM provided feedback on the Department's draft HCOP and in April 2018 the Department submitted the modified draft HCOP based on OPM's feedback. The modified HCOP includes the action items, metrics, and deliverables for the following four HCOP goals (Workforce Analysis; Empower and Engage Commerce Employees; Improve Internal and External Service Delivery Processes; and Maximize Employee Performance) and two priorities based on OPM's Federal Workforce Priorities Report (Deploying Communication Tools and Securing Technological Solutions for Human Capital Analysis).

RECEIVABLES WITH THE PUBLIC AND DEBT COLLECTION MANAGEMENT

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

Applicable bureaus prepared, in 2014, Credit Management and Debt Collection Plans, which set forth their plans for effectively managing credit extension, account servicing, and debt collection management. These plans are updated at least every five years.

GROSS RECEIVABLES WITH THE PUBLIC AS OF SEPTEMBER 30¹ (In Millions)



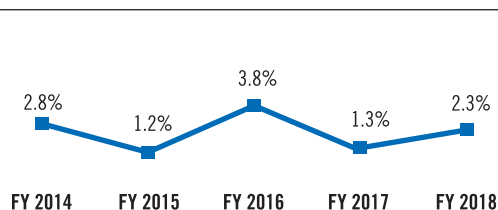
¹ The source for this table's data is the Department's Treasury Report on Receivables (TROR). There are reporting methodology differences between the gross receivables in TROR and gross receivables reported in the Department's notes to the financial statements; therefore, the amounts will not agree.

The DATA Act required, effective FY 2016, that agencies report to Congress any instance in which federal agencies fail to refer legally enforceable, non-tax debts that are greater than 120 days delinquent to the Treasury Offset Program for administrative offset.

The Department's total gross receivables with the public increased \$24 million, or 5.1 percent, from \$447 million as of September 30, 2017 to \$471 million as of September 30, 2018, as reported on the Department's Treasury Report on Receivables, which is the primary means for the Department to provide comprehensive information to Treasury on its receivables with the public. Total delinquencies with the public, as a percentage of total gross receivables with the public, increased from 1.3 percent as of September 30, 2017 to 2.3 percent as of September 30, 2018. Receivables with the public that were 120 days or more delinquent as a percentage of total gross receivables with the public, increased from 0.7 percent as of September 30, 2017 to 1.7 percent as of September 30, 2018.

Prescreening procedures, account-servicing standards, determined collection of delinquent debt, and extensive referrals of delinquent debt to Treasury have all contributed to effective Departmental debt collection management. The Debt Collection Improvement Act of 1996 established Treasury as the debt collection agency for eligible federal agency debts. Once receivables are delinquent by 120 days (effective FY 2016) or more, in accordance with Treasury requirements, such receivables are referred to Treasury's Bureau of the Fiscal Service for collection through its Cross-servicing Program and/or its Treasury Offset Program.

TOTAL DELINQUENCIES WITH THE PUBLIC AS A PERCENTAGE OF TOTAL GROSS RECEIVABLES AS OF SEPTEMBER 30



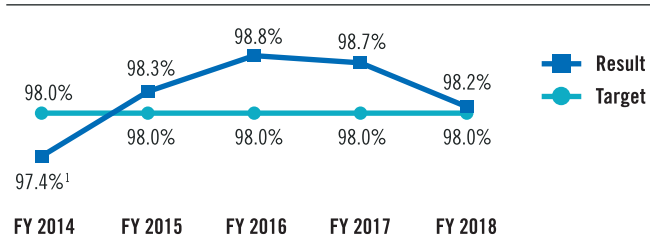
PAYMENT PRACTICES

PROMPT PAYMENT

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

The Department's prompt payment performance decreased from 98.7 percent in FY 2017 to 98.2 percent in FY 2018. The number of invoices paid late increased from 2,976 in FY 2017 to 3,196 in FY 2018. The decrease in prompt payment performance was mainly the result of open accounts payable technician positions at NOAA that persisted for the final nine months of FY 2018. These positions are projected to be filled by the end of calendar year 2018. The Department continues to focus on improving its prompt payment percentage by working closely with its bureaus to identify opportunities for new or improved business processes. Per OMB Memorandum M-15-19, *Improving Government Efficiency and Saving Taxpayer Dollars Through Electronic Invoicing* (July 17, 2015), federal agencies are required to transition to electronic invoicing for appropriate federal procurements by the end of FY 2018. The Department is currently exploring options to transition off its primary financial management system used by most of the bureaus and adopt a commercial off-the-shelf (COTS) product for those bureaus. As such, the Department would in large part adopt the COTS product's solution for an electronic invoice processing system, if available. In 2017, the U.S. Patent and Trademark Office reviewed various electronic invoicing options and made a selection. The solution was in place by the end of FY 2018, and vendor adoption will occur in FY 2019.

TIMELY VENDOR PAYMENTS (Percentage)



¹ FY 2014 prompt payment performance was lower than all other fiscal years due to unusual processing delays caused by the October 2013 furlough of financial management staff.

OMB Memorandum M-17-26, *Reducing Burden for Federal Agencies by Rescinding and Modifying OMB Memoranda* (June 15, 2017), encourages agencies to accelerate payments, to the best of their ability, to small businesses and prime contractors with small business subcontractors. This did not change an agency's responsibility to comply with the Prompt Payment Act and OMB's implementing regulations thereto (5 CFR Part 1315, *Prompt Payment*).

BANKCARDS

The Department remains committed to the use of bankcards (purchase cards) as a means to improve mission support by streamlining the procurement and payment processes and by reducing administrative costs. Based on the results of FY 2013 testing of purchase card processes under OMB Circular A-123, Appendix A, *Internal Control Over Financial Reporting*, the Department implemented a pilot data analytic program in FY 2015 that reviews Department-wide purchase and travel card transactions in an effort to identify patterns, trends, and anomalies for possible further investigation. The Department continued to work with the bureaus in implementing corrective actions, monitoring internal controls, performing data analytics, and conducting necessary reviews and testing to ensure proper internal controls are in place. In FY 2018, the Department prepared to transition to GSA as its bankcard program coordinator. The Department plans to begin using GSA's SmartPay3 in spring 2019. The Department also continues to carry out initiatives which have been implemented in the last few fiscal years, including more effective training, oversight, and risk management reviews in order to enhance the purchase card program. These enhancements have led to, among other things, a steady decrease in the number of purchase cards issued and in use by the Department.

LIMITATIONS OF THE FINANCIAL STATEMENTS

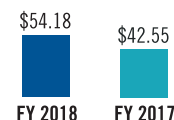
The principle financial statements in the financial section have been prepared to report the overall financial position and results of operations of the Department, pursuant to the requirements of 31 U.S.C. 3515(b). While the statements have been prepared from the books and records of the Department in accordance with the generally accepted accounting principles (GAAP) for federal entities and the formats prescribed in OMB Circular A-136, *Financial Reporting Requirements*, 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. The financial statements should be read with the realization that they are for a component of the U.S. government.

ANALYSIS OF FY 2018 FINANCIAL CONDITION AND RESULTS

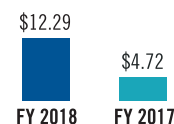
FINANCIAL HIGHLIGHTS

<i>(Dollars in Thousands)</i>	Percentage Change	FY 2018	FY 2017
Condensed Balance Sheets:			
As of September 30, 2018 and 2017			
ASSETS:			
Fund Balance with Treasury	15%	\$ 28,794,045	\$ 25,030,940
General Property, Plant, and Equipment, Net	6%	16,286,411	15,402,997
Advances and Prepayments	-88%	96,843	788,892
Direct Loans and Loan Guarantees, Net	6%	459,277	431,619
Investments, Net	not meaningful	6,244,436	334,106
Cost Contribution to Buildout of Nationwide Public Safety Broadband Network, Net	not meaningful	2,009,841	288,000
Other	7%	289,731	271,436
TOTAL ASSETS	27%	\$ 54,180,584	\$ 42,547,990
LIABILITIES:			
Unearned Revenue	13%	\$ 1,648,025	\$ 1,455,417
Federal Employee Benefits Liabilities	-0.4%	881,992	885,936
Accounts Payable	242%	2,049,213	599,637
Accrued Payroll and Annual Leave	3%	596,920	577,272
Debt to Treasury	5%	452,563	430,313
Liability to General Fund of the U.S. Government for Deficit Reduction	not meaningful	6,244,436	336,188
Accrued Grants	-5%	129,678	135,995
Other	-5%	284,222	298,179
TOTAL LIABILITIES	160%	\$ 12,287,049	\$ 4,718,937
NET POSITION:			
Unexpended Appropriations	52%	\$ 9,091,775	\$ 5,973,837
Cumulative Results of Operations	3%	32,801,760	31,855,216
TOTAL NET POSITION	11%	\$ 41,893,535	\$ 37,829,053
TOTAL LIABILITIES AND NET POSITION	27%	\$ 54,180,584	\$ 42,547,990
Condensed Financing Sources:			
For the Years Ended September 30, 2018 and 2017			
Appropriations Received, Net of Reductions	30%	\$ 12,188,389	\$ 9,364,774
Imputed Financing Sources from Cost Absorbed by Others	50%	300,335	200,225
Transfer In of Auction Proceeds from Federal Communications Commission	not meaningful	5,895,159	—
Financing Sources Used for Recognizing Liability to General Fund of the U.S. Government for Deficit Reduction	not meaningful	(5,908,248)	(2,134)
Other	43%	190,954	133,984
TOTAL FINANCING SOURCES	31%	\$ 12,666,589	\$ 9,696,849

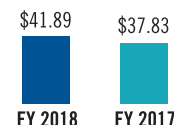
TOTAL ASSETS (In Billions)



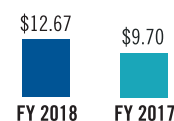
TOTAL LIABILITIES (In Billions)



TOTAL NET POSITION (In Billions)

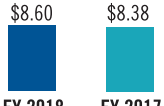


TOTAL FINANCING SOURCES (In Billions)

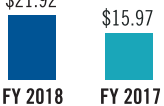
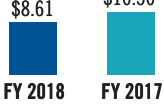


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<i>(Dollars in Thousands)</i>	Percentage Change	FY 2018	FY 2017		
Condensed Statements of Net Cost:					
For the Years Ended September 30, 2018 and 2017					
Condensed Statements of Net Cost:					
Gross Departmental Costs	4%	\$ 12,897,387	\$ 12,413,842	\$8.60	\$8.38
Less: Earned Revenue	6%	(4,295,280)	(4,035,808)		
NET COST OF OPERATIONS	3%	\$ 8,602,107	\$ 8,378,034	FY 2018	FY 2017

Selected Budgetary Information:**For the Years Ended September 30, 2018 and 2017**

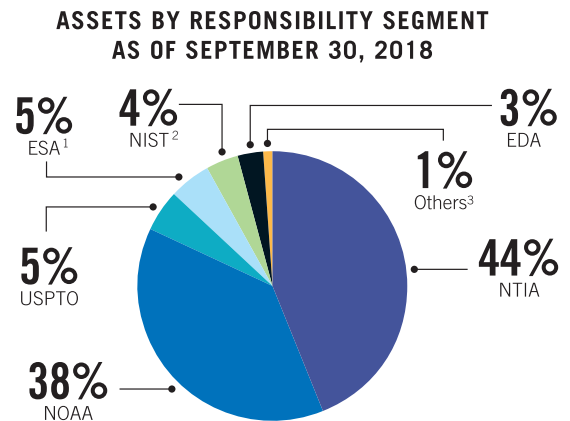
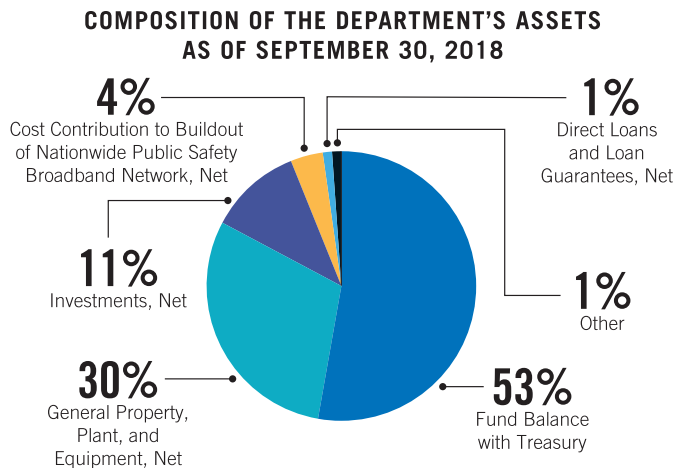
NEW OBLIGATIONS AND UPWARD ADJUSTMENTS <i>(In Billions)</i>					
				\$21.92	\$15.97
New Obligations and Upward Adjustments	37%	<u>\$ 21,920,632</u>	<u>\$ 15,970,699</u>		FY 2018
				\$8.61	\$10.30
Outlays, Net	-16%	<u>\$ 8,612,798</u>	<u>\$ 10,302,299</u>		FY 2018

COMPOSITION OF ASSETS AND ASSETS BY RESPONSIBILITY SEGMENT

Departmental assets amounted to \$54.18 billion, as of September 30, 2018. Fund Balance with the U.S. Department of the Treasury (Treasury) of \$28.79 billion is the aggregate amount of funds available to make authorized expenditures and pay liabilities. General Property, Plant, and Equipment (PP&E), Net of Accumulated Depreciation, of \$16.29 billion, includes \$7.95 billion of Satellites/Weather Systems Personal Property; \$4.93 billion of Construction-in-progress, primarily of satellites and weather measuring and monitoring systems; \$1.52 billion of Structures, Facilities, and Leasehold Improvements; and \$1.89 billion of other General PP&E. Direct Loans and Loan Guarantees, Net of Allowances for Subsidy Cost (Present Value) and Loan Losses, of \$459.3 million, primarily relates to NOAA direct loan programs. Investments, Net of \$6.24 billion consists of a non-marketable, market-based one-day certificate investment in NTIA's Public Safety Trust Fund of \$5.91 billion, resulting from the August 2018 transfer in of \$5.90 billion of auction proceeds from the Federal Communications Commission (FCC), and a non-marketable, market-based note investment of \$338.5 million, also in NTIA's Public Safety Trust Fund. Cost Contribution to Buildout of Nationwide Public Safety Broadband Network, Net (NPSBN) of \$2.01 billion captures NTIA's cumulative cost contributions for the buildout of the NPSBN. Other Assets of \$289.7 million primarily includes Accounts Receivable, Net of Allowance for Uncollectible Accounts, of \$150.0 million; and Inventory, Materials, and Supplies, Net of Allowance for Excess, Obsolete, and Unserviceable Items, of \$125.7 million.

The composition (by percentage) and distribution (by responsibility segment) of the Department's assets changed somewhat from September 30, 2017 to September 30, 2018. Most notably, the addition of the one-day certificate investment of \$5.91 billion in NTIA's Public Safety Trust Fund, as discussed above, resulted in an increase in Investments, Net from

1 percent of the Department's assets as of September 30, 2017 to 11 percent of the Department's assets as of September 30, 2018. This new NTIA investment during FY 2018, along with an increase of \$1.72 billion in NTIAs (Network Construction Fund) Cost Contribution to Buildout of NPSBN, Net as discussed in the *Trends in Assets* section, were the primary reasons that NTIA's assets increased from 38 percent to 44 percent of the Department's assets, with a corresponding decrease in NOAA's assets from 45 percent to 38 percent of the Department's assets.

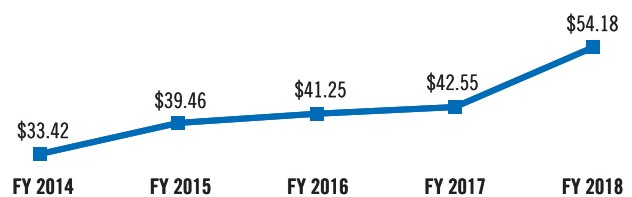


¹ Economics and Statistics Administration (ESA) includes ESA, the Bureau of Economic Analysis (BEA), and the Census Bureau.
² NIST includes NIST and the National Technical Information Service (NTIS).
³ Others includes Departmental Management (DM), the Bureau of Industry and Security (BIS), the International Trade Administration (ITA), and the Minority Business Development Agency (MBDA).

TRENDS IN ASSETS

Departmental assets increased \$11.63 billion, or 27 percent, from \$42.55 billion as of September 30, 2017 to \$54.18 billion as of September 30, 2018. Fund Balance with Treasury increased \$3.76 billion, or 15 percent, from \$25.03 billion to \$28.79 billion, primarily because of (a) an increase in Fund Balance with Treasury of \$1.13 billion for Census Bureau, resulting largely from a significant increase in Appropriations Received of \$1.34 billion for its Periodic Censuses and Programs fund group as explained in the *Composition of and Trends in Financing Sources* section; (b) an increase in Fund Balance with Treasury, of also \$1.13 billion, for NOAA, resulting mainly from an increase in Appropriations Received of \$622.8 million for NOAA as explained in the *Composition of and Trends in Financing Sources* section; (c) an increase in Fund Balance with Treasury of \$608.4 million for EDA, resulting largely from a significant increase in Appropriations Received of \$624.5 million for EDA, as explained in the *Composition of and Trends in Financing Sources* section; and (d) an increase in Fund Balance with Treasury of \$469.2 million for NTIA, resulting largely from a net increase of \$336.0 million in Fund Balance with Treasury related to the buildout of the NPSBN by AT&T under the previous contract between the U.S. Department of the Interior (DOI) and AT&T and under the current contract between the First Responder Network Authority and AT&T (\$672.0 million refund collection from DOI under the previous contract, as discussed further below in this section, less \$336.0 million of payments made by NTIA to AT&T during FY 2018 under the current contract). General PP&E, Net increased \$883.4 million, or 6 percent,

TRENDS IN TOTAL ASSETS AS OF SEPTEMBER 30 (In Billions)



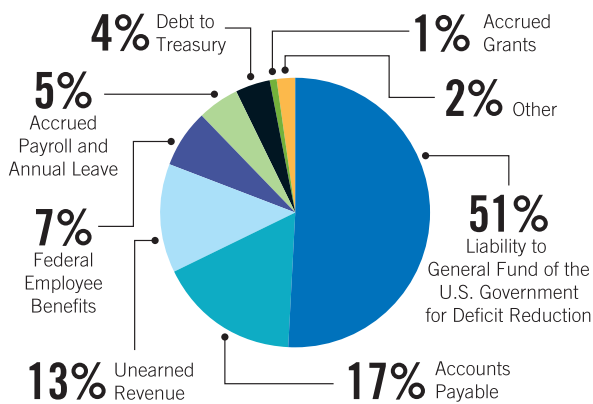
from \$15.40 billion to 16.29 billion, primarily due to an increase in Satellites/Weather System Personal Property cost of \$2.05 billion, largely due to the capitalization of \$2.01 billion of costs for NOAA's Joint Polar Satellite System-1 (JPSS-1) placed in service during FY 2018, offset by a decrease of \$775.7 million in NOAA's Construction-in-progress, which was primarily due to the capitalization of the JPSS-1 satellite as discussed above, offset mainly by increases in Construction-in-progress of \$815.3 million for JPSS remaining satellites and of \$445.2 million for Geostationary Operational Environmental Satellites remaining satellites. Advances and Prepayments decreased \$692.0 million, or 88 percent, from \$788.9 million to \$96.8 million, primarily due to DOI returning in FY 2018 advance funding of certain task orders under the previous DOI contract with AT&T for it to build, operate, and maintain the NPSBN. During FY 2018, FirstNet took over the contract with AT&T for it to build, operate, and maintain the NPSBN, thus reducing the remaining Advances and Prepayments balance of \$672.0 million with DOI to zero in FY 2018 upon the Department's receipt from DOI of the \$672.0 million refund of the advance balance with DOI. Investments, Net increased \$5.91 billion, from \$334.1 million to \$6.24 billion as previously discussed in the *Composition of Assets and Assets by Responsibility Segment* section. Cost Contribution to Buildout of NPSBN, Net increased \$1.72 billion, from \$288.0 million to \$2.01 billion, due to additional actual/estimated work completed in FY 2018 by AT&T for its buildout of the NPSBN.

COMPOSITION OF LIABILITIES AND LIABILITIES BY RESPONSIBILITY SEGMENT

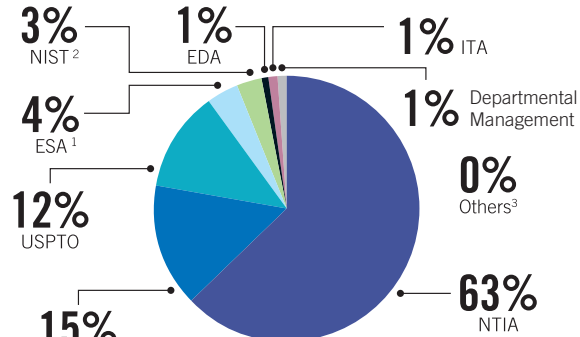
The composition (by percentage) and distribution (by responsibility segment) of the Department's liabilities changed significantly from September 30, 2017 to September 30, 2018.

Liabilities of the Department amounted to \$12.29 billion as of September 30, 2018. Unearned Revenue of \$1.65 billion represents the portion of monies received from customers for which goods and services have not been provided or rendered by the Department, including customer deposits. This line primarily relates to patent and trademark application and user fees that are pending action, and it also includes monies collected in advance under reimbursable agreements. Federal Employee Benefits Liability of \$882.0 million is comprised of the actuarial present value of projected benefits for the NOAA Corps Retirement System and NOAA Corps Blended Retirement System of \$654.6 million and for the NOAA Corps Post-retirement Health Benefits of \$40.3 million, and the Department's Actuarial Federal Employees' Compensation Act (FECA) Liability of \$187.1 million, which represents the actuarial liability for future workers' compensation benefits. Accounts Payable of \$2.05 billion consists primarily of amounts owed for goods, services, or capitalized assets received, progress on contract performance by others, and other expenses due. Accrued Payroll and Annual Leave of \$596.9 million includes

COMPOSITION OF THE DEPARTMENT'S LIABILITIES AS OF SEPTEMBER 30, 2018



LIABILITIES BY RESPONSIBILITY SEGMENT AS OF SEPTEMBER 30, 2018



¹ ESA includes ESA, BEA, and the Census Bureau.

² NIST includes NIST and NTIS.

³ Others includes BIS and MBDA.

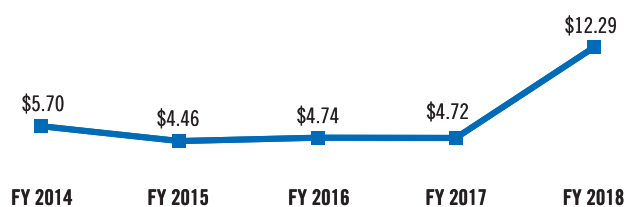
salaries and wages earned by employees, but not disbursed, as of September 30, 2018. Debt to Treasury of \$452.6 million represents borrowings for NOAA's direct loan programs. Accrued Grants of \$129.7 million relates to a diverse array of financial assistance programs and projects, including the Economic Development Administration's (EDA) accrued grants of \$49.9 million for its grant investments that help communities generate jobs, retain existing jobs, and stimulate industrial and commercial growth; NOAA's accrued grants of \$49.8 million for grants awarded to state and local governments, non-profit research institutions, and colleges and universities for research and conservation initiatives; and National Institute of Standards and Technology's (NIST) accrued grants of \$26.1 million for its grant investments and cooperative agreements that fund programs in a variety of fields such as energy, food safety, and electronics research, strategic manufacturing technology, and the Hollings Manufacturing Extension Partnership. NTIA's Public Safety Trust Fund has a Liability to General Fund of the U.S. Government for Deficit Reduction of \$6.24 billion—Priority 8 of Section 6413 of the Middle Class Tax Relief and Job Creation Act of 2012 specifies that any remaining funds deposited in NTIA's Public Safety Trust Fund be deposited in the General Fund of the U.S. Government for deficit reduction after the end of FY 2022. Other Liabilities of \$284.2 million primarily includes Environmental and Disposal Liabilities of \$145.7 million, including \$72.2 million for asbestos-related cleanup costs, and \$61.9 million for a nuclear reactor operated by NIST; Accrued Benefits of \$54.6 million; Accrued FECA Liability of \$25.3 million; and ITA's Foreign Service Nationals' Voluntary Separation Pay Liability of \$12.1 million.

The composition (by percentage) and distribution (by responsibility segment) of the Department's liabilities changed significantly from September 30, 2017 to September 30, 2018. Due to the substantial changes in liabilities discussed in the below *Trends in Liabilities* section, the Liability to General Fund of the U.S. Government for Deficit Reduction increased from 8 percent of the Department's liabilities to 63 percent of the Department's liabilities; Unearned Revenue decreased from 31 percent of the Department's liabilities to 13 percent of the Department's liabilities; Federal Employee Benefits Liability decreased from 19 percent of the Department's liabilities to 7 percent of the Department's liabilities; and Accrued Payroll and Leave decreased from 12 percent of the Department's liabilities to 5 percent of the Department's liabilities. NTIA's liabilities increased from 8 percent of the Department's liabilities to 63 percent of the Department's liabilities; NOAA's liabilities decreased from 39 percent of the Department's liabilities to 15 percent of the Department's liabilities; and USPTO's liabilities decreased from 31 percent of the Department's liabilities to 12 percent of the Department's liabilities.

TRENDS IN LIABILITIES

Liabilities of the Department increased \$7.57 billion, or 27 percent, from \$4.72 billion as of September 30, 2017 to \$12.29 billion as of September 30, 2018. Unearned Revenue increased \$192.6 million, or 13 percent, from \$1.46 billion to \$1.65 billion, primarily due to (a) unearned revenue of \$120.0 million as of September 30, 2018 in NTIA's budget account titled "First Responder Network Authority" under the contract with AT&T to build, operate, and maintain the NPSBN, whereas, there was no similar unearned revenue as of September 30, 2017; (b) an increase in unearned revenue for Census Bureau of \$31.8 million, primarily related to increased projects with the U.S. Department of Housing and Urban Development related to the 2020 Decennial Census; and (c) an increased in unearned revenue of \$30.1 million for USPTO primarily due to increased patent fees transaction volume and also due to patent fee increases that took place in January 2018. Accounts Payable increased \$1.45 billion, or 242 percent, from \$599.6 million to \$2.05 billion, primarily due to an accrual of actual/estimated work completed by AT&T for buildout of the NPSBN of \$1.40 billion as of September 30, 2018, whereas, as of September 30, 2017, there was no similar liability accrual because there was rather an Advance (asset)

TRENDS IN TOTAL LIABILITIES AS OF SEPTEMBER 30 (In Billions)



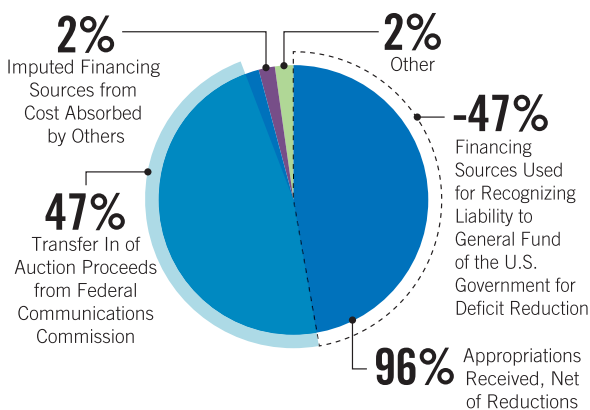
balance with DOI to fund the previous contract with DOI and AT&T to build, maintain, and operate the NPSBN. Liability to General Fund of the U.S. Government for Deficit Reduction increased \$5.91 billion, from \$336.2 million to \$6.24 billion, mainly due to NTIA Public Safety Trust Fund's receipt during FY 2018 of auction proceeds from FCC of \$5.90 billion as previously discussed in the *Composition of Assets and Assets by Responsibility Segment* section.

COMPOSITION OF AND TRENDS IN FINANCING SOURCES

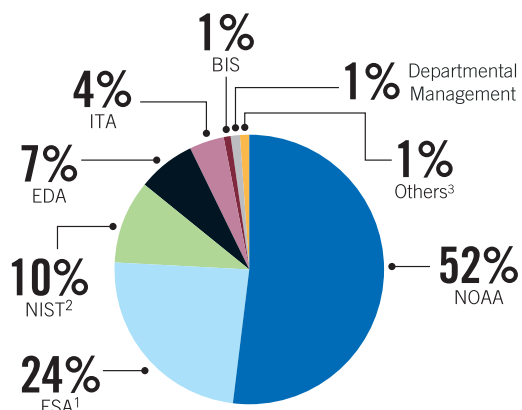
The composition by percentage of the Department's financing sources, as reported in the Department's *Consolidated Statements of Changes in Net Position*, changed significantly from FY 2017 to FY 2018. For FY 2018, there was a \$5.90 billion transfer in of auction proceeds from FCC received by NTIA's Public Safety Trust Fund, as compared to none in FY 2017.

Total financing sources of the Department increased \$2.97 billion, or 31 percent, from \$9.70 billion in FY 2017 to \$12.67 billion in FY 2018. Appropriations Received, Net of Reductions increased \$2.82 billion, or 30 percent, from \$9.36 billion in FY 2017 to \$12.19 billion in FY 2018, primarily due to (a) a significant increase in Appropriations Received of \$1.34 billion for Census Bureau's Periodic Censuses and Programs budget account, from \$1.20 billion in FY 2017 to \$2.54 billion in FY 2018, including a large increase for the 2020 Decennial Census; (b) a significant increase in Appropriations Received of \$625.5 million for EDA's Economic Development Assistance Programs budget account, from \$237.0 million in FY 2017 to \$862.5 million in FY 2018, due largely to new disaster relief funds of \$600.0 million received in FY 2018 under the Bipartisan Budget Act of 2018; and (c) an increase in Appropriations Received of \$534.2 million for NOAA, from \$5.82 billion in FY 2017 to \$6.35 billion in FY 2018, due mainly to new disaster relief funds of \$400.1 million received in FY 2018 under the Bipartisan Budget Act of 2018. Imputed Financing Sources from Cost Absorbed by Others increased \$100.1 million, or 50 percent, from \$200.2 million to \$300.3 million, primarily due to (a) significant increases, from FY 2017 to FY 2018, in the imputed cost factors provided by the U.S. Office of Personnel Management for the Civil Service Retirement System (14 percent increase), Federal Employees Retirement System (10 percent increase), and the Federal Employees Health Benefits Program

**COMPOSITION OF THE DEPARTMENT'S
FY 2018 FINANCING SOURCES**



**FY 2018 FINANCING SOURCES
BY RESPONSIBILITY SEGMENT**



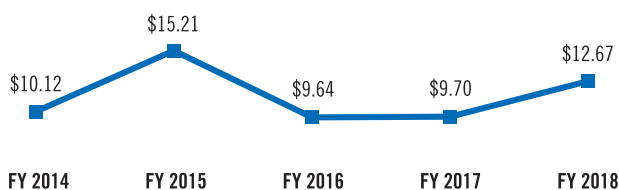
¹ ESA includes ESA, BEA, and the Census Bureau.

² NIST includes NIST and NTIS.

³ Others includes MBDA, NTIA, and USPTO.

(32 percent increase); (b) the effect on the imputed cost calculations of higher dollar levels of basic pay in FY 2018 versus FY 2017; and (c) a significant increase of \$10.1 million in USPTO's imputed costs with Treasury for collections processing. Transfer In of Auction Proceeds from FCC increased from none at FY 2017 to \$5.90 billion in FY 2018 because of August 2018 transfer in to NTIA's Public Safety Trust Fund of \$5.90 billion of auction proceeds from FCC. The most recent previous transfers in of auction proceeds from FCC to NTIA's Public Safety Trust Fund were in FY 2016. Financing Sources Used for Recognizing Liability to General Fund of the U.S. Government for Deficit Reduction increased \$5.91 billion, from \$2.1 million to \$5.91 billion, because in FY 2018 there was \$5.90 billion of auction proceeds transferred in from FCC to NTIA's Public Safety Trust Fund as previously discussed. This FY 2018 transfer in results in additional excess funds (Priority 8) in NTIA's Public Safety Trust Fund over the Fund's priorities 1 through 7, per the originating Middle Class Tax Relief and Job Creation Act of 2012 (Public Law 112-96).

TRENDS IN TOTAL FINANCING SOURCES (In Billions)



Other Financing Sources increased by \$57.0 million, or 43 percent, from \$134.0 million in FY 2017 to \$191.0 million in FY 2018, primarily due to an increase in transfers in/(out), net across the Department of \$38.3 million from FY 2017 to FY 2018, and a decrease in cancellations and other adjustments of appropriations of \$23.1 million across the Department from FY 2017 to FY 2018.

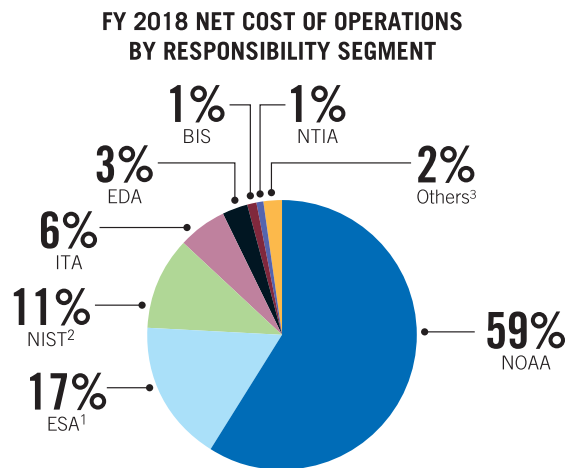
COMPOSITION OF FY 2018 NET COST OF OPERATIONS AND NET COST OF OPERATIONS BY RESPONSIBILITY SEGMENT

In FY 2018, the Department's Net Cost of Operations amounted to \$8.60 billion, which consists of Gross Costs of \$12.90 billion, less Earned Revenue of \$4.30 billion.

The distribution (by responsibility segment) of the Department's Net Cost of Operations remained consistent from FY 2017 to FY 2018.

Note: The Gross Costs and Earned Revenue amounts presented in the following paragraphs include transactions with other Departmental entities (intra-Departmental transactions). As a result, the Gross Costs amounts discussed below may not agree with the Gross Costs presented on the Department's FY 2018 Consolidated Statement of Net Cost, which excludes intra-Departmental transactions.

NOAA's FY 2018 Net Cost of Operations was \$5.06 billion (Gross Costs of \$5.31 billion less Earned Revenue of \$245.9 million). NOAA's mission relates to science, service, and stewardship—to understand and predict changes in climate, weather, oceans, and coasts; to share that knowledge and information with others; and to conserve and manage coastal and marine ecosystems and resources. NOAA's Gross Costs include costs related to improving weather, water quality, and climate reporting and forecasting; and enabling informed decision-making through an



¹ ESA includes ESA, BEA, and the Census Bureau.
² NIST includes NIST and NTIS.
³ Others includes DM and MBDA.

expanded understanding of the U.S. economy, society, and environment by providing data, standards, and services. NOAA also develops and procures satellite systems, aircraft, and ships to provide information to determine weather patterns and predict weather forecasts. NOAA's Gross Costs also support its efforts to promote economically-sound environmental stewardship and science, including developing sustainable and resilient fisheries, habitats, and species; supporting climate adaptation and mitigation; and supporting coastal communities that are environmentally and economically sustainable.

USPTO's FY 2018 Net Cost of Operations of \$12.1 million (Gross Costs of \$3.32 billion less Earned Revenue of \$3.31 billion) relates to its patents and trademark programs. USPTO is the federal agency for granting U.S. patents and registering trademarks. The strength and vitality of the U.S. economy depends directly on effective mechanisms that protect new ideas and investments in innovation and creativity. USPTO advises the President, the Secretary of Commerce, and federal agencies on intellectual property (IP) policy, protection, and enforcement; and promotes the stronger and more effective IP protection around the world. USPTO furthers effective IP protection for the Nation's innovators and entrepreneurs worldwide by working with other federal agencies to secure strong IP provisions in free trade and other international agreements. It also provides training, education, and capacity building programs designed to foster respect for IP and encourage the development of strong IP enforcement regimes by the Nation's trading partners.

The Economics and Statistics Administration's (ESA) FY 2018 Net Cost of Operations was \$1.49 billion (Gross Costs of \$1.79 billion less Earned Revenue of \$307.1 million), which includes ESA, the Bureau of Economic Analysis (BEA), and the Census Bureau. ESA plays three key roles within the Department. ESA provides timely economic analysis, disseminates national economic indicators, and oversees BEA and the Census Bureau. BEA promotes a better understanding of the Nation's economy by providing timely, relevant, and accurate economic accounts data in an objective and cost-effective manner. The Census Bureau's FY 2018 Net Cost of Operations was \$1.38 billion (Gross Costs of \$1.68 billion less Earned Revenue of \$303.2 million). The Census Bureau serves as the leading source of quality data about the Nation's people and economy. Data that the Census Bureau collects includes the Population and Housing Census (every 10 years), Economic Census (every 5 years), Census of Governments (every 5 years), American Community Survey (annually), economic indicators, and demographic and economic surveys provided to survey sponsors.

NIST's FY 2018 Net Cost of Operations was \$967.8 million (Gross Costs of \$1.23 billion less Earned Revenue of \$266.4 million), which includes NIST and the National Technical Information Service (NTIS). NIST's FY 2018 Net Cost of Operations, by itself, was \$966.8 million (Gross Costs of \$1.12 billion less Earned Revenue of \$156.9 million). NIST promotes American innovation and industrial competitiveness by advancing measurement science, standards, and technology in ways that enhance economic security and improve the Nation's quality of life. NIST's Gross Costs include costs for its NIST Laboratories program. The NIST Laboratories conducts world-class research, often in close collaboration with industry, which advances the Nation's technology infrastructure and helps American companies continually improve products and services. NTIS serves as the largest central resource for government-funded scientific, technical, engineering, and business-related information available today. For more than 60 years, NTIS has assured businesses, universities, and the public timely access to approximately 3 million publications covering over 350 subject areas. NTIS promotes the Nation's economic growth by providing access to information that stimulates innovation and discovery.

ITA's FY 2018 Net Cost of Operations was \$486.8 million (Gross Costs of \$509.4 million less Earned Revenue of \$22.6 million). ITA fosters economic growth and prosperity through global trade by strengthening the competitiveness of American industry, promoting trade and investment, and ensuring fair trade through the rigorous enforcement of the Nation's trade laws and agreements. ITA leads the Department's export and investment platform, working with several other bureaus, inside and outside the Department, including working with the U.S. Trade Representative, to provide greater access to markets and customers by removing trade barriers.

EDA's FY 2018 Net Cost of Operations was \$283.9 million (Gross Costs of \$297.5 million less Earned Revenue of \$13.6 million). EDA leads the federal economic development agenda by promoting innovation and competitiveness, preparing American regions for growth and success in the worldwide economy. EDA plays a critical role in fostering regional economic development efforts in communities across the United States. Through strategic investments that foster job creation and attract private investment, EDA supports development in economically distressed areas of the United States. EDA works directly with local economic development officials to make grant investments that are well-defined, timely, and linked to a long-term, sustainable economic development strategy.

NTIA's FY 2018 Net Cost of Operations was \$35.0 million (Gross Costs of \$200.3 million less Earned Revenue of \$165.3 million). NTIA is the federal agency that is principally responsible for advising the President on telecommunications and information policy issues. NTIA's programs and policymaking focus largely on expanding broadband Internet access and adoption in America, expanding the use of spectrum by all users, and ensuring that the Internet remains an engine for continued innovation and economic growth. NTIA's activities include managing the federal use of spectrum and identifying additional spectrum for commercial use, and administering grant programs that further the deployment and use of broadband and other technologies in America.

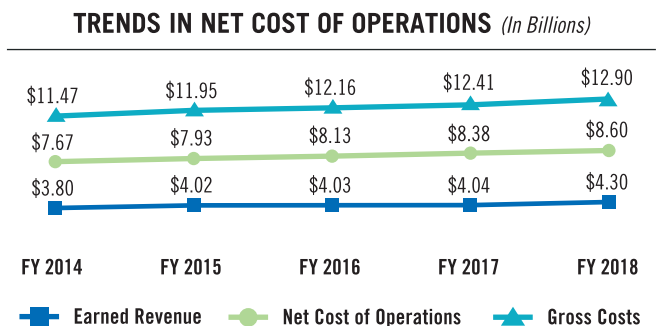
FY 2018 Net Cost of Operations for DM was \$115.8 million (Gross Costs of \$421.1 million less Earned Revenue of \$305.4 million), which includes Gifts and Bequests, Herbert C. Hoover Building Renovation Project, Office of Inspector General, Salaries and Expenses, and Working Capital Fund. DM's objective is to develop and provide policies and procedures for administrative planning, oversight, coordination, direction, and guidance to ensure implementation of the Department's mission.

FY 2018 Net Cost of Operations for the other Departmental bureaus was \$152.9 million (Gross Costs of \$155.7 million less Earned Revenue of \$2.7 million), which is comprised of the Bureau of Industry and Security (BIS) and the Minority Business Development Agency (MBDA). BIS advances the Nation's national security, foreign policy, and economic objectives by ensuring an effective export control and treaty compliance system and promoting continued strategic technology leadership by the United States. MBDA helps to create and sustain American jobs by promoting the growth and global competitiveness of businesses owned and operated by minority entrepreneurs.

TRENDS IN NET COST OF OPERATIONS

The Department's Net Cost of Operations increased by \$224.1 million, or 3 percent, from \$8.38 billion in FY 2017 to \$8.60 billion in FY 2018. Gross Costs increased by \$483.5 million, or 4 percent, from \$12.41 billion in FY 2017 to 12.90 billion in FY 2018. Earned Revenue increased by \$259.5 million, or 6 percent, from \$4.04 billion in FY 2017 to \$4.30 billion in FY 2018.

The increase in Earned Revenue from FY 2017 to FY 2018 of \$259.5 million is primarily due to an increase in USPTO's Earned Revenue of \$204.3 million, from \$3.10 billion in FY 2017 to \$3.31 billion in FY 2018, mainly resulting from a patent revenue increase due to increased transaction volume, and also resulting from a patent revenue increase due to fee increases that took place in January 2018.

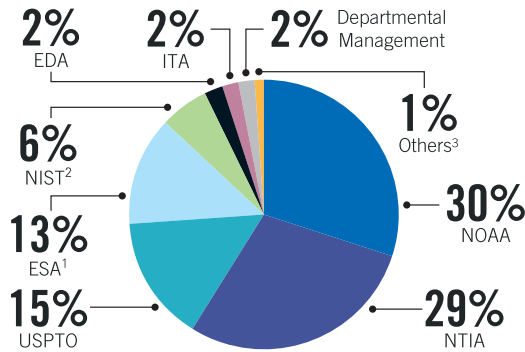


SELECTED BUDGETARY INFORMATION BY RESPONSIBILITY SEGMENT

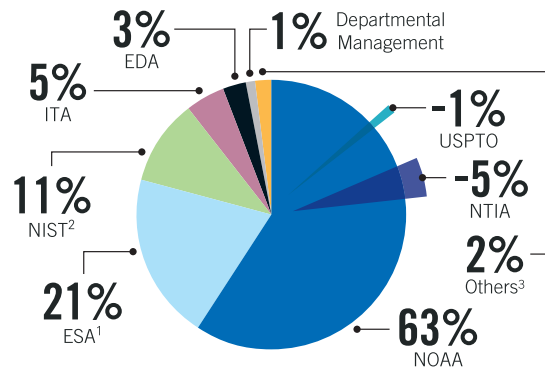
The distribution (by responsibility segment) of the Department's New Obligations and Upward Adjustments changed significantly from FY 2017 to FY 2018. Due to the substantial changes in New Obligations and Upward Adjustments discussed in the below *Trends in Selected Budgetary Information* section, NTIA's portion increased from 7 percent of the Departmental total in FY 2017 to 29 percent of the Departmental total in FY 2018, and NOAA's portion decreased from 40 percent of the Departmental total in FY 2017 to 30 percent of the Departmental total in FY 2018.

The distribution (by responsibility segment) of the Department's Outlays, Net (which is comprised of Outlays, Gross less Actual Offsetting Collections) also changed significantly from FY 2017 to FY 2018. Due to the substantial changes in Outlays, Net discussed in the below *Trends in Selected Budgetary Information* section, NTIA's portion decreased from 12 percent of the Departmental total in FY 2017 to negative 5 percent of the Departmental total in FY 2018, and NOAA's portion increased from 53 percent of the Departmental total in FY 2017 to 63 percent of the Departmental total in FY 2018.

FY 2018 NEW OBLIGATIONS AND UPWARD ADJUSTMENTS BY RESPONSIBILITY SEGMENT



FY 2018 OUTLAYS, NET BY RESPONSIBILITY SEGMENT

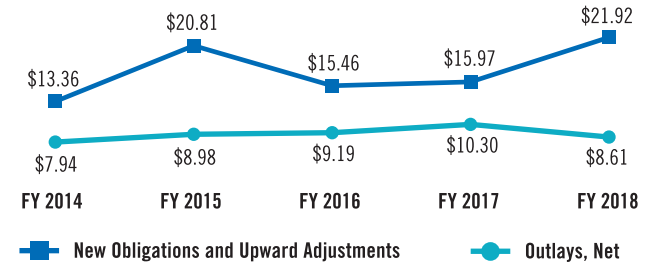


¹ ESA includes ESA, BEA, and the Census Bureau.
² NIST includes NIST and NTIS.
³ Others includes BIS and MBDA.

TRENDS IN SELECTED BUDGETARY INFORMATION

The Department's New Obligations and Upward Adjustments increased by \$5.95 billion, or 37 percent, from \$15.97 billion in FY 2017 to \$21.92 billion in FY 2018, primarily due to a significant increase of \$5.17 billion for NTIA's Network Construction Fund, from \$1.06 billion in FY 2017 to \$6.23 billion in FY 2018. This large increase resulted mainly from a large new obligation in FY 2018 of \$5.50 billion under the First Responder Network Authority contract with AT&T to build, maintain, and operate the NPSBN.

TRENDS IN SELECTED BUDGETARY INFORMATION (In Billions)



The Department's Outlays, Net decreased by \$1.69 billion, or 16 percent, from \$10.30 billion in FY 2017 to \$8.61 billion in FY 2018, primarily due to (a) NTIA's Network Construction Fund in FY 2018 received a refund (Actual Offsetting Collections) of \$672.0 million from DOI returning advance funding of certain task orders under the previous DOI contract with AT&T, as previously discussed; (b) NTIA's Network Construction Fund experienced a decrease of \$661.1 million in Outlays, Gross, primarily as a result of a decrease in Outlays, Gross of \$664.0 million for the previous and current contracts for AT&T to build, maintain, and operate the NPSBN; and (c) NTIA received in FY 2018 \$240.0 million of Actual Offsetting Collections under the contract(s) for AT&T to build, maintain, and operate the NPSBN, whereas there was no such Actual Offsetting Collections in FY 2017.

SUMMARY OF STEWARDSHIP INFORMATION

STEWARDSHIP ASSETS

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

NOAA maintains the following Stewardship Assets: Heritage Assets (Galveston Laboratory; National Marine Fisheries Service (NMFS) St. George Sealing Plant; NMFS Cottage M, St. George; NMFS St. Paul Old Clinic/Hospital; NMFS Woods Hole Science Aquarium; and Great Lakes Environmental Research Laboratory, Lake Michigan Field Station); 13 National Marine Sanctuaries; 5 Marine National Monuments (Marianas Trench, Pacific Remote Islands, Rose Atoll, Papahānaumokuākea, and the Northeast Canyons and Seamounts); Aleutian Islands Habitat Conservation Area; NOAA Habitat Blueprint (10 Habitat Focus Areas); and Collection-type Heritage Assets, primarily included in the NOAA Central Library (mainly books, journals, publications, photographs, and motion pictures) and Thunder Bay Sanctuary Research Collection (data cards, photograph negatives, document copies, photographs, books, and other items).

NIST maintains Collection-type Heritage Assets under its Museum and History Program, which collects, preserves, and exhibits artifacts, such as scientific instruments, equipment, objects, and records of significance to NIST and predecessor agencies. The Census Bureau maintains Collection-type Heritage Assets that help illustrate the social, educational, and cultural heritage of the Census Bureau, including artifacts, artwork, books, films, instruments, records, publications, manuscripts, photographs, and maps.

STEWARDSHIP INVESTMENTS

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

Investments in Non-federal Physical Property: These investments are for the purchase, construction, or major renovation of physical property owned by state and local governments. The Economic Development Administration (EDA) and NOAA have significant investments in non-federal physical property. EDA's investments in FY 2018 totaled \$250.9 million and included its Public Works program (\$136.2 million), Disaster Recovery (\$66.5 million), Economic Adjustment Assistance program (\$23.6 million), and Assistance to Coal Communities (\$24.6 million). NOAA's investments in FY 2018 totaled \$2.3 million for the National Estuarine Research Reserves.

Investments in Human Capital: These investments are for education and training programs that are intended to increase or maintain national economic productive capacity and produce outputs and outcomes that provide evidence of the constant or increasing national productive capacity. These investments exclude education and training expenses for federal civilian and military personnel. The most significant investments in human capital are by NOAA, whose investments in FY 2018 totaled \$23.8 million and included the Educational Partnership Program (\$15.3 million), Ernest F. Hollings Undergraduate Scholarship Program (\$5.9 million), National Sea Grant College Program (\$0.9 million), and the National Estuarine Research Reserve Program (\$1.7 million).

Investments in Research and Development (R&D): These investments include investments in basic research, applied research, and development, which are made with the expectation of maintaining or increasing national economic productive capacity, or yielding other future economic or societal benefits. The significant investments in R&D are by NIST and NOAA. NIST's R&D investments (basic, applied, and development) in FY 2018 totaled \$777.0 million and included \$733.2 million for its NIST Laboratories Program, \$7.6 million for its Manufacturing USA, Advanced Manufacturing Technology Consortia, and Technology Innovation Program, and \$36.2 million for its Public Safety Communications Research Program. NOAA's R&D investments (applied and development) in FY 2018 totaled \$774.2 million, which included Environmental and Climate (\$488.6 million), Fisheries (\$60.1 million), Marine Operations and Maintenance and Aircraft Services (\$66.9 million), Weather Service (\$19.5 million), and Other (\$139.1 million).



FINANCIAL SECTION



MESSAGE FROM THE CHIEF FINANCIAL OFFICER (Unaudited)

This FY 2018 Agency Financial Report provides financial and high-level program performance information to enable the Department's stakeholders to understand and evaluate the Department's achievements relative to its mission and resources. The Department is committed to operational excellence, with a focus on providing outstanding service to our customers. This includes providing the public with highlights of our performance, and detailed financial information. This report also fulfills several statutory requirements, including the Reports Consolidation Act of 2000, the Chief Financial Officers Act, the Federal Managers' Financial Integrity Act (FMFIA), and the Government Management Reform Act.

For FY 2018, the Department achieved an unmodified audit opinion for the twentieth consecutive year. However, the Department received two material weaknesses: one relating to the implementation of controls over the identification, and subsequent capitalization of internal use software within one bureau, and one relating to the due diligence over accounting treatment of National Telecommunications and Information Administration's (NTIA) Digital Television and Public Safety Fund. Additionally, there is one significant deficiency relating to Department-wide information technology (IT) general controls. We will continue to take corrective actions to strengthen controls in these areas in FY 2019.

The Department will continue enhancing financial and non-financial controls under FMFIA and Office of Management and Budget (OMB) Circular A-123. The Department has provided an unmodified statement of assurance that its internal controls and financial management systems meet the objectives of FMFIA and that internal controls operated effectively with no identified material weaknesses.

The Department's leadership continues its commitment to improving the capacity to deliver our mission with customer-focused outcomes. This starts with our most important assets—our people. The Department's employees are committed to the Commerce mission and public service, and leadership is committed to engaging and empowering them to maximize their talents through continuous learning, collaboration and innovation. This includes providing an up-to-date work environment and IT services that support collaboration amongst our employees in order to unleash their potential and creativity to solve common challenges. Our Office of the Chief Information Officer is modernizing our tools to enable best-in-class service through enterprise solutions while also safeguarding against cyber threats.

The Department's management is also committed to looking at more efficient and effective ways to manage processes as an enterprise for key services. The Department's Enterprise Services (ES) was successfully launched in FY 2017 and continued to introduce additional efficiencies during FY 2018. In the human resources (HR) area, the Department's first Web-based self-service portal was launched, allowing for customers to initiate HR actions and track status in real time. Additionally, ES leveraged the buying power of the entire Department for commodity purchases, helping to avoid millions of dollars in costs, while providing acquisition and procurement services to the nine bureaus that do not have their own procurement authority. In FY 2019 and beyond, ES will continue to expand in the arenas of IT shared services, talent acquisition, and financial management. This will not only allow for improved service delivery, but also smarter, more efficient, and more effective use of taxpayer resources.



Lisa Casias
Acting Chief Financial Officer/
Assistant Secretary for Administration
and Deputy Assistant Secretary for Administration
November 14, 2018



FINANCIAL SECTION

INDEPENDENT AUDITORS' REPORT





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

November 15, 2018

INFORMATIONAL MEMORANDUM FOR SECRETARY ROSS

FROM:

Peggy E. Gustafson
Inspector General

SUBJECT:

Department of Commerce FY 2018 Consolidated Financial Statements, Final Report No. OIG-19-005-A

I am pleased to provide you with the attached audit report, which presents an unmodified opinion on the Department of Commerce's fiscal year 2018 consolidated financial statements. KPMG LLP (KPMG), an independent public accounting firm, performed the audit in accordance with U.S. generally accepted auditing standards, standards applicable to financial audits contained in *Government Auditing Standards*, and Office of Management and Budget Bulletin No. 19-01, *Audit Requirements for Federal Financial Statements*.

In its audit of the Department, KPMG:

- determined that the financial statements were fairly presented, in all material respects, and in conformity with U.S. generally accepted accounting principles;
- identified two material weaknesses in internal control over financial reporting related to capitalizing internal use software costs and accounting treatment for the Digital Television Transition and Public Safety Fund;
- identified a significant deficiency in internal control over financial reporting related to information technology general controls in the areas of access controls, configuration management, and security management; and
- identified no instances of reportable noncompliance with applicable laws, regulations, contracts, and grant agreements, as well as no instances in which the Department's financial management systems did not substantially comply with certain provisions of the Federal Financial Management Improvement Act of 1996.

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

We appreciate the cooperation and courtesies extended to KPMG during the audit.

Attachment





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

Independent Auditors' Report

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

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of the U.S. Department of Commerce (Department), which comprise the consolidated balance sheets as of September 30, 2018 and 2017, and the related consolidated statements of net cost, changes in net position, and custodial activity, and combined statements of budgetary resources for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America, in accordance with the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, and in accordance with Office of Management and Budget (OMB) Bulletin No. 19-01, *Audit Requirements for Federal Financial Statements*. Those standards and OMB Bulletin No. 19-01 require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the U.S. Department of Commerce as of September 30, 2018 and 2017, and its net costs, changes in net position, budgetary resources, and custodial activity for the years then ended in accordance with U.S. generally accepted accounting principles.

KPMG LLP is a Delaware limited liability partnership and the U.S. member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.



Other Matters

Interactive Data

Management has elected to reference to information on websites or other forms of interactive data outside the *Agency Financial Report* to provide additional information for the users of its financial statements. Such information is not a required part of the basic consolidated financial statements or supplementary information required by the Federal Accounting Standards Advisory Board. The information on these websites or the other interactive data has not been subjected to any of our auditing procedures, and accordingly we do not express an opinion or provide any assurance on it.

Required Supplementary Information

U.S. generally accepted accounting principles require that the information in the Management's Discussion and Analysis, Required Supplementary Information, and Required Supplementary Stewardship Information sections be presented to supplement the basic consolidated financial statements. Such information, although not a part of the basic consolidated financial statements, is required by the Federal Accounting Standards Advisory Board who considers it to be an essential part of financial reporting for placing the basic consolidated financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic consolidated financial statements, and other knowledge we obtained during our audits of the basic consolidated financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audits were conducted for the purpose of forming an opinion on the basic consolidated financial statements as a whole. The Message from Secretary Ross, How to Use this Report, the Message from the Chief Financial Officer, and the Other Information sections, are presented for purposes of additional analysis and are not a required part of the basic consolidated financial statements. Such information has not been subjected to the auditing procedures applied in the audits of the basic consolidated financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

Internal Control Over Financial Reporting

In planning and performing our audit of the consolidated financial statements as of and for the year ended September 30, 2018, we considered the Department's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Department's internal control. Accordingly, we do not express an opinion on the effectiveness of the Department's internal control. We did not test all internal controls relevant to operating objectives as broadly defined by the *Federal Managers' Financial Integrity Act of 1982*.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. However, as described in the accompanying Exhibit I and Exhibit II, we did identify certain deficiencies in internal control that we consider to be material weaknesses and a significant deficiency.





A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies described in the accompanying Exhibit I to be material weaknesses.

The Department's management did not report the material weaknesses described in the accompanying Exhibit I in its Federal Managers' Financial Assurance Statement, Management Controls, included in the Management's Discussion and Analysis section of the accompanying *Agency Financial Report*.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying Exhibit II to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Department's consolidated financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* or OMB Bulletin No. 19-01.

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

Management's Responses to Findings

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

Purpose of the Other Reporting Required by Government Auditing Standards

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

KPMG LLP

November 14, 2018



Exhibit I – Material Weaknesses

A. Controls over Accounting for Internal Use Software

Controls over accounting for the Census Bureau's (Census's) internal use software (including "in development"), which represents \$584 million of the Department's general property, plant, and equipment as of September 30, 2018, need further improvement as described herein.

Census did not consistently capitalize internal use software (IUS) costs despite implementing several controls in fiscal year (FY) 2018 to address the prior year material weakness. As part of its corrective action plan (CAP), Census performed a risk assessment and implemented enterprise-wide IUS training, including all division procurement officers and division program management. Census also enhanced its process to require divisions to report quarterly IUS costs through the training and one-on-one meetings with responsible personnel.

As a result of our testing as of June 30, 2018 on a sample basis, we determined that Census Finance did not capitalize \$3.5 million of IUS because the divisions excluded these costs from their quarterly submissions.

In August 2018, as part of its CAP, Census Finance completed a review of one material service contract and a sampling of other potential IUS disbursements for the period October 2017 to June 2018 to determine whether all IUS costs were appropriately capitalized. Accordingly, their sampling did not occur concurrently with the review of the quarterly IUS submissions and thus, did not identify and correct misstatements in a timely manner for all of FY 2018.

As a result of the analysis described above, Census recorded adjustments in the general ledger for \$114 million of previously uncapitalized IUS costs. Per review of the support for these entries, the uncapitalized costs were incurred for IUS contracts over the period of July 2017 through February 2018, further evidencing that controls were not operating in a timely manner.

As a result of our testing as of September 30, 2018 on a sample basis, we determined that Census Finance did not capitalize another \$8.0 million of IUS costs that were improperly deemed to not meet the definition of IUS. Additionally, Census did not have controls in place to maintain sufficient documentation supporting the amounts capitalized. As a result, Census was unable to evidence whether certain costs were properly capitalized and to evidence whether certain costs remained properly classified.

The relevant criteria is the Federal Accounting Standards Board's Statement of Federal Financial Accounting Standards No. 10, *Accounting for Internal Use Software*.

Recommendations

We recommend that Census management:

1. Continue to develop, document, and implement the quarterly review of the divisions' IUS submissions to enable Census Finance to detect and correct omitted or inaccurate IUS costs in a timely manner.
2. Enhance the training on the relevant criteria and how to appropriately apply them for recognizing IUS, particularly as they relate to material service contracts with IUS assets embedded within the contractual requirements, and enhance the training materials to clearly document and communicate to IUS points of contact all requirements of the IUS points of contact (e.g. retrospective review).
3. Implement a requirement for new IUS points of contact to attend relevant training prior to assuming IUS responsibilities.
4. Update its IUS policies and implement procedures to address retaining documentation that sufficiently supports IUS activity and balances.





Exhibit I – Material Weaknesses, Continued

Management's Response

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

B. Due Diligence over Accounting Treatment

The Department did not perform a sufficient due diligence process prior to revising its accounting treatment of \$8.8 billion for the Digital Television Transition and Public Safety Fund (the fund). The Department initially overstated its budgetary resources by presenting this amount in the "unobligated balance from prior-years budgetary authority" caption and the "unapportioned – unexpired" caption on the statement of budgetary resources for the fund. This presentation was inconsistent with the FY 2017 statement of budgetary resources, which presented zero budgetary resources to be carried forward for this fund in FY 2018 (that is, effectively, removing it as a budgetary resource at the end of FY 2017). In addition, this matter impacted the status of fund balance with Treasury footnote disclosure for FY 2018 where the Department had initially reclassified the amount from "not available" to "unobligated balance - unavailable."

In FY 2018, the Department focused on the OMB Circular No. A-11 provision related to the lack of an apportionment for its conclusion in recognizing \$8.8 billion in the "unapportioned, expired" caption and reinstating the \$8.8 billion as a budgetary resource. However, given the full context of OMB Circular No. A-11 and the nature of the proceeds associated with this fund, the focus on the concept of apportionment did not consider whether budgetary resources exist in order to seek apportionment. The Department stated that certain provisions in OMB Circular No. A-11 need to be updated as it relates to the facts and circumstances for this fund.

Subsequently, based on our inquiry and the Department's further coordination with OMB, the Department adjusted the statement of budgetary resources to present zero in budgetary resources and zero in status of budgetary resources for this fund and reversed the reclassification that was made to the fund balance with Treasury footnote.

The net effect of the Department's initial treatment was \$8.8 billion presented as budgetary resources that were unapportioned (that is, not available) and the Department's adjusted treatment was exclusion of the \$8.8 billion from budgetary resources and status (that is, not available).

The relevant criteria is the Federal Accounting Standards Board's Statement of Federal Financial Accounting Standards No. 7, *Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting* and OMB Circular No. A-11, *Preparation, Submission, and Execution of the Budget*.

Recommendations

We recommend that the Department:

5. Request any updates that the Department believes is needed to OMB Circular No. A-11.
6. Update the Department's policies and procedures to address treatment needed for these types of fund situations.

Management's Response

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



Exhibit II – Significant Deficiency

Information Technology General Controls

During FY 2018, certain deficiencies surrounding information technology (IT) general controls associated with the Department's financial management systems and supporting infrastructure exists that we considered collectively to be a significant deficiency under the standards issued by the American Institute of Certified Public Accountants. Specifically, the deficiencies are, as follows:

- Access controls: The objectives of limiting access are to ensure that users have only the access needed to perform their duties; that access to sensitive resources, such as security software programs, is limited to few individuals; access is appropriately reviewed and monitored, and that employees are restricted from performing incompatible functions or duties beyond their responsibility. The areas of deficiencies are: (1) application, database, and operating system password controls, (2) application, database, and operating system access administration controls, (3) application, database, and operating system audit log review controls, and (4) source code recertification.
- Configuration management: The objectives of configuration management are to ensure that hardware, software and firmware programs, and program modifications are properly authorized, tested, and approved; that access to and distribution of programs is carefully controlled; and that integrity of the application controls is maintained. The area of deficiency is in configuration management change controls.
- Security management: The objective of security management is to support data reliability. The areas of deficiencies are: (1) the Department's monitoring of compliance with some internal policies, and (2) the authorization to operate process.

The relevant criteria is Department-wide and bureau-level policies and various Federal standards and guidance such as (1) The U.S. Government Accountability Office's (GAO's) *Standards for Internal Control in the Federal Government*, dated September 2014, (2) GAO's *Federal Information System Controls Audit Manual*, dated February 2009, and (3) National Institute of Standards and Technology Special Publication 800-53 Rev. 4, *Security and Privacy Controls for Federal Information Systems and Organizations*.

Recommendations

Due to the sensitive nature of IT controls, certain information has been omitted from this report. We provided the Department's management with a separate limited use report that includes specific information about the control deficiencies, our understanding of the cause of the control deficiencies, and our recommendations.

Management's Response

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





FINANCIAL SECTION

PRINCIPAL FINANCIAL STATEMENTS



**United States Department of Commerce Consolidated Balance Sheets
As of September 30, 2018 and 2017 (In Thousands)**

	FY 2018	FY 2017
ASSETS		
Intragovernmental:		
Fund Balance with Treasury (Notes 2 and 19)	\$ 28,794,045	\$ 25,030,940
Investments, Net (Notes 3 and 22 – NTIA's Public Safety Trust Fund)	6,244,436	334,106
Accounts Receivable (Note 4)	104,745	100,522
Advances and Prepayments (Note 22 – NTIA's Network Construction Fund)	42,051	752,189
Total Intragovernmental	35,185,277	26,217,757
Cash (Note 5)	8,768	5,736
Accounts Receivable, Net (Note 4)	45,297	46,376
Direct Loans and Loan Guarantees, Net (Note 6)	459,277	431,619
Inventory, Materials, and Supplies, Net (Note 7)	125,675	108,063
General Property, Plant, and Equipment, Net (Note 8)	16,286,411	15,402,997
Cost Contribution to Buildout of Nationwide Public Safety Broadband Network, Net (Note 22 – NTIA's Network Construction Fund)	2,009,841	288,000
Other (Note 9)	60,038	47,442
TOTAL ASSETS	\$ 54,180,584	\$ 42,547,990
Stewardship Assets (Note 24)		
LIABILITIES		
Intragovernmental:		
Accounts Payable	\$ 97,337	\$ 155,968
Debt to Treasury (Note 11)	452,563	430,313
Other		
Unearned Revenue	338,477	309,006
Liability to General Fund of the U.S. Government for Deficit Reduction (Note 22 – NTIA's Public Safety Trust Fund)	6,244,436	336,188
Custodial Payable to Treasury (Note 20)	376	848
Other (Note 12)	117,010	93,652
Total Intragovernmental	7,250,199	1,325,975
Accounts Payable	1,951,876	443,669
Federal Employee Benefits Liabilities (Note 13)	881,992	885,936
Environmental and Disposal Liabilities (Note 14)	145,677	145,147
Other		
Accrued Payroll and Annual Leave	596,920	577,272
Accrued Grants	129,678	135,995
Capital Lease Liabilities (Note 15)	21	273
Unearned Revenue	1,309,548	1,146,411
Other (Note 12)	21,138	58,259
TOTAL LIABILITIES	\$ 12,287,049	\$ 4,718,937
Commitments and Contingencies (Note 17)		
NET POSITION		
Unexpended Appropriations		
Unexpended Appropriations – Funds from Dedicated Collections (Note 22)	\$ –	\$ –
Unexpended Appropriations – All Other Funds	9,091,775	5,973,837
Cumulative Results of Operations		
Cumulative Results of Operations – Funds from Dedicated Collections (Note 22)	17,459,157	17,424,679
Cumulative Results of Operations – All Other Funds	15,342,603	14,430,537
Total Net Position – Funds from Dedicated Collections	17,459,157	17,424,679
Total Net Position – All Other Funds	24,434,378	20,404,374
TOTAL NET POSITION	\$ 41,893,535	\$ 37,829,053
TOTAL LIABILITIES AND NET POSITION	\$ 54,180,584	\$ 42,547,990

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



**United States Department of Commerce Consolidated Statements of Net Cost
For the Years Ended September 30, 2018 and 2017 (Note 18) (In Thousands)**

	FY 2018	FY 2017
National Oceanic and Atmospheric Administration		
Gross Costs	\$ 5,292,544	\$ 4,875,892
Less: Earned Revenue	(232,410)	(252,722)
Net Cost of Operations	5,060,134	4,623,170
U.S. Patent and Trademark Office		
Gross Costs	3,320,953	3,192,586
Less: Earned Revenue	(3,308,867)	(3,104,522)
Net Cost of Operations	12,086	88,064
Economics and Statistics Administration		
Gross Costs	1,788,973	1,752,410
Less: Earned Revenue	(301,267)	(323,000)
Net Cost of Operations	1,487,706	1,429,410
National Institute of Standards and Technology		
Gross Costs	1,213,544	1,280,432
Less: Earned Revenue	(245,739)	(289,850)
Net Cost of Operations	967,805	990,582
International Trade Administration		
Gross Costs	496,280	494,014
Less: Earned Revenue	(9,506)	(9,996)
Net Cost of Operations	486,774	484,018
Economic Development Administration		
Gross Costs	297,513	291,424
Less: Earned Revenue	(13,575)	(5,716)
Net Cost of Operations	283,938	285,708
National Telecommunications and Information Administration		
Gross Costs	195,702	261,214
Less: Earned Revenue	(160,726)	(39,096)
Net Cost of Operations	34,976	222,118
Departmental Management		
Gross Costs	136,352	117,062
Less: Earned Revenue	(20,605)	(8,432)
Net Cost of Operations	115,747	108,630
Others		
Gross Costs	155,526	148,808
Less: Earned Revenue	(2,585)	(2,474)
Net Cost of Operations	152,941	146,334
Total Gross Departmental Costs	12,897,387	12,413,842
Less: Total Earned Revenue	(4,295,280)	(4,035,808)
NET COST OF OPERATIONS	\$ 8,602,107	\$ 8,378,034

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

**United States Department of Commerce Consolidated Statements of Changes in Net Position
For the Years Ended September 30, 2018 and 2017 (In Thousands)**

	FY 2018			FY 2017		
	Funds from Dedicated Collections (Note 22)	All Other Funds	Consolidated Total	Funds from Dedicated Collections (Note 22)	All Other Funds	Consolidated Total
Unexpended Appropriations:						
Beginning Balance	\$ -	\$ 5,973,837	\$ 5,973,837	\$ -	\$ 5,840,085	\$ 5,840,085
Budgetary Financing Sources:						
Appropriations Received (Note 19)	-	12,199,709	12,199,709	-	9,399,154	9,399,154
Appropriations Transferred In/(Out), Net	-	10,622	10,622	-	(257,053)	(257,053)
Rescissions/Sequestrations of Appropriations (Note 19)	-	(11,320)	(11,320)	-	(34,380)	(34,380)
Cancellations and Other Adjustments	-	(58,538)	(58,538)	-	(72,878)	(72,878)
Appropriations Used	-	(9,022,535)	(9,022,535)	-	(8,901,091)	(8,901,091)
Total Budgetary Financing Sources	-	3,117,938	3,117,938	-	133,752	133,752
Unexpended Appropriations – Ending Balance	-	9,091,775	9,091,775	-	5,973,837	5,973,837
Cumulative Results of Operations:						
Beginning Balance	17,424,679	14,430,537	31,855,216	17,724,210	12,945,943	30,670,153
Budgetary Financing Sources:						
Appropriations Used	-	9,022,535	9,022,535	-	8,901,091	8,901,091
Non-exchange Revenue	34,996	9,010	44,006	36,895	7,005	43,900
Donations and Forfeitures of Cash and Cash Equivalents	-	38	38	-	3,188	3,188
Transfer In of Auction Proceeds from Federal Communications Commission (Note 22 – NTIA's Public Safety Trust Fund)	5,895,159	-	5,895,159	-	-	-
Transfers In/(Out) Without Reimbursement, Net	31,212	167,379	198,591	(2,669)	439,369	436,700
Other Budgetary Financing Sources/(Uses), Net	8,821	(8,821)	-	-	-	-
Other Financing Sources (Non-exchange):						
Donations and Forfeitures of Property	-	449	449	-	399	399
Transfers In/(Out) Without Reimbursement, Net	(466)	2,389	1,923	(725)	(6,175)	(6,900)
Imputed Financing Sources from Cost Absorbed by Others	70,752	229,583	300,335	20,986	179,239	200,225
Financing Sources Used for Recognizing Liability to General Fund of the U.S. Government for Deficit Reduction (Note 22 – NTIA's Public Safety Trust Fund)	(5,908,248)	-	(5,908,248)	(2,134)	-	(2,134)
Other Financing Sources/(Uses), Net	(18)	(6,119)	(6,137)	(2)	(13,370)	(13,372)
Total Financing Sources	132,208	9,416,443	9,548,651	52,351	9,510,746	9,563,097
Net Cost of Operations	(97,730)	(8,504,377)	(8,602,107)	(351,882)	(8,026,152)	(8,378,034)
Net Change	34,478	912,066	946,544	(299,531)	1,484,594	1,185,063
Cumulative Results of Operations – Ending Balance	17,459,157	15,342,603	32,801,760	17,424,679	14,430,537	31,855,216
NET POSITION	\$ 17,459,157	\$ 24,434,378	\$ 41,893,535	\$ 17,424,679	\$ 20,404,374	\$ 37,829,053

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

**United States Department of Commerce Combined Statements of Budgetary Resources
For the Years Ended September 30, 2018 and 2017 (Note 19) (In Thousands)**

	FY 2018		FY 2017	
	Budgetary	Non-budgetary Credit Program Financing Accounts	Budgetary	Non-budgetary Credit Program Financing Accounts
BUDGETARY RESOURCES:				
Unobligated Balance From Prior-years Budget Authority, Net	\$ 9,464,287	\$ 2,159	\$ 9,828,931	\$ 5,488
Appropriations	18,291,399	–	9,524,248	–
Borrowing Authority	–	57,537	–	76,637
Spending Authority From Offsetting Collections	5,426,037	20,882	4,977,307	24,295
TOTAL BUDGETARY RESOURCES	\$33,181,723	\$ 80,578	\$24,330,486	\$ 106,420
MEMORANDUM: Net Adjustments to Unobligated Balance, Brought Forward, October 1				
	\$ 1,000,239	\$ –	\$ 317,586	\$ –
STATUS OF BUDGETARY RESOURCES:				
New Obligations and Upward Adjustments	\$21,840,166	\$ 80,466	\$15,866,438	\$ 104,261
Unobligated Balance, End of Year				
Apportioned, Unexpired Accounts	4,555,064	–	7,547,610	–
Exempt From Apportionment, Unexpired Accounts	634	–	1,415	–
Unapportioned, Unexpired Accounts	6,432,965	112	565,555	2,159
Unobligated Balance, End of Year, Unexpired Accounts	10,988,663	112	8,114,580	2,159
Unobligated Balance, End of Year, Expired Accounts	352,894	–	349,468	–
Total Unobligated Balance, End of Year	11,341,557	112	8,464,048	2,159
TOTAL STATUS OF BUDGETARY RESOURCES	\$33,181,723	\$ 80,578	\$24,330,486	\$ 106,420
OUTLAYS, NET:				
Outlays, Net	\$ 8,588,501	\$ 24,297	\$10,343,862	\$ (41,563)
Distributed Offsetting (Receipts)/Outlays, Net	(37,765)	–	(40,066)	–
AGENCY OUTLAYS, NET	\$ 8,550,736	\$ 24,297	\$10,303,796	\$ (41,563)

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

United States Department of Commerce Consolidated Statements of Custodial Activity
For the Years Ended September 30, 2018 and 2017 (Note 20) (In Thousands)

	FY 2018	FY 2017
Custodial Revenue Activity:		
Sources of Cash Collections:		
Fines and Penalties	\$ 1,001,983	\$ 375,958
Other	7,166	12,589
Total Cash Collections	1,009,149	388,547
Accrual Adjustment	(468)	(11,827)
Total Custodial Revenue	1,008,681	376,720
Disposition of Custodial Revenue:		
Transferred to the General Fund of the U.S. Government	566,186	388,544
Transferred to the U.S. Department of Justice	442,965	-
Increase/(Decrease) in Amounts Yet to be Transferred to Other Federal Entities	(470)	(11,824)
Total Disposition of Collections	1,008,681	376,720
NET CUSTODIAL ACTIVITY	\$ -	\$ -

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





FINANCIAL SECTION

NOTES TO THE FINANCIAL STATEMENTS



NOTES TO THE FINANCIAL STATEMENTS

(Dollars in Tables are Presented in Thousands)

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(Dollars in Tables are Presented in Thousands)

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A Reporting Entity

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

For the *Consolidated Statements of Net Cost*, the Department's entities have been grouped together as follows:

- National Oceanic and Atmospheric Administration (NOAA)
- U.S. Patent and Trademark Office (USPTO)
- Economics and Statistics Administration (ESA) — based on organizational structure
 - Bureau of Economic Analysis (BEA)
 - Census Bureau
- National Institute of Standards and Technology (NIST) — based on organizational structure
 - National Technical Information Service (NTIS)
- International Trade Administration (ITA)
- Economic Development Administration (EDA)
- National Telecommunications and Information Administration (NTIA)¹
- Departmental Management (DM)
 - Gifts and Bequests
 - Herbert C. Hoover Building Renovation Project
 - Office of Inspector General (OIG)
 - Salaries and Expenses (S&E)
 - Working Capital Fund (WCF)
- Others
 - Bureau of Industry and Security (BIS)
 - Minority Business Development Agency (MBDA)

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

Disclosure Entities: The Federal Accounting Standards Advisory Board's (FASAB) Statement of Federal Financial Accounting Standards (SFFAS) 47, *Reporting Entity*, is effective for the Department's FY 2018 financial reporting (earlier implementation not permitted). This standard is intended to guide federal agencies in recognizing complex, diverse organizations possessing varying legal designations (e.g., government agencies, not-for-profit organizations, and corporations) that are involved in addressing public policy challenges. It provides guidance for determining what organizations should be included in a federal agency's financial statements (consolidation entities) and footnote disclosures (disclosure entities; and related parties) for financial accountability purposes, and is not intended to establish whether an organization is or should be considered a federal agency for legal or political purposes.

The standard sets forth guidance to include, as a consolidation entity or disclosure entity, in the appropriate federal agency's financial reporting, (a) an organization with an account or accounts listed in the Budget of the U.S. Government, unless it is a non-federal organization receiving federal financial assistance; (b) an organization for which the federal governments holds a majority interest; and (c) an organization that is controlled by the federal government with risk of loss or expectation of benefit—the power to impose will on and/or govern, whether or not that ability is actively exercised, the financial and/or operating policies of another organization with the potential to be obligated to provide financial support or assume financial obligations or obtain financial resources or nonfinancial benefits. SFFAS 47 additionally establishes that an organization should be included as a consolidation entity or disclosure entity if it would be misleading to exclude it even though it does not meet one of the three inclusion principles.

The standard further provides guidance for determining if an organization should be reported as a consolidation entity or disclosure entity, including guidance for the performance of an assessment, as a whole, of the degree to which the following characteristics are met: (a) the organization is financed through taxes and other non-exchange revenues; (b) the organization is governed by Congress and/or the President; (c) the organization imposes or may impose risks and rewards to the federal government; and (d) the organization provides goods and services on a non-market basis. Some organizations are to a large degree insulated from political influence and are not intended to be funded primarily by taxes and other non-exchange revenue. Information about these types of discrete organizations should generally be disclosed in the footnotes as disclosure entities.

SFFAS 47 lastly sets forth guidance on footnote disclosure requirements for significant relationships with other parties. It requires footnote disclosures "if one party to an established relationship has the ability to exercise significant influence over the other party in making policy decisions, and the relationship is of such significance that it would be misleading to exclude information about it."

Effective with the Department's FY 2018 financial reporting, the Department performs evaluations at least annually to determine if there are any organizations that should be included in the Department's financial reporting as consolidation entities, disclosure entities, and/or related parties.

Based on the Department's evaluation for FY 2018, the Department did not identify any consolidation entities or related parties for inclusion in the Department's FY 2018 financial reporting. See Note 25, *Disclosure Entity*, for information for the organization identified as a disclosure entity for the Department's FY 2018 financial reporting.

B Basis of Accounting and Presentation

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

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

Throughout these financial statements, intragovernmental assets, liabilities, gross costs, earned revenue, transfers, and other activity represent activity or balances with other federal entities.

The Department has allocation transfer transactions with other federal agencies as both a transferring (parent) entity and as a receiving (child) entity. Allocation transfers are legal delegations by one department of its authority to obligate budget authority and outlay funds to another department. A separate fund account (allocation account) is created in the U.S. Department of the Treasury (Treasury) as a subset of the parent fund account for tracking and reporting purposes. All allocation transfers of balances are credited to this account, and subsequent obligations and outlays incurred by the child entity are charged to this allocation account as they execute the delegated activity on behalf of the parent entity. Generally, all financial activity related to these allocation transfers (e.g., budgetary resources, obligations incurred, gross costs, and outlays, gross) is reported in the financial statements of the parent entity, from which the underlying legislative authority, appropriations, and OMB apportionments are derived. EDA allocates funds, as the parent, to the U.S. Department of Agriculture's Rural Development Administration; all financial activity related to these EDA funds is reported in the Department's financial statements. EDA has received allocation transfers, as the child, from the Appalachian Regional Commission. Census Bureau has received allocation transfers, as the child, from the U.S. Department of Health and Human Services.

C Funds from Dedicated Collections

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

Funds from Dedicated Collections include general funds, revolving funds (not including credit reform financing funds), special funds, and trust funds. (See Note 22, *Funds from Dedicated Collections*.)

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

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

E Assignment of Assets to Bureaus/Reporting Entities

A Departmental asset is normally assigned by default to the bureau/reporting entity that authorized its acquisition and controls the asset. In situations where an asset is not directly obtained by a bureau/reporting entity or for any other situation where the assignment of the asset to a bureau(s)/reporting entity(ies) is an issue, the Department's Office of Financial Management (OFM) will gather relevant information from all appropriate sources to perform an evaluation of the appropriate assignment of the asset to bureau(s)/reporting entity(ies). OFM's evaluation will include collaboration within the Department and with others as appropriate.

Upon the completion of OFM's evaluation, OFM will determine the appropriate assignment of the asset to bureau(s)/reporting entity(ies) and will communicate such results within the Department. There were not any significant assets assigned by the Department in FY 2018 and FY 2017.

F Fund Balance with Treasury

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

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

G Investments, Net

Investments in federal securities consists of a non-marketable, market-based one-day certificate, and a non-marketable, market-based note, purchased by NTIA's Public Safety Trust Fund from Treasury.

Market-based One-day Certificate: The proceeds of the Federal Communications Commission's (FCC) broadcast incentive auctions were transferred to NTIA in August 2018, totaling \$5.90 billion. NTIA on a temporary basis, including on September 30, 2018, invested the funds in market-based one-day certificates purchased from Treasury, also referred to as overnight investments, at par value. The one-day certificates mature the next business day, earning interest at the daily Federal Reserve purchase agreement rate. Each business day, NTIA invested the principal balance plus interest earned. This investment is presented on the Department's *Consolidated Balance Sheet* at acquisition cost. In October and November 2018, NTIA replaced the investments in one-day certificates with investments in market-based notes.

Market-based Note: The note consists of an interest-bearing, market-based Treasury security purchased from Treasury at a discount. This investment is presented on the Department's *Consolidated Balance Sheet* at acquisition cost, net of amortization of the discount. The discount is amortized over the life of the note using the interest method. Under the interest method, the effective interest rate (the actual interest yield on amounts invested) multiplied by the carrying amount of the note at the start of the accounting period equals the interest income recognized during the period (the carrying amount changes each period by the amount of the amortized discount). The amount of the amortization of the discount is the difference between the effective interest recognized for the period and the nominal interest for the note. The market value of the note is not recorded on the *Consolidated Balance Sheet* because this investment is expected to be held to maturity. See Note 3, *Investments, Net* for disclosure of the market value of the note, which was provided by Treasury. For purposes of determining market values, investments should be grouped by the type of security, such as market-based or marketable Treasury securities. The market value of investments in a group is calculated by the market price of securities of that group at the financial reporting date multiplied by the number of securities held at the financial reporting date.

See Note 22, *Funds from Dedicated Collections – NTIA's Public Safety Trust Fund*, for more information on the Public Safety Trust Fund.

H 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, when appropriate. 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.

1 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 (for example, 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.

J Direct Loans and Loan Guarantees, Net

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

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

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

Direct Loans and Loan Guarantees Obligated before October 1, 1991 (pre-FY 1992): Loans Receivable are reduced by an Allowance for Loan Losses, which is based on an analysis of each loan's outstanding balance. The value of each receivable, net of any Allowance for Loan Losses, is supported by the values of any 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.

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

K Inventory, Materials, and Supplies, Net

Inventory, Materials, and Supplies, Net are stated at the lower of cost or net realizable value primarily under the average, weighted-average, and deemed cost 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.

L General Property, Plant, and Equipment, Net

General Property, Plant, and Equipment, Net (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. Acquisitions of General PP&E include assets purchased, or assets acquired through other means such as through transfer in from another federal entity, donation, devise (a will or clause of a will disposing of property), judicial process, exchange between a federal entity and a non-federal entity, and forfeiture. 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:

Single-asset Acquisitions: The Department's policy is to capitalize single-asset acquisitions of General PP&E if the useful life is two years or more and the dollar amount meets the entity's single-asset acquisition capitalization threshold. Based on a Department-wide capitalization thresholds review, which reflects materiality and cost-benefit analyses, the Department's single-asset acquisition capitalization thresholds for both FY 2018 and FY 2017 are as follows: NOAA—\$200 thousand or more; NIST—\$100 thousand or more; USPTO—\$50 thousand or more; and all other bureaus and Departmental Management—\$25 thousand or more, except that NTIA's First Responder Network Authority had a single-asset acquisition capitalization threshold of \$5 thousand for FY 2017.

Personal Property Bulk Acquisitions: For FY 2018 and FY 2017, NOAA has a personal property bulk acquisition capitalization threshold of \$1.0 million or more where individual items cost \$25 thousand or more but less than \$200 thousand; NIST has a personal property bulk acquisition capitalization threshold of \$500 thousand or more. All other bureaus and Departmental Management have a personal property bulk acquisition capitalization threshold of \$250 thousand or more, except that USPTO has a furniture bulk acquisition capitalization threshold of \$50 thousand or more and NTIA's First Responder Network Authority has a personal property bulk acquisition capitalization threshold of \$150 thousand or more for FY 2018 (\$50 thousand for FY 2017).

General PP&E not meeting the applicable capitalization threshold is expensed.

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

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

Internal Use Software: Internal Use Software includes purchased commercial off-the-shelf (COTS) software and internally or contractor-developed software solely to meet the Department's internal or operational needs. Internally developed software includes the full cost (direct and indirect cost) incurred during the software development stage. For contractor-developed software, capitalized costs include the costs for the contractor to design, program, install, and implement the software.

Real Property: GSA provides most of the facilities in which the Department operates, and generally charges rent based on comparable commercial rental rates under operating leases. Accordingly, GSA-owned properties under operating leases are not included in the Department's General PP&E. The Department's real property primarily consists of facilities for NIST and NOAA.

M Cost Contribution to Buildout of Nationwide Public Safety Broadband Network, Net

This asset captures NTIA's cumulative cost contributions for the buildout of the Nationwide Public Safety Broadband Network (NPSBN) as described in Note 22, *Funds from Dedicated Collections – NTIA's Network Construction Fund*, less accumulated amortization. Amortization of the cost contributions began in FY 2018. The cost contributions that are recorded as an asset include (a) costs incurred for completed and accepted AT&T contract performance for the buildout of the NPSBN under the First Responder Network Authority (FirstNet) to buildout, operate, and maintain the NPSBN; and (b) accrued costs for estimated, unbilled AT&T contract performance progress for buildout of the NPSBN.

An asset is recognized primarily because the cost contributions for the buildout of the NPSBN embodies (a) future economic benefits to NTIA from AT&T made possible in part by NTIA's cost contributions, as there are expected future revenue streams from AT&T to NTIA; and (b) future expected services to be received by NTIA from AT&T made possible in part by NTIA's cost contributions, as AT&T, will buildout, maintain, and operate the NPSBN, thereby assisting NTIA's FirstNet with achieving its important mission of ensuring the building, deployment, and operation of the first high-speed, nationwide wireless broadband network dedicated to public safety.

Amortization of the cost contributions is recorded for each completed/accepted milestone on a straight-line basis over the remaining time frame of the AT&T contract.

N Non-entity Assets

Non-entity assets, included in the Department's *Consolidated Balance Sheets*, are assets held by the Department that are not available for use in its operations, and for which a liability has been recorded. Non-entity Fund Balance with Treasury includes customer deposits held by the Department until customer orders are received, and monies payable to the General Fund of the U.S. Government for custodial activity and loan programs.

O Liabilities

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

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

Debt to Treasury: The Department has borrowed funds from Treasury through the Fisheries Finance Financing Account for various NOAA direct loan programs. To simplify interest calculations, the Fisheries Finance Financing Account 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 Fisheries Finance Financing Account debt will earn interest at the same rate used in calculating interest expense. The amounts reported for Debt to Treasury include accrued interest payable. See Note 11, *Debt to Treasury*, for information regarding maturity dates.

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.

Liability to General Fund of the U.S. Government for Deficit Reduction: NTIA's Public Safety Trust Fund was created as a result of Section 6413 of the Middle Class Tax Relief and Job Creation Act of 2012 (Act). The Act provides funding for specified programs and activities, to be derived from the proceeds of Federal Communications Commission auctions of spectrum licenses, to be deposited into the Public Safety Trust Fund. The Act directs the use of auction proceeds in an order of priority after the repayment of borrowings from Treasury (priority 1), which was fully completed in September 2015. Priority 8 of the Act specifies that any remaining amounts deposited into the Public Safety Trust Fund shall be deposited in the General Fund of the U.S. Government for deficit reduction. The Act further specifies that any amounts remaining in the Public Safety Trust Fund after the end of FY 2022 shall be deposited in the General Fund of the U.S. Government for deficit reduction. The Department records a liability (not covered by budgetary resources) to the General Fund of the U.S. Government for the monies owed for priority 8. A corresponding use of financing sources is recorded on the *Consolidated Statement of Changes in Net Position, Other Financing Sources (Non-exchange)* section. See Note 22, *Funds from Dedicated Collections – NTIA's Public Safety Trust Fund*, for more information on the Public Safety Trust Fund.

Custodial Payable to Treasury: Custodial Payable to Treasury represents the amount of applicable custodial non-exchange or exchange revenue yet to be transferred to the General Fund of the U.S. Government. See the *Consolidated Statements of Custodial Activity* and related Note 20 for more information on the Department's custodial activity.

Resources Payable to Treasury: Resources Payable to Treasury primarily includes assets in excess of liabilities that are being held as working capital in the Department's liquidating fund groups, which account for loan programs prior to October 1, 1991 (pre-FY 1992).

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.

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. Projected annual payments were discounted to present value based on OMB's interest rate assumptions which were interpolated to reflect the average duration in years for income payments and medical payments.

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



For FY 2018, to test the reliability of the model, DOL performed comparisons between projected payments in the last year to actual amounts, by agency. Changes in the liability from last year's analysis to this year's analysis were also examined by DOL, by agency, with any significant differences by agency inspected in greater detail. The same reliability testing was performed in FY 2017. The model has been stable, and has projected the actual payments by agency well.

NOAA Corps Retirement System and NOAA Corps Blended Retirement System Liabilities, and NOAA Corps Post-retirement Health

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

Environmental and Disposal Liabilities: The Department has incurred asbestos-related cleanup costs related to the costs of removing, containing, and/or disposing of asbestos-containing materials from property, plant, and equipment; specifically, from facilities owned by NIST and NOAA, and from ships owned by NOAA. The Department has estimated its liabilities for asbestos-related cleanup costs for both friable and nonfriable asbestos-related cleanup costs. Estimates of asbestos-related cleanup costs are reviewed periodically, and updated as appropriate, to account for actual or estimated increases or decreases in asbestos-containing materials, material changes due to inflation or deflation, and changes in regulations, plans, and/or technology.

NIST operates a nuclear reactor licensed by the U.S. Nuclear Regulatory Commission, in accordance with NIST's mission of setting standards and examining new technologies. NIST's Environmental and Disposal Liability estimates were updated for FY 2018, pursuant to U.S. Nuclear Regulatory Commission Regulation-1307, Rev 16, which states: "licenses must annually adjust the estimate of the cost of decommissioning their plants in dollars of the current year, as a part of the process to provide reasonable assurance that adequate funds for decommissioning will be available when needed." The Department currently estimates the cost of decommissioning this facility to be \$75.0 million. NIST's decommissioning estimate includes an assumption that an offsite waste disposal facility will become available (estimated in 2029), when needed. Currently, an offsite disposal location has not been identified, and NIST's Environmental and Disposal Liability estimate includes an amount approved by the Nuclear Regulatory Commission for offsite waste disposal. The total estimated decommissioning cost is being accrued on a straight-line basis over the expected life of the facility. Under current legislation, funds to cover the expense of decommissioning the facility's nuclear reactor should be requested in a separate appropriation when the decommissioning date becomes relatively certain.

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

The Department may have liabilities associated with lead-based paints at certain NOAA facilities. All known issues are contained and NOAA facilities meet current environmental standards. No cost estimates are presently available because no facilities are currently identified.

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 recipients. These drawdown requests may be fulfilled before recipients make the expenditures under the grant. When the Department has disbursed funds but the recipient has not yet incurred expenses, these disbursements are recorded as advances to the recipient. If a recipient, however, has expenditures under the grant as of September 30 that have not been advanced by the Department as of September 30, such amounts are recorded as grant expenses and Accrued Grants 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.

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, a contingency is considered probable when 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, included in the Department's *Consolidated Balance Sheets*, for which 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 16.

NTIA's Public Safety Trust Fund has assets on hand as of September 30 for its Liability to General Fund of the U.S. Government for Deficit Reduction; however, budgetary resources will need to be apportioned by OMB in order for the Public Safety Trust Fund to transfer funds against this liability.

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

The Department generally receives budgetary resources for its *Federal Employee Benefits* liability when needed for disbursements.

Due to USPTO's funding structure, budgetary resources do not cover a portion of its Unearned Revenue. The Unearned Revenue reported in Note 16 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.

P 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 17, *Commitments and Contingencies*.

Q Net Position

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

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

R Revenues and Other Financing Sources

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

Exchange and Non-exchange Revenue: The Department classifies revenue as either exchange revenue or non-exchange revenue. Exchange revenue is derived from transactions in which both the federal government and the other party receive value, including processing patents and registering trademarks, the sale of weather data, nautical charts, and navigation information, reimbursable revenue, and other sales of goods and services. Exchange revenue is presented in the Department's *Consolidated Statements of Net Cost*. Non-exchange revenue is derived from the federal government's sovereign right to demand payment; and, for example, includes revenue of NOAA's Damage Assessment and Restoration Revolving Fund as reported and described in Note 22, *Funds from Dedicated Collections*. 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. Non-exchange revenue is not considered to reduce the cost of the Department's operations and is therefore reported in the *Consolidated Statements of Changes in Net Position* as a financing source.

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

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

Transfers In/(Out): Intragovernmental transfers, for example, of budgetary resources, or of assets without reimbursement that are recorded at book value, are reported in the *Consolidated Statements of Changes in Net Position*.

S Employee Retirement Benefits

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

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

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

Effective October 1, 2014, for FERS-covered regular employees hired prior to January 1, 2013, the Department was required to make contributions of 13.2 percent of basic pay. Employees contributed 0.8 percent of basic pay. For regular employees hired after December 31, 2012, as defined in Public Law 112-96, Section 5001, the Department was required to make contributions of 11.1 percent of basic pay. Regular employees hired between December 31, 2012 and December 31, 2013 contributed 3.1 percent of basic pay. Regular employees hired after December 31, 2013 contributed 4.4 percent of basic pay. For each fiscal year, OPM calculates the U.S. government's service cost for covered employees. Since the U.S. government's estimated service cost exceeds contributions made by employer agencies and covered employees, this plan was not fully funded by the Department and its employees. The Department has recognized an imputed cost, and an imputed financing source from cost absorbed by others, for the difference between the estimated service cost and the contributions made by the Department and its covered employees.



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

NOAA Corps Retirement System and NOAA Corps Blended Retirement System Liabilities: Active-duty officers of the NOAA Corps are covered by the legacy NOAA Corps Retirement System or the new NOAA Corps Blended Retirement System (BRS). The NOAA Corps Retirement System and the defined benefit portion of the NOAA Corps BRS is an unfunded, pay-as-you-go, defined benefit plan administered by the Department with the same features; participants do not contribute to the defined benefit plan for both of these retirement systems. Plan benefits are based primarily on years of service and compensation. Total participants for the two plans, as of September 30, 2018, included 315 active duty officers, 388 nondisability retiree annuitants, 15 disability retiree annuitants, and 62 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.

The NOAA Corps BRS began on January 1, 2018. It is a new retirement plan that was implemented for members of the Uniformed Services, including NOAA Corps active-duty officers. This retirement system blends together the defined benefits of the legacy NOAA Corps Retirement System along with automatic and matching contributions to the Thrift Savings Plan (TSP) and a mid-career continuation pay bonus. All new hires on January 1, 2018 and after will automatically be enrolled into the NOAA Corps BRS. For those NOAA Corps active-duty officers with fewer than 12 years of service on December 31, 2017, there is an opportunity to opt into the NOAA Corps BRS at any time during calendar year 2018. NOAA Corps BRS will not only continue to award those who are vested at 20 years but will allow service members who choose to depart early to leave with some retirement savings and start on the path to a financially successful future.

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, FERS, and NOAA Corps BRS are eligible to contribute to the U.S. government's TSP, administered by the Federal Retirement Thrift Investment Board. The Department makes no matching contributions for CSRS-covered employees. A TSP account is automatically established for FERS-covered employees and NOAA Corps BRS members, and the Department makes a mandatory contribution of one percent of basic pay upon eligibility. The Department also makes matching contributions of up to four percent of basic pay upon eligibility for FERS-covered employees and NOAA Corps BRS members. NOAA Corps BRS members entering service on or after January 1, 2018 will not begin receiving matching contributions until after completing two years of service.

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

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

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

T 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.

U Tax Status

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

V Fiduciary Activities

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

The Department's fiduciary activities consist of the following:

The Patent Cooperation Treaty authorizes USPTO to collect patent filing and search fees on behalf of the World Intellectual Property Organization (WIPO), European Patent Office, Korean Intellectual Property Office, Russian Intellectual Property Organization, Israeli Patent Office, Japanese Patent Office, Intellectual Property Office of Singapore, and Australian Patent Office from U.S. citizens requesting an international patent. The Madrid Protocol Implementation Act authorizes USPTO to collect trademark application fees on behalf of the International Bureau of WIPO from U.S. citizens requesting an international trademark. These fiduciary activities are reported in Note 21, *Fiduciary Activities*.

NOTE 2. FUND BALANCE WITH TREASURY

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

	FY 2018	FY 2017
General Funds	\$ 12,310,834	\$ 9,109,913
Revolving Funds		
NTIA's Network Construction Fund (Note 22)	5,893,821	5,574,439
Other Revolving Funds	1,170,015	849,618
Special Funds		
NTIA's Digital Television Transition and Public Safety Fund (Note 22)	8,820,778	8,821,057
USPTO's Patent and Trademark Surcharge Fund (Note 22)	233,529	233,529
Other Special Funds	122,629	133,158
Deposit Funds	147,382	148,538
Trust Funds		
NTIA's Public Safety Trust Fund (Note 22)	77,944	145,427
Other Trust Funds	687	1,528
Other Fund Types	16,426	13,733
Total	<u>\$ 28,794,045</u>	<u>\$ 25,030,940</u>

Status of Fund Balance with Treasury is as follows:

	FY 2018	FY 2017
Reduction of Budgetary Resources		
Not Available		
Digital Television Transition and Public Safety Fund	\$ 8,807,394	\$ 8,807,394
Temporarily Precluded from Obligation	953,497	952,159
Unobligated Balance		
Available	4,555,699	7,519,504
Unavailable	544,172	613,380
Obligated Balance Not Yet Disbursed		
Network Construction Fund	5,853,492	34,959
Other	7,684,897	6,710,530
Non-budgetary		
Patent and Trademark Surcharge Fund	233,529	233,529
Deposit Funds, and General Fund Receipt Accounts	161,365	159,485
Total	<u>\$ 28,794,045</u>	<u>\$ 25,030,940</u>

Unobligated Balance and Obligated Balance Not Yet Disbursed amounts reported above do not agree with related amounts included in the *Status of Budgetary Resources* and *Change in Unpaid Obligated Balance, Net* sections of the *Combined Statements of Budgetary Resources (SBR)*, respectively, primarily because the budgetary amounts reported in the *SBR* are also supported by amounts other than Fund Balance with Treasury—Investments, Net and Borrowing Authority.

See Note 19, *Combined Statements of Budgetary Resources*, for legal arrangements affecting the Department's use of Fund Balance with Treasury for FY 2018 and FY 2017.

See Note 22, *Funds from Dedicated Collections*, for more information regarding the Network Construction Fund, the Digital Television Transition and Public Safety Fund, the Patent and Trademark Surcharge Fund, the USPTO Salaries and Expenses Fund, and the Public Safety Trust Fund.

NOTE 3. INVESTMENTS, NET

FY 2018							
Investments in Federal Securities	Cost	Amortization Method	Amortized Discount	Interest Receivable	Investments, Net	Other Adjustments	Market Value Disclosure
Intragovernmental							
Non-marketable							
Market-based							
One-day Certificate	\$ 5,905,274	Not applicable	\$ —	\$ 689	\$ 5,905,963	\$ —	\$ 5,905,274
Market-based Note	336,174	Interest Method	613	1,686	338,473	—	335,067
Total	<u>\$ 6,241,448</u>		<u>\$ 613</u>	<u>\$ 2,375</u>	<u>\$ 6,244,436</u>	<u>\$ —</u>	<u>\$ 6,240,341</u>
FY 2017							
Investment in Federal Securities	Cost	Amortization Method	Amortized Discount	Interest Receivable	Investment, Net	Other Adjustments	Market Value Disclosure
Intragovernmental							
Non-marketable							
Market-based Note	\$ 333,013	Interest Method	\$ 52	\$ 1,041	\$ 334,106	\$ —	\$ 334,106

NOTE 4. ACCOUNTS RECEIVABLE, NET

FY 2018			
	Accounts Receivable, Gross	Allowance for Uncollectible Accounts	Accounts Receivable, Net
Intragovernmental	\$ 104,745	\$ —	\$ 104,745
With the Public	\$ 54,757	\$ (9,460)	\$ 45,297
FY 2017			
	Accounts Receivable, Gross	Allowance for Uncollectible Accounts	Accounts Receivable, Net
Intragovernmental	\$ 100,522	\$ —	\$ 100,522
With the Public	\$ 56,580	\$ (10,204)	\$ 46,376

NOTE 5. CASH

	FY 2018	FY 2017
Cash Not Yet Deposited with Treasury	\$ 8,401	\$ 5,359
Imprest Funds	342	338
Other Cash	25	39
Total	<u>\$ 8,768</u>	<u>\$ 5,736</u>

Cash Not Yet Deposited with Treasury primarily represents patent and trademark fees that were not processed as of September 30, 2018 and 2017, due to the lag time between receipt and initial review. Certain bureaus maintain Other Cash for operational necessity, such as law enforcement activities and for environments that do not permit the use of electronic payments.

NOTE 6. DIRECT LOANS AND LOAN GUARANTEES, NET

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

Direct Loan Programs:

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

Loan Guarantee Programs:

EDA	Economic Development Revolving Fund
NOAA	Fishing Vessel Obligation Guarantee (FVOG) Program

¹ No loans have been issued under these programs as of September 30, 2018.

NOAA's Fisheries Finance Loan programs provide direct loans for certain fisheries costs, including vessels, shoreside facilities, aquaculture, and Individual Fishing Quota. Vessel financing is available for the purchase of used vessels or the reconstruction of vessels. Refinancing is available for existing debt obligations. The purpose of these loan programs is to contribute to stable fisheries and fishing communities, and ensure that fisheries are sustainable economic resources. NOAA's various buyback loan programs address excess fishing capacity which decreases fisheries earnings, complicates fisheries management, and imperils fisheries conservation. Buyback loans are issued to fisheries to permanently remove vessels and/or permits and thus lower fishing effort in overcapitalized fisheries. Loans are repaid from fees collected on the ex-vessel value of the catch in the fishery.

EDA currently has three loan types: (1) public works loans, which the majority of these loans are to utility companies, mainly water companies, and a few loans to children’s centers; (2) grant and civil debt loans, which are being paid back either because grants were misused or because excess money was disbursed; and (3) drought loans made to water districts.

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

	FY 2018	FY 2017
Direct Loans Obligated Prior to FY 1992	\$ 3,175	\$ 4,545
Direct Loans Obligated After FY 1991	456,098	427,070
Defaulted Guaranteed Loans from Pre-FY 1992 Guarantees	4	4
Total	\$ 459,277	\$ 431,619

Direct Loans Obligated Prior to FY 1992 consist of:

FY 2018				
Direct Loan Program	Loans Receivable, Gross	Interest Receivable	Allowance for Loan Losses	Value of Assets Related to Direct Loans, Net
CEIP	\$ 17,508	\$ 4,576	\$ (18,978)	\$ 3,106
Drought Loan Portfolio	-	-	-	-
Economic Development Revolving Fund	70	-	(1)	69
Fisheries Loan Fund	148	16	(164)	-
Total	\$ 17,726	\$ 4,592	\$ (19,143)	\$ 3,175

FY 2017				
Direct Loan Program	Loans Receivable, Gross	Interest Receivable	Allowance for Loan Losses	Value of Assets Related to Direct Loans, Net
CEIP	\$ 17,634	\$ 4,413	\$ (18,015)	\$ 4,032
Drought Loan Portfolio	288	-	-	288
Economic Development Revolving Fund	222	5	(2)	225
Fisheries Loan Fund	148	16	(164)	-
Total	\$ 18,292	\$ 4,434	\$ (18,181)	\$ 4,545



Direct Loans Obligated After FY 1991 consist of:

FY 2018				
Direct Loan Program	Loans Receivable, Gross	Interest Receivable	Allowance for Subsidy Cost (Present Value)	Value of Assets Related to Direct Loans, Net
Alaska Purse Seine Fishery Buyback Loans	\$ 8,873	\$ 6	\$ 703	\$ 9,582
Bering Sea and Aleutian Islands Non-Pollock Buyback Loans	29,203	295	4,340	33,838
Bering Sea Pollock Fishery Buyback	8,800	10	390	9,200
Crab Buyback Loans	68,170	1,380	12,816	82,366
Fisheries Finance IFQ Loans	17,135	159	1,061	18,355
Fisheries Finance Traditional Loans	258,817	1,895	17,382	278,094
Pacific Groundfish Buyback Loans	21,458	25	3,180	24,663
Total	<u>\$ 412,456</u>	<u>\$ 3,770</u>	<u>\$ 39,872</u>	<u>\$ 456,098</u>

FY 2017				
Direct Loan Program	Loans Receivable, Gross	Interest Receivable	Allowance for Subsidy Cost (Present Value)	Value of Assets Related to Direct Loans, Net
Alaska Purse Seine Fishery Buyback Loans	\$ 9,051	\$ 1	\$ 728	\$ 9,780
Bering Sea and Aleutian Islands Non-Pollock Buyback Loans	29,978	83	4,455	34,516
Bering Sea Pollock Fishery Buyback	15,802	15	804	16,621
Crab Buyback Loans	69,259	1,511	9,767	80,537
Fisheries Finance IFQ Loans	17,260	144	707	18,111
Fisheries Finance Traditional Loans	222,707	1,333	16,418	240,458
Pacific Groundfish Buyback Loans	23,266	40	3,741	27,047
Total	<u>\$ 387,323</u>	<u>\$ 3,127</u>	<u>\$ 36,620</u>	<u>\$ 427,070</u>

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

Direct Loan Program	FY 2018	FY 2017
Fisheries Finance IFQ Loans	\$ 2,609	\$ 1,441
Fisheries Finance Traditional Loans	96,465	16,326
Total	<u>\$ 99,074</u>	<u>\$ 17,767</u>

Subsidy Expense for Direct Loans by Program and Component:

Subsidy Expense for New Disbursements of Direct Loans:

FY 2018					
Direct Loan Program	Interest Rate Differential	Defaults	Fees and Other Collections	Other	Total
Fisheries Finance IFQ Loans	\$ (525)	\$ 9	\$ (12)	\$ 311	\$ (217)
Fisheries Finance Traditional Loans	(14,719)	835	(404)	10,042	(4,246)
Total	<u>\$ (15,244)</u>	<u>\$ 844</u>	<u>\$ (416)</u>	<u>\$ 10,353</u>	<u>\$ (4,463)</u>

FY 2017					
Direct Loan Program	Interest Rate Differential	Defaults	Fees and Other Collections	Other	Total
Fisheries Finance IFQ Loans	\$ (279)	\$ 2	\$ (7)	\$ 233	\$ (51)
Fisheries Finance Traditional Loans	(2,261)	157	(83)	2,049	(138)
Total	<u>\$ (2,540)</u>	<u>\$ 159</u>	<u>\$ (90)</u>	<u>\$ 2,282</u>	<u>\$ (189)</u>

Reestimates:

FY 2018	
Direct Loan Program	Technical Reestimates
Alaska Purse Seine Fishery Buyback Loans	\$ (30)
Bering Sea and Aleutian Islands Non-Pollock Buyback Loans	(257)
Bering Sea Pollock Fishery Buyback	197
Crab Buyback Loans	(3,480)
Fisheries Finance IFQ Loans	(497)
Fisheries Finance Traditional Loans	(637)
Pacific Groundfish Buyback Loans	261
Total	<u>\$ (4,443)</u>

FY 2017	
Direct Loan Program	Technical Reestimates
Alaska Purse Seine Fishery Buyback Loans	\$ (23)
Bering Sea and Aleutian Islands Non-Pollock Buyback Loans	121
Bering Sea Pollock Fishery Buyback	(14)
Crab Buyback Loans	5,655
Fisheries Finance IFQ Loans	54
Fisheries Finance Traditional Loans	(11,884)
Pacific Groundfish Buyback Loans	1,113
Total	<u>\$ (4,978)</u>

There were no interest rate reestimates for FY 2018 and FY 2017.

Total Direct Loan Subsidy Expense:

Direct Loan Program	FY 2018	FY 2017
Alaska Purse Seine Fishery Buyback Loans	\$ (30)	\$ (23)
Bering Sea and Aleutian Islands Non-Pollock Buyback Loans	(257)	121
Bering Sea Pollock Fishery Buyback	197	(14)
Crab Buyback Loans	(3,480)	5,655
Fisheries Finance IFQ Loans	(714)	3
Fisheries Finance Traditional Loans	(4,883)	(12,022)
Pacific Groundfish Buyback Loans	261	1,113
Total	<u>\$ (8,906)</u>	<u>\$ (5,167)</u>

Subsidy Rates for Direct Loans by Program and Component:

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

FY 2018					
Direct Loan Program	Interest Rate Differential	Defaults	Fees and Other Collections	Other	Total
Fisheries Finance IFQ Loans	(24.26) %	0.55 %	(0.42) %	10.46 %	(13.67) %
Fisheries Finance Traditional Loans	(16.46) %	0.77 %	(0.29) %	6.40 %	(9.58) %

FY 2017					
Direct Loan Program	Interest Rate Differential	Defaults	Fees and Other Collections	Other	Total
Fisheries Finance IFQ Loans	(21.74) %	0.08 %	(0.69) %	22.13 %	(0.22) %
Fisheries Finance Traditional Loans	(14.32) %	0.94 %	(0.52) %	13.54 %	(0.36) %

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 years' 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 2018	FY 2017
Beginning Balance of the Allowance for Subsidy Cost	\$ 36,620	\$ 32,364
Add Subsidy Expense for Disbursements of Direct Loans During the Year by Component:		
Interest Rate Differential	15,244	2,540
Defaults	(844)	(159)
Fees and Other Collections	416	90
Other	(10,353)	(2,282)
Total of the above Subsidy Expense Components	4,463	189
Adjustments:		
Fees Received	(436)	(103)
Loans Written Off	761	(7)
Subsidy Allowance Amortization	(5,980)	(869)
Other	1	68
Total of Adjustments	(5,654)	(911)
Ending Balance of the Allowance for Subsidy Cost Before Reestimates	35,429	31,642
Add or Subtract Subsidy Reestimates by Component:		
Technical Reestimates	4,443	4,978
Ending Balance of the Allowance for Subsidy Cost	<u>\$ 39,872</u>	<u>\$ 36,620</u>

Defaulted Guaranteed Loans from Pre-FY 1992 Guarantees:

FY 2018				
Loan Guarantee Program	Defaulted Guaranteed Loans Receivable, Gross	Interest Receivable	Allowance for Loan Losses	Value of Assets Related to Defaulted Guaranteed Loans Receivable, Net
FVOG Program	\$ 7,318	\$ 1	\$ (7,315)	\$ 4
FY 2017				
Loan Guarantee Program	Defaulted Guaranteed Loans Receivable, Gross	Interest Receivable	Allowance for Loan Losses	Value of Assets Related to Defaulted Guaranteed Loans Receivable, Net
FVOG Program	\$ 7,318	\$ 1	\$ (7,315)	\$ 4



Administrative Expenses:

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

Direct Loan Program	FY 2018	FY 2017
Drought Loan Portfolio and Economic Development Revolving Fund	\$ 174	\$ 250
NOAA Direct Loan Programs	3,636	3,113
Total	<u>\$ 3,810</u>	<u>\$ 3,363</u>

Loan Guarantee Program	FY 2018	FY 2017
FVOG Program	\$ 74	\$ 68

NOTE 7. INVENTORY, MATERIALS, AND SUPPLIES, NET

Category	Cost Flow Assumption	FY 2018	FY 2017
Inventory			
Items Held for Current Sale			
NIST Standard Reference Materials	Average	\$ 27,363	\$ 25,603
Other	Various	3	3
Allowance for Excess, Obsolete, and Unserviceable Items		-	-
Total Inventory, Net		<u>27,366</u>	<u>25,606</u>
Materials and Supplies			
Items Held for Use			
NOAA's National Logistics Support Center	Weighted-average	46,892	50,097
Census Bureau	Deemed cost	33,924	-
Other	Various	5,927	6,012
Items Held for Repair			
NOAA's National Reconditioning Center	Weighted-average	34,810	33,005
Allowance for Excess, Obsolete, and Unserviceable Items		(23,244)	(6,657)
Total Materials and Supplies, Net		<u>98,309</u>	<u>82,457</u>
Total		<u>\$ 125,675</u>	<u>\$ 108,063</u>

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. Items held for repair are valued at the direct method. The cost of items held in repair is the issue cost, which is the weighted average of the procurement costs for each line, adjusted by the cost to repair the item. The Census Bureau provides materials and supplies that are primarily used for the 2020 Decennial.

NOTE 8. GENERAL PROPERTY, PLANT, AND EQUIPMENT, NET

FY 2018				
Category	Useful Life (Years)	Cost	Accumulated Depreciation	Net Book Value
Land	N/A	\$ 16,309	\$ -	\$ 16,309
Structures, Facilities, and Leasehold Improvements	2-50	2,566,986	(1,042,754)	1,524,232
Satellites/Weather Systems Personal Property	2-25	14,232,226	(6,279,583)	7,952,643
Other Personal Property	2-30	2,140,515	(1,432,871)	707,644
Internal Use Software	3-15	1,620,353	(1,231,058)	389,295
Assets Under Capital Lease	3-40	10,475	(9,683)	792
Construction-in-progress	N/A	4,928,425	-	4,928,425
Internal Use Software in Development	N/A	767,071	-	767,071
Total		<u>\$ 26,282,360</u>	<u>\$ (9,995,949)</u>	<u>\$ 16,286,411</u>

FY 2017				
Category	Useful Life (Years)	Cost	Accumulated Depreciation	Net Book Value
Land	N/A	\$ 16,628	\$ -	\$ 16,628
Land Improvements	30-40	2,996	(1,931)	1,065
Structures, Facilities, and Leasehold Improvements	2-50	2,481,373	(945,442)	1,535,931
Satellites/Weather Systems Personal Property	2-25	12,179,831	(5,540,563)	6,639,268
Other Personal Property	2-30	2,043,943	(1,306,831)	737,112
Internal Use Software	3-15	1,498,376	(1,088,742)	409,634
Assets Under Capital Lease	3-40	10,475	(7,849)	2,626
Construction-in-progress	N/A	5,685,616	-	5,685,616
Internal Use Software in Development	N/A	375,117	-	375,117
Total		<u>\$ 24,294,355</u>	<u>\$ (8,891,358)</u>	<u>\$ 15,402,997</u>



NOTE 9. OTHER ASSETS

	FY 2018	FY 2017
With the Public		
Advances and Prepayments	\$ 54,792	\$ 36,703
Note Receivable	1,219	1,286
Bibliographic Database, Net	2,816	3,859
General PP&E Permanently Removed but Not Yet Disposed	281	4,528
Other	930	1,066
Total	<u>\$ 60,038</u>	<u>\$ 47,442</u>

The Bibliographic Database relates to NTIS scientific and technical information used to prepare products and services for sale. The database is stated at capitalized costs of \$77.8 million and \$77.6 million, less accumulated amortization of \$75.0 million and \$73.7 million, as of September 30, 2018 and 2017, respectively.

NOTE 10. NON-ENTITY ASSETS

The assets that are not available for use in the Department's operations, included in the Department's *Consolidated Balance Sheets*, are summarized below:

	FY 2018	FY 2017
Intragovernmental		
Fund Balance with Treasury	\$ 167,736	\$ 152,795
Investments, Net	6,244,436	334,106
Total Intragovernmental	<u>6,412,172</u>	<u>486,901</u>
With the Public		
Cash	1,836	1,321
Accounts Receivable, Net	329	818
Other	1,223	1,578
Total Non-entity Assets	<u>6,415,560</u>	<u>490,618</u>
Total Entity Assets	<u>47,765,024</u>	<u>42,057,372</u>
Total Assets	<u>\$ 54,180,584</u>	<u>\$ 42,547,990</u>

NOTE 11. DEBT TO TREASURY

Loan Program	FY 2018		
	Beginning Balance	Net Borrowings (Repayments)	Ending Balance
Direct Loan Program			
Fisheries Finance, Financing Account	\$ 430,313	\$ 22,250	\$ 452,563

Maturity dates range from September 2025 to September 2052, and interest rates range from 1.44 to 6.13 percent.

Loan Program	FY 2017		
	Beginning Balance	Net Borrowings (Repayments)	Ending Balance
Direct Loan Program			
Fisheries Finance, Financing Account	\$ 475,207	\$ (44,894)	\$ 430,313

NOTE 12. OTHER LIABILITIES

	FY 2018			FY 2017
	Current Portion	Non-current Portion	Total	Total
Intragovernmental				
Accrued FECA Liability	\$ 17,240	\$ 8,068	\$ 25,308	\$ 26,427
Accrued Benefits	54,615	–	54,615	55,222
Downward Subsidy Reestimates Payable to Treasury	9,576	–	9,576	9,888
Resources Payable to Treasury	168	1,223	1,391	1,922
Other	8,893	17,227	26,120	193
Total	\$ 90,492	\$ 26,518	\$ 117,010	\$ 93,652
With the Public				
ITA Foreign Service Nationals' Voluntary Separation Pay	\$ 2,758	\$ 9,356	\$ 12,114	\$ 11,624
Contingent Liabilities (Note 17)	300	–	300	39,472
Employment-related	3,172	–	3,172	1,512
Other	5,552	–	5,552	5,651
Total	\$ 11,782	\$ 9,356	\$ 21,138	\$ 58,259

The Current Portion represents liabilities expected to be paid by September 30, 2019, while the Non-current Portion represents liabilities expected to be paid after September 30, 2019.

NOTE 13. FEDERAL EMPLOYEE BENEFITS LIABILITIES

	FY 2018	FY 2017
Actuarial FECA Liability	\$ 187,092	\$ 200,336
NOAA Corps Retirement System and NOAA Corps Blended Retirement System Liabilities	654,600	644,200
NOAA Corps Post-retirement Health Benefits Liability	40,300	41,400
Total	<u>\$ 881,992</u>	<u>\$ 885,936</u>

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 2018	FY 2017
Year 1 and Thereafter	2.72%	2.68%

The wage inflation factors (Cost of Living Adjustment) 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 2018		
Fiscal Year	Cost of Living Adjustment	Consumer Price Index - Medical
2019	1.31%	3.21%
2020	1.51%	3.48%
2021	1.89%	3.68%
2022	2.16%	3.71%
2023	2.21%	4.09%

FY 2017		
Fiscal Year	Cost of Living Adjustment	Consumer Price Index - Medical
2018	1.22%	3.20%
2019	1.35%	3.52%
2020	1.59%	3.80%
2021	1.99%	3.99%
2022	2.26%	3.91%

NOAA Corps Retirement System and NOAA Corps Blended Retirement System Liabilities:

These liabilities represent the unfunded actuarial present value of projected plan benefits. The actuarial calculations are performed annually, as of September 30. The September 30, 2018 and 2017 actuarial calculations used the following economic assumptions:

	FY 2018	FY 2017
Discount Rate	3.42%	3.60%
Annual Basic Pay Scale Increases	1.85%	2.09%
Annual Inflation	1.35%	1.59%

Schedule for Reconciling NOAA Corps Retirement System and NOAA Corps Blended Retirement System Liabilities:

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

	FY 2018	FY 2017
Beginning Balance	\$ 644,200	\$ 633,000
Add Pension Costs:		
Normal Cost	13,800	12,800
Interest on the Unfunded Liability	22,700	23,600
Actuarial (Gains)/Losses, Net		
From Experience	9,600	(7,500)
From Blended Retirement System	(3,000)	-
From Discount Rate Assumption Change	17,100	19,200
From Long-term Assumption Changes		
Annual Inflation	(22,800)	(10,800)
Annual Basic Pay Scale Increases	(900)	(900)
Total Pension Costs	36,500	36,400
Subtract Benefit Payments	(26,100)	(25,200)
Ending Balance	\$ 654,600	\$ 644,200

NOAA Corps Post-retirement Health Benefits Liability:

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

	FY 2018	FY 2017
Discount Rate	3.38%	3.55%
Ultimate Medical Trend Rate	4.20%	4.45%



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

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

	FY 2018	FY 2017
Beginning Balance	\$ 41,400	\$ 36,500
Add Health Benefits Costs:		
Normal Cost	1,300	1,300
Interest on the Unfunded Liability	1,400	1,300
Actuarial (Gains)/Losses, Net		
From Experience	1,100	900
From Discount Rate Assumption Change	(2,900)	500
From Long-term Assumption Changes		
Medical Claims and Trend Rate	500	3,100
Mortality	-	-
Total Health Benefits Costs	1,400	7,100
Subtract Benefit Payments	(2,500)	(2,200)
Ending Balance	\$ 40,300	\$ 41,400

NOTE 14. ENVIRONMENTAL AND DISPOSAL LIABILITIES

Environmental and disposal liabilities are primarily comprised of cleanup costs incurred from removing, containing, and/or disposing of asbestos-containing materials from facilities owned by NOAA and NIST and ships owned by NOAA. Estimated costs associated with the future decommissioning of a NIST operated nuclear reactor are additionally included.

Environmental and Disposal Liabilities are summarized below:

	FY 2018	FY 2017
Asbestos-related Cleanup Costs	\$ 72,188	\$ 72,991
Nuclear Reactor	61,937	60,725
Non-reactor Radiological Facilities	8,672	8,330
Pribilof Islands	1,066	1,326
Other	1,814	1,775
Total	\$ 145,677	\$ 145,147

NOTE 15. LEASES

Capital Leases:

Assets under capital leases are as follows:

	FY 2018	FY 2017
Structures, Facilities, and Leasehold Improvements	\$ 1,942	\$ 1,942
Equipment	8,533	8,533
Less: Accumulated Depreciation	(9,683)	(7,849)
Net Assets Under Capital Leases	<u>\$ 792</u>	<u>\$ 2,626</u>

Capital Lease Liabilities:

Future payments due under capital leases are as follows:

FY 2018		FY 2017	
Fiscal Year	General PP&E Category Real Property Non-Federal	Fiscal Year	General PP&E Category Real Property
2019	\$ 26	2018	\$ 314
Total Future Lease Payments	26	2019	26
Less: Imputed Interest	-	Total Future Lease Payments	340
Less: Executory Costs	(5)	Less: Imputed Interest	(7)
Net Capital Lease Liabilities	<u>\$ 21</u>	Less: Executory Costs	(60)
		Net Capital Lease Liabilities	<u>\$ 273</u>

Operating Leases:

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



The Department's (1) estimated real property rent payments to GSA for FY 2019 through FY 2023; and (2) future payments due under noncancellable operating leases (non-GSA real property) are as follows:

FY 2018				
<u>Fiscal Year</u>	<u>General PP&E Category</u>			
	GSA Real Property Leases	Non-GSA Real Property Federal Leases	Non-GSA Real Property Non-federal Leases	Total Non-GSA Real Property Leases
2019	\$ 294,038	\$ 306	\$ 13,694	\$ 14,000
2020	299,242	314	13,991	14,305
2021	293,640	323	12,322	12,645
2022	287,795	333	11,635	11,968
2023	291,246	342	9,900	10,242
Thereafter	¹	352	30,146	30,498
Total Future Operating Lease Payments		<u>\$ 1,970</u>	<u>\$ 91,688</u>	<u>\$ 93,658</u>

¹ Not estimated

NOTE 16. LIABILITIES NOT COVERED BY BUDGETARY RESOURCES

The liabilities that are not covered by budgetary resources, included in the Department's *Consolidated Balance Sheets*, are summarized below:

	FY 2018	FY 2017
Intragovernmental		
Liability to General Fund of the U.S. Government for Deficit Reduction	\$ 6,244,436	\$ 336,188
Accrued FECA Liability	25,200	26,333
Other	26,227	1,875
Total Intragovernmental	6,295,863	364,396
Accrued Payroll	64,933	63,206
Accrued Annual Leave	323,389	309,015
Federal Employee Benefits	880,822	884,845
Environmental and Disposal Liabilities	145,677	145,147
Contingent Liabilities	300	39,472
Unearned Revenue	524,232	563,481
ITA Foreign Service Nationals' Voluntary Separation Pay	12,114	11,624
Other	7,256	7,286
Total Liabilities Not Covered by Budgetary Resources	8,254,586	2,388,472
Total Liabilities Covered by Budgetary Resources	4,032,463	2,330,465
Total Liabilities	\$ 12,287,049	\$ 4,718,937



NOTE 17. COMMITMENTS AND CONTINGENCIES

Commitments:

The Department has entered into long-term contracts for the purchase, construction, and modernization of environmental satellites and weather measuring and monitoring systems. A summary of major long-term commitments as of September 30, 2018 is shown below.

Major Long-term Commitments:

Description	FY 2018						Total
	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023	Thereafter	
Polar Follow-on	\$ 329,956	\$ 416,000	\$ 458,000	\$ 412,000	\$ 435,000	\$ 4,501,923	\$ 6,552,879
Joint Polar Satellite Systems	548,035	445,082	383,436	263,013	154,521	318,213	2,112,300
Geostationary Operational Environmental Satellites	408,380	304,056	292,500	292,500	250,000	176,052	1,723,488
Comprehensive Large Array-data Stewardship System	52,332	52,332	52,332	52,332	52,332	–	261,660
Weather Service	29,846	32,762	36,196	37,605	37,833	–	174,242
Satellite Projects, Planning, and Analysis	36,539	27,200	27,200	27,200	27,200	–	145,339
Space Weather Follow-on	10,000	10,000	10,000	10,000	10,000	–	50,000
Constellation Observing System for Meteorology, Ionosphere, and Climate - 2	5,892	8,100	8,100	8,100	8,100	–	38,292
System Architecture and Advanced Planning	4,929	4,929	4,929	4,929	4,929	–	24,645
Commercial Weather Data Pilot	3,000	3,000	3,000	3,000	3,000	–	15,000
Satellite Command and Data Acquisition Facility	2,450	2,450	2,450	2,450	2,450	–	12,250
Cooperative Data and Rescue Services	500	–	–	–	–	–	500
Total	<u>\$ 1,431,859</u>	<u>\$ 1,305,911</u>	<u>\$ 1,278,143</u>	<u>\$ 1,113,129</u>	<u>\$ 985,365</u>	<u>\$ 4,996,188</u>	<u>\$ 11,110,595</u>

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 \$300 thousand and \$39.5 million as of September 30, 2018 and 2017, respectively, and which are included as *Contingent Liabilities* in the Department's *Consolidated Balance Sheets*. For most of these claims, any amounts ultimately due will be paid out of Treasury's Judgment Fund.

For certain claims to be paid by Treasury's Judgment Fund, once the claims are settled or court judgments are assessed relative to the Department, the liability will be removed and an Imputed Financing Source From Cost Absorbed by Others will be recognized. However, agencies are required to reimburse the Judgment Fund for payments pursuant to the Contract Disputes Act and the Notification and Federal Employees Antidiscrimination and Retaliation Act of 2002.

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 \$280.3 million as of September 30, 2018. 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 \$39.8 million as of September 30, 2018. 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.

NOTE 18. CONSOLIDATED STATEMENTS OF NET COST BY MAJOR BUDGETARY FUNCTION

The following tables illustrate the Department's Consolidated Statements of Net Cost by Major Budgetary Function, with Gross Costs and Earned Revenue further broken down by Intragovernmental and With the Public. The classification of Gross Costs as Intragovernmental or With the Public is based on the source of goods and services received by the Department and is not based on the classification of the related revenue. The classification of costs or revenue as Intragovernmental or With the Public is defined on a transaction-by-transaction basis based upon with whom the transaction is with. The purpose of this classification is to enable the Department to prepare consolidated financial statements, not to match the intragovernmental and public revenue with the costs that are incurred to produce the intragovernmental and public revenue.



**United States Department of Commerce Consolidating Statement of Net Cost by Major Budgetary Function
For the Year Ended September 30, 2018**

	Natural Resources and Environment/ Other Natural Resources	Other Advancement of Commerce	Area and Regional Development	Others	Combined Total	Intra- Departmental Eliminations	Consolidated Total
Total Program Costs							
Gross Costs	\$ 5,249,107	\$ 7,560,938	\$ 297,513	\$ 132,935	\$ 13,240,493	\$ (343,106)	\$ 12,897,387
Less: Earned Revenue	(228,678)	(4,393,828)	(13,575)	(2,305)	(4,638,386)	343,106	(4,295,280)
NET COST OF OPERATIONS	\$ 5,020,429	\$ 3,167,110	\$ 283,938	\$ 130,630	\$ 8,602,107	\$ -	\$ 8,602,107

**United States Department of Commerce Consolidating Statement of Net Cost by Major Budgetary Function
For the Year Ended September 30, 2017**

	Natural Resources and Environment/ Other Natural Resources	Other Advancement of Commerce	Area and Regional Development	Others	Combined Total	Intra- Departmental Eliminations	Consolidated Total
Total Program Costs							
Gross Costs	\$ 4,811,090	\$ 7,536,623	\$ 291,436	\$ 129,456	\$ 12,768,605	\$ (354,763)	\$ 12,413,842
Less: Earned Revenue	(245,752)	(4,137,445)	(5,728)	(1,646)	(4,390,571)	354,763	(4,035,808)
NET COST OF OPERATIONS	\$ 4,565,338	\$ 3,399,178	\$ 285,708	\$ 127,810	\$ 8,378,034	\$ -	\$ 8,378,034

NOTE 19. COMBINED STATEMENTS OF BUDGETARY RESOURCES

The presentation of the FY 2018 and FY 2017 *Combined Statements of Budgetary Resources (SBR)* has changed considerably from the previous *SBR* presentation included in the Department's FY 2017 Agency Financial Report, due to revisions to the *SBR* format included in the July 2018 issuance of OMB Circular A-136, *Financial Reporting Requirements*. In the *Budgetary Resources* section of the *SBR*, the new format collapsed previous *SBR* lines for various current fiscal year adjustments to unobligated balance, brought forward, October 1 into a newly captioned line, *Unobligated Balance From Prior-years Budget Authority, Net*. The adjustments are also aggregated and reported in the new memorandum line, *Net Adjustments to Unobligated Balance, Brought Forward, October 1*. The new *SBR* eliminated the previous *Change in Unpaid Obligated Balance, Net* section and the *Budget Authority, Net* section. Lastly, the new *SBR* does not display the calculation of *Outlays, Net*, which is *Outlays, Gross*, less *Actual Offsetting Collections*.

Unobligated Balance From Prior-years Budget Authority, Net: This budgetary resources line consists of unobligated balance, brought forward as of October 1, as adjusted by current fiscal year activity related to the unobligated balance brought forward—typical items include recoveries of prior years' unpaid obligations, downward adjustments of prior years' paid obligations, transfers of prior-years' balances, and cancellations of annual or multi-year appropriations. The current fiscal year activity that is adjusting the unobligated balance brought forward is shown for informational purposes on the line *MEMORANDUM: Net Adjustments to Unobligated Balance, Brought Forward, October 1*.

Appropriations:

Appropriations for FY 2018 include a transfer in of auction proceeds from FCC of \$5.90 billion, whereas there was no such transfer(s) in FY 2017. See Note 22, *Funds from Dedicated Collections*, NTIA's Public Safety Trust Fund subsection, for more information on this FY 2018 transfer in.

There are reconciling items from the amounts of the *Budgetary Resources, Appropriations* on the *SBR* to the amounts of the *Budgetary Financing Sources, Appropriations Received* on the *Consolidated Statement of Changes in Net Position (SCNP)*.

For FY 2018, the primary reconciling item is a transfer in of auction proceeds from the Federal Communications Commission to NTIA's Public Safety Trust Fund of \$5.90 billion, which is included as *Appropriations* on the *SBR*, and is included as a budgetary transfer in on the *SCNP* (see Note 22, *Funds from Dedicated Collections*, for more information on the Public Safety Trust Fund).

For FY 2017, the primary reconciling item is transfers of current year authority in the amount of \$178.6 million, which is included in the *SBR* as *Appropriations* and is included as transfers on the *SCNP*.

Borrowing Authority: Total borrowing authority available for NOAA's loan programs amounted to \$61.9 million and \$116.2 million as of September 30, 2018 and 2017, respectively. The Borrowing Authority amounts reported in the *SBR Budgetary Resources* section represent only borrowing authority realized during the fiscal year being reported. See Note 1.O, *Debt to Treasury*, for debt repayment requirements, financing sources for repayments, and other terms of borrowing authority used.

Permanent, Indefinite Appropriations: All of the Department's reporting entities have one or more permanent, indefinite appropriations to finance operations. Permanent, indefinite appropriations are appropriations that are available until expended.

Permanent Reductions to Budgetary Resources: Permanent reductions to the Department's budgetary resources primarily under Public Law 115-141 amounted to \$11.3 million for FY 2018, while permanent reductions for FY 2017 under Public Law 115-31 amounted to \$34.38 million. These permanent reductions are included in the *SBR Budgetary Resources* section, and are also included in the *SCNP*.

Legal and/or budgetary arrangements affecting the Department's use of Unobligated Balances of Budget Authority and/or Fund Balance with Treasury during FY 2018 and FY 2017 include the following:

- The Department's Fund Balance with Treasury includes for NTIA's Digital Television Transition and Public Safety Fund, as of September 30, 2018 and 2017, \$8.81 billion of funds that are not available (reduction of budgetary resources).
- The Department's Fund Balance with Treasury for Deposit Funds, reported in Note 2, *Fund Balance with Treasury*, are not available to finance operating activities. These funds are also included in Note 2 on the line Non-budgetary (breakdown by status).
- The Department's Fund Balance with Treasury as of September 30, 2018 and 2017 includes \$790.1 million of USPTO offsetting collections exceeding the current fiscal year and prior fiscal years' appropriations. USPTO may use these funds only as authorized by the U.S. Congress, and only as made available by the issuance of a Treasury warrant. These funds are included in Note 2 on the lines *General Funds* (breakdown by type) and *Temporarily Precluded From Obligation* (breakdown by status).
- The Omnibus Budget Reconciliation Act of 1990 established surcharges on certain statutory patent fees collected by USPTO. Subsequent legislation extended the surcharges through September 30, 1998. These surcharges were deposited into the Patent and Trademark Surcharge Fund, a Special Fund Receipt Account at Treasury. USPTO may use monies from this account only as authorized by Congress and made available by the issuance of a Treasury warrant. As of September 30, 2018 and 2017, \$233.5 million of Fund Balance with Treasury is held in the Patent and Trademark Surcharge Fund. These funds are included in Note 2 on the lines *Patent and Trademark Surcharge Fund – Special Funds* section (breakdown by type), and *Non-budgetary* (breakdown by status).
- The Department's Fund Balance with Treasury as of September 30, 2018 and 2017 includes \$147.7 million of USPTO sequestered funds temporarily not available. These funds are included in Note 2 on the lines *General Funds* (breakdown by type) and *Temporarily Precluded from Obligation* (breakdown by status).



- 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.

Comparison to Budget of the U.S. Government:

A comparison was performed between the amounts reported in the FY 2017 *SBR* and the actual FY 2017 amounts reported in the FY 2019 Budget of the U.S. Government for *SBR* lines *Total Budgetary Resources; New Obligations and Upward Adjustment; Outlays, Net; and Distributed Offsetting (Receipts)/Outlays, Net*. There was one explained material difference of \$358 million primarily related to *Total Budgetary Resources* balances for expired accounts that are appropriately included in the *SBR*, and that are appropriately not included in the FY 2019 Budget of the U.S. Government. The President’s Budget that will report actual amounts for FY 2018 has not yet been published, and will be made available on OMB’s President’s Budget Web page at <https://www.whitehouse.gov/omb/budget/>.

Apportionment Categories of New Obligations and Upward Adjustments:

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

The amounts of Direct (for example, derived from Appropriations) and Reimbursable (for example, derived from Spending Authority From Offsetting Collections) New Obligations and Upward Adjustments by apportionment category are as follows:

	FY 2018		
	Direct	Reimbursable	Total
Category A	\$ 1,370,047	\$ 3,751,423	\$ 5,121,470
Category B	9,635,967	7,162,252	16,798,219
Exempt from Apportionment	943	–	943
Total New Obligations and Upward Adjustments	<u>\$ 11,006,957</u>	<u>\$ 10,913,675</u>	<u>\$ 21,920,632</u>

	FY 2017		
	Direct	Reimbursable	Total
Category A	\$ 2,840,592	\$ 3,761,272	\$ 6,601,864
Category B	7,401,041	1,963,764	9,364,805
Exempt from Apportionment	4,030	–	4,030
Total New Obligations and Upward Adjustments	<u>\$ 10,245,663</u>	<u>\$ 5,725,036</u>	<u>\$ 15,970,699</u>

Undelivered Orders:

The following table summarizes Undelivered Orders as of September 30, 2018:

Undelivered Orders	FY 2018
Undelivered Orders, Federal Paid	\$ 195,952
Undelivered Orders, Federal Unpaid	1,972,165
Undelivered Orders, Non-federal Paid	80,258
Undelivered Orders, Non-federal Unpaid	9,788,719
Total	<u>\$ 12,037,094</u>

Undelivered Orders (paid and unpaid) totaled \$7.43 billion as of September 30, 2017.

NOTE 20. CONSOLIDATED STATEMENTS OF CUSTODIAL ACTIVITY

Custodial activity represents revenue (non-exchange and exchange) that was or will be collected on behalf of another entity and the disposition of that revenue to Treasury (General Fund of the U.S. Government), a trust fund, or other recipient entities. The Department's custodial activity is reported in the *Consolidated Statements of Custodial Activity*.

The Department's custodial revenue in FY 2018 was \$1.01 billion, almost entirely received by BIS. BIS primarily receives custodial revenue from civil monetary penalties assessed to private entities that violate the Export Administration Act. In FY 2018, BIS assessed and collected an additional \$1.00 billion in civil monetary penalties from a Chinese cellular phone manufacturer for making false statements to the U.S. government following a March 2017 settlement agreement. The \$1.00 billion collected from the manufacturer was transferred in FY 2018 to Treasury (\$557.0 million) and to the U.S. Department of Justice (\$443.0 million). In addition to the penalties assessed, BIS required the company to place \$400.0 million in suspended penalties money in escrow held by Treasury, \$300.0 million of which was previously suspended from the March 2017 agreement. The Department's custodial payable to Treasury and to the public for custodial activity was \$376 thousand and \$24 thousand, respectively, as of September 30, 2018.

The Department's custodial revenue in FY 2017 was \$376.7 million, primarily received by BIS. In FY 2017, BIS assessed a civil monetary penalty on a Chinese cellular phone manufacturer for multiple violations of the Export Administration Act. The company agreed to a civil penalty of \$661.0 million, of which \$361.0 million was collected by BIS and was transferred to Treasury on September 30, 2017. Payment to BIS for the remaining \$300.0 million was suspended until March 2024 and waived on the condition that the company abide by the probationary conditions until such date. See updated information regarding this manufacturer in the paragraph above discussing FY 2018 transactions. The Department's custodial payable to Treasury and to the public for custodial activity was \$848 thousand and \$22 thousand, respectively, as of September 30, 2017.

NOTE 21. FIDUCIARY ACTIVITIES

Fiduciary activities are the collection or receipt, and the management, protection, accounting, and disposition by the federal government of cash or other assets in which non-federal individuals or entities have an ownership interest that the federal government must uphold. Fiduciary cash and other assets are not assets of the federal government and accordingly are not recognized on the proprietary financial statements. The Patent Cooperation Treaty authorized USPTO to collect patent filing and search fees on behalf of the World Intellectual Property Organization (WIPO), European Patent Office, Korean Intellectual Property Office, Russian Intellectual Property Organization, Australian Patent Office, Israeli Patent Office, Japanese Patent Office, and Intellectual Property Office of Singapore from U.S. citizens requesting an international patent. The Madrid Protocol Implementation Act authorized USPTO to collect trademark application fees on behalf of the International Bureau of the WIPO from U.S. citizens requesting an international trademark.



Schedule of Fiduciary Activities for the Year Ended September 30, 2018:

	FY 2018		
	Patent Cooperation Treaty	Madrid Protocol	Total
Fiduciary Net Assets, Beginning Balance	\$ 13,831	\$ 542	\$ 14,373
Contributions	154,525	27,043	181,568
Disbursements to and on Behalf of Beneficiaries	(154,494)	(26,881)	(181,375)
Increase/(Decrease) in Fiduciary Net Assets	31	162	193
Fiduciary Net Assets, Ending Balance	<u>\$ 13,862</u>	<u>\$ 704</u>	<u>\$ 14,566</u>

Fiduciary Net Assets as of September 30, 2018:

	FY 2018		
	Patent Cooperation Treaty	Madrid Protocol	Total
Fund Balance with Treasury	<u>\$ 13,862</u>	<u>\$ 704</u>	<u>\$ 14,566</u>

Schedule of Fiduciary Activities for the Year Ended September 30, 2017:

	FY 2017		
	Patent Cooperation Treaty	Madrid Protocol	Total
Fiduciary Net Assets, Beginning Balance	\$ 14,459	\$ 451	\$ 14,910
Contributions	151,264	22,812	174,076
Disbursements to and on Behalf of Beneficiaries	(151,892)	(22,721)	(174,613)
Increase/(Decrease) in Fiduciary Net Assets	(628)	91	(537)
Fiduciary Net Assets, Ending Balance	<u>\$ 13,831</u>	<u>\$ 542</u>	<u>\$ 14,373</u>

Fiduciary Net Assets as of September 30, 2017:

	FY 2017		
	Patent Cooperation Treaty	Madrid Protocol	Total
Fund Balance with Treasury	<u>\$ 13,831</u>	<u>\$ 542</u>	<u>\$ 14,373</u>

NOTE 22. FUNDS FROM DEDICATED COLLECTIONS

The following tables depict major funds from dedicated collections separately chosen based on their significant financial activity and importance to taxpayers. All other funds from dedicated collections not shown are aggregated as "Other Funds from Dedicated Collections." The funds from dedicated collections reported in these tables are fully included in the Department's *Consolidated Balance Sheets*, *Consolidated Statements of Net Cost*, and *Consolidated Statements of Changes in Net Position*.

United States Department of Commerce Combining Balance Sheet – Funds from Dedicated Collections As of September 30, 2018

	NIST Wireless Innovation Fund	NOAA Damage Assessment and Restoration Revolving Fund	NTIA Digital Television Transition and Public Safety Fund	NTIA First Responder Network Authority Fund	NTIA Network Construction Fund	NTIA Public Safety Trust Fund	USPTO Funds from Dedicated Collections	Other Funds from Dedicated Collections	Combined Total Funds from Dedicated Collections
ASSETS									
Fund Balance with Treasury	\$ 229,135	\$ 170,862	\$ 8,820,778	\$ 239,963	\$ 5,893,821	\$ 77,944	\$ 2,242,959	\$ 105,494	\$ 17,780,956
Cash	–	–	–	–	–	–	6,836	–	6,836
Investments, Net	–	–	–	–	–	6,244,436	–	–	6,244,436
Accounts Receivable, Net	–	37	–	–	33	86	402	1,807	2,365
Advances and Prepayments	9	24	208	–	2,461	17	17,433	200	20,352
General Property, Plant, and Equipment, Net	–	–	–	–	4,145	511	527,081	–	531,737
Cost Contribution to Buildout of Nationwide Public Safety Broadband Network, Net	–	–	–	–	2,009,841	–	–	–	2,009,841
Other	–	–	–	–	925	–	–	–	925
TOTAL ASSETS	\$ 229,144	\$ 170,923	\$ 8,820,986	\$ 239,963	\$ 7,911,226	\$ 6,322,994	\$ 2,794,711	\$ 107,501	\$ 26,597,448
LIABILITIES									
Accounts Payable	\$ 92	\$ 30	\$ –	\$ (37)	\$ 1,403,316	\$ 378	\$ 112,662	\$ 53	\$ 1,516,494
Federal Employee Benefits	–	–	–	–	–	–	12,633	–	12,633
Other									
Accrued Payroll and Annual Leave	206	106	–	–	2,798	645	246,101	160	250,016
Accrued Grants	1,595	499	245	–	957	–	–	1,013	4,309
Unearned Revenue	–	–	–	120,000	–	–	970,889	–	1,090,889
Liability to General Fund of the U.S. Government for Deficit Reduction	–	–	–	–	–	6,244,436	–	–	6,244,436
Other Liabilities	–	37	–	–	405	173	18,849	50	19,514
TOTAL LIABILITIES	\$ 1,893	\$ 672	\$ 245	\$ 119,963	\$ 1,407,476	\$ 6,245,632	\$ 1,361,134	\$ 1,276	\$ 9,138,291
NET POSITION									
Unexpended Appropriations	\$ –	\$ –	\$ –	\$ –	\$ –	\$ –	\$ –	\$ –	\$ –
Cumulative Results of Operations	227,251	170,251	8,820,741	120,000	6,503,750	77,362	1,433,577	106,225	17,459,157
TOTAL NET POSITION	\$ 227,251	\$ 170,251	\$ 8,820,741	\$ 120,000	\$ 6,503,750	\$ 77,362	\$ 1,433,577	\$ 106,225	\$ 17,459,157
TOTAL LIABILITIES AND NET POSITION	\$ 229,144	\$ 170,923	\$ 8,820,986	\$ 239,963	\$ 7,911,226	\$ 6,322,994	\$ 2,794,711	\$ 107,501	\$ 26,597,448

**United States Department of Commerce Combining Balance Sheet – Funds from Dedicated Collections
As of September 30, 2017**

	NIST Wireless Innovation Fund	NOAA Damage Assessment and Restoration Revolving Fund	NTIA Digital Television Transition and Public Safety Fund	NTIA Network Construction Fund	NTIA Public Safety Trust Fund	NTIA State and Local Implementation Fund	USPTO Funds from Dedicated Collections	Other Funds from Dedicated Collections	Combined Total Funds from Dedicated Collections
ASSETS									
Fund Balance with Treasury	\$ 269,704	\$ 162,207	\$ 8,821,057	\$ 5,574,439	\$ 145,427	\$ 58,850	\$ 2,126,008	\$ 64,310	\$ 17,222,002
Cash	–	–	–	–	–	–	4,038	–	4,038
Investment, Net	–	–	–	–	334,106	–	–	–	334,106
Accounts Receivable, Net	–	37	–	31	34	–	334	182	618
Advances and Prepayments	257	29	2,513	678,295	682	246	27,740	–	709,762
General Property, Plant, and Equipment, Net	–	–	–	4,307	1,301	–	523,842	–	529,450
Cost Contribution to Buildout of Nationwide Public Safety Broadband Network, Net	–	–	–	288,000	–	–	–	–	288,000
Other	–	–	–	1,059	–	–	1	29	1,089
TOTAL ASSETS	\$ 269,961	\$ 162,273	\$ 8,823,570	\$ 6,546,131	\$ 481,550	\$ 59,096	\$ 2,681,963	\$ 64,521	\$ 19,089,065
LIABILITIES									
Accounts Payable	\$ 308	\$ (92)	\$ –	\$ 4,539	\$ 1,168	\$ 56	\$ 101,703	\$ 6	\$ 107,688
Federal Employee Benefits	–	–	–	–	–	–	12,020	–	12,020
Other									
Accrued Payroll and Annual Leave	167	124	–	636	2,580	19	235,389	154	239,069
Accrued Grants	3,424	471	601	4,199	–	3,835	–	934	13,464
Unearned Revenue	–	–	–	–	–	–	936,854	–	936,854
Liability to General Fund of the U.S. Government for Deficit Reduction	–	–	–	–	336,188	–	–	–	336,188
Other Liabilities	–	41	–	397	163	–	18,447	55	19,103
TOTAL LIABILITIES	\$ 3,899	\$ 544	\$ 601	\$ 9,771	\$ 340,099	\$ 3,910	\$ 1,304,413	\$ 1,149	\$ 1,664,386
NET POSITION									
Unexpended Appropriations	\$ –	\$ –	\$ –	\$ –	\$ –	\$ –	\$ –	\$ –	\$ –
Cumulative Results of Operations	266,062	161,729	8,822,969	6,536,360	141,451	55,186	1,377,550	63,372	17,424,679
TOTAL NET POSITION	\$ 266,062	\$ 161,729	\$ 8,822,969	\$ 6,536,360	\$ 141,451	\$ 55,186	\$ 1,377,550	\$ 63,372	\$ 17,424,679
TOTAL LIABILITIES AND NET POSITION	\$ 269,961	\$ 162,273	\$ 8,823,570	\$ 6,546,131	\$ 481,550	\$ 59,096	\$ 2,681,963	\$ 64,521	\$ 19,089,065

**United States Department of Commerce Combining Statement of Net Cost – Funds from Dedicated Collections
For the Year Ended September 30, 2018**

	NIST Wireless Innovation Fund	NOAA Damage Assessment and Restoration Revolving Fund	NTIA Digital Television Transition and Public Safety Fund	NTIA First Responder Network Authority Fund	NTIA Network Construction Fund	NTIA Public Safety Trust Fund	USPTO Funds from Dedicated Collections	Other Funds from Dedicated Collections	Combined Total Funds from Dedicated Collections
Total Program Costs									
Gross Costs	\$ 38,804	\$ 24,063	\$ 2,228	\$ –	\$ 86,877	\$ 11,598	\$ 3,321,475	\$ 40,322	\$ 3,525,367
Less: Earned Revenue	–	1,906	–	(120,000)	–	(154)	(3,309,389)	–	(3,427,637)
NET COST OF OPERATIONS	\$ 38,804	\$ 25,969	\$ 2,228	\$ (120,000)	\$ 86,877	\$ 11,444	\$ 12,086	\$ 40,322	\$ 97,730

**United States Department of Commerce Combining Statement of Net Cost – Funds from Dedicated Collections
For the Year Ended September 30, 2017**

	NIST Wireless Innovation Fund	NOAA Damage Assessment and Restoration Revolving Fund	NTIA Digital Television Transition and Public Safety Fund	NTIA Network Construction Fund	NTIA Public Safety Trust Fund	NTIA State and Local Implementation Fund	USPTO Funds from Dedicated Collections	Other Funds from Dedicated Collections	Combined Total Funds from Dedicated Collections
Total Program Costs									
Gross Costs	\$ 24,742	\$ 60,580	\$ 1,980	\$ 124,783	\$ 14,202	\$ 21,723	\$ 3,193,411	\$ 18,835	\$ 3,460,256
Less: Earned Revenue	–	(2,969)	–	–	(58)	–	(3,105,347)	–	(3,108,374)
NET COST OF OPERATIONS	\$ 24,742	\$ 57,611	\$ 1,980	\$ 124,783	\$ 14,144	\$ 21,723	\$ 88,064	\$ 18,835	\$ 351,882



**United States Department of Commerce Combining Statement of Changes in Net Position – Funds from Dedicated Collections
For the Year Ended September 30, 2018**

	NIST Wireless Innovation Fund	NOAA Damage Assessment and Restoration Revolving Fund	NTIA Digital Television Transition and Public Safety Fund	NTIA First Responder Network Authority Fund	NTIA Network Construction Fund	NTIA Public Safety Trust Fund	USPTO Funds from Dedicated Collections	Other Funds from Dedicated Collections	Combined Total Funds from Dedicated Collections
Cumulative Results of Operations:									
Beginning Balance	\$ 266,062	\$ 161,729	\$ 8,822,969	\$ -	\$ 6,536,360	\$ 141,451	\$ 1,377,550	\$ 118,558	\$ 17,424,679
Budgetary Financing Sources:									
Non-exchange Revenue	-	9,008	-	-	-	13,090	-	12,898	34,996
Transfer in of Auction Proceeds from Federal Communications Commission	-	-	-	-	-	5,895,159	-	-	5,895,159
Transfers In/(Out) Without Reimbursement, Net	-	25,942	-	-	54,268	(54,268)	(1,000)	6,270	31,212
Other Budgetary Financing Sources/(Uses), Net	-	-	-	-	-	-	-	8,821	8,821
Other Financing Sources (Non-exchange):									
Transfers In/(Out) Without Reimbursement, Net	(7)	(459)	-	-	-	-	-	-	(466)
Imputed Financing Sources from Cost Absorbed by Others	-	-	-	-	-	1,639	69,113	-	70,752
Financing Sources Used for Recognizing Liability to General Fund of the U.S. Government for Deficit Reduction	-	-	-	-	-	(5,908,248)	-	-	(5,908,248)
Other Financing Sources/(Uses), Net	-	-	-	-	(1)	(17)	-	-	(18)
Total Financing Sources	(7)	34,491	-	-	54,267	(52,645)	68,113	27,989	132,208
Net Cost of Operations	(38,804)	(25,969)	(2,228)	120,000	(86,877)	(11,444)	(12,086)	(40,322)	(97,730)
Net Change	(38,811)	8,522	(2,228)	120,000	(32,610)	(64,089)	56,027	(12,333)	34,478
Cumulative Results of Operations – Ending Balance	227,251	170,251	8,820,741	120,000	6,503,750	77,362	1,433,577	106,225	17,459,157
NET POSITION	\$ 227,251	\$ 170,251	\$ 8,820,741	\$ 120,000	\$ 6,503,750	\$ 77,362	\$ 1,433,577	\$ 106,225	\$ 17,459,157

**United States Department of Commerce Combining Statement of Changes in Net Position – Funds from Dedicated Collections
For the Year Ended September 30, 2017**

	NIST Wireless Innovation Fund	NOAA Damage Assessment and Restoration Revolving Fund	NTIA Digital Television Transition and Public Safety Fund	NTIA Network Construction Fund	NTIA Public Safety Trust Fund	NTIA State and Local Implementation Fund	USPTO Funds from Dedicated Collections	Other Funds from Dedicated Collections	Combined Total Funds from Dedicated Collections
Cumulative Results of Operations:									
Beginning Balance	\$ 277,831	\$ 198,953	\$ 8,824,949	\$ 6,661,242	\$ 176,125	\$ 76,909	\$ 1,447,520	\$ 60,681	\$ 17,724,210
Budgetary Financing Sources:									
Non-exchange Revenue	–	13,236	–	–	2,133	–	–	21,526	36,895
Transfers In/(Out) Without Reimbursement, Net	13,600	7,151	–	–	(21,420)	–	(2,000)	–	(2,669)
Other Financing Sources (Non-exchange):									
Transfers In/(Out) Without Reimbursement, Net	(627)	–	–	(98)	–	–	–	–	(725)
Imputed Financing Sources from Cost Absorbed by Others	–	–	–	–	892	–	20,094	–	20,986
Financing Sources Used for Recognizing Liability to General Fund of the U.S. Government for Deficit Reduction	–	–	–	–	(2,134)	–	–	–	(2,134)
Other Financing Sources/(Uses), Net	–	–	–	(1)	(1)	–	–	–	(2)
Total Financing Sources	12,973	20,387	–	(99)	(20,530)	–	18,094	21,526	52,351
Net Cost of Operations	(24,742)	(57,611)	(1,980)	(124,783)	(14,144)	(21,723)	(88,064)	(18,835)	(351,882)
Net Change	(11,769)	(37,224)	(1,980)	(124,882)	(34,674)	(21,723)	(69,970)	2,691	(299,531)
Cumulative Results of Operations – Ending Balance	266,062	161,729	8,822,969	6,536,360	141,451	55,186	1,377,550	63,372	17,424,679
NET POSITION	\$ 266,062	\$ 161,729	\$ 8,822,969	\$ 6,536,360	\$ 141,451	\$ 55,186	\$ 1,377,550	\$ 63,372	\$ 17,424,679

Below is a description of major Funds from Dedicated Collections shown in the table above and on the previous pages:

NIST's **Wireless Innovation Fund** was created in order for NIST, in consultation with the Federal Communications Commission (FCC), the Secretary of Homeland Security, and the National Institute of Justice of the U.S. Department of Justice, to conduct research and assist with the development of standards, technologies, and applications to advance wireless public safety communications. Section 6413 of the Middle Class Tax Relief and Job Creation Act of 2012 required NTIA to make available \$300.0 million to the Director of NIST as amounts are deposited into NTIA's Public Safety Trust Fund to carry out public safety research. The Wireless Innovation Fund in FY 2017 received transfers in totaling \$13.6 million from NTIA's Public Safety Trust Fund, and also through FY 2016 similarly received transfers in totaling \$286.4 million from NTIA's Public Safety Trust Fund. The law establishing this program can be found in Section 6303 of the Middle Class Tax Relief and Job Creation Act of 2012.

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

NTIA's **Digital Television Transition and Public Safety Fund** made digital television available to every home in America, improved communications between local, state, and federal agencies, allowed smaller television stations to broadcast digital television, and improved how warnings are received when disasters occur. NTIA received initial funding from borrowings from Treasury, and repaid Treasury from the proceeds of the auction of recovered analog spectrum which was completed in March 2008. The proceeds from the auction provided funding for several programs, and \$7.36 billion was transferred in September 2009 to the General Fund of the U.S. Government as required by the Deficit Reduction Act of 2005. The Fund has a *Fund Balance with Treasury* balance of \$8.82 billion, and *Net Position, Cumulative Results of Operations* balance of \$8.82 billion, included in the *Balance Sheet* as of September 30, 2018 reported in this Note, of which \$8.81 billion is not available (reduction of budgetary resources) as of September 30, 2018. The law establishing programs under this fund can be found in the Deficit Reduction Act of 2005, Sections 3001-3014. For FY 2018 budgetary financial information for the Digital Television Transition and Public Safety Fund, see the *Combining Schedule of Budgetary Resources by Major Budget Account* (unaudited), included in *Required Supplementary Information (Unaudited)*.

NTIA's **Network Construction Fund** and **First Responder Network Authority fund** primarily provide funding for the federal portion of cost contributions towards buildout of the Nationwide Public Safety Broadband Network (NPSBN) and for operations of the First Responder Network Authority (FirstNet), an independent authority within NTIA. FirstNet shall ensure the establishment of a nationwide interoperable broadband network to help police, firefighters, emergency medical service professionals, and other public safety officials stay safe and do their jobs.

Network Construction Fund

The Network Construction Fund in FY 2018 received transfers in totaling \$54.3 million from NTIA's Public Safety Trust Fund, and also through FY 2016 similarly received transfers in from NTIA's Public Safety Trust Fund totaling \$6.77 billion.

Advances and Prepayments reported on the *Balance Sheet* as of September 30, 2017 in this Note included \$672.0 million for the balance of an advance payment made by the Network Construction Fund to the U.S. Department of the Interior (DOI) for the advance funding of certain task orders under the previous DOI contract with AT&T for it to build, operate, and maintain the NPSBN. During FY 2018, FirstNet took over the contract with AT&T for it to build, operate, and maintain the NPSBN, thus reducing the remaining *Advances and Prepayments* balance of \$672.0 million with DOI to zero in FY 2018 upon the Department's receipt from DOI of the \$672.0 million refund of the advance balance with DOI.

Cost Contribution to Buildout of NPSBN, Net is included as an asset in the September 30, 2018 and 2017 Balance Sheets reported in this Note, amounting to \$2.01 billion and \$288.0 million, respectively, which is net of accumulated amortization of \$15.4 million and zero, respectively. The Department's cost contribution to buildout of the NPSBN includes (a) completed and accepted AT&T contract performance for buildout of the NPSBN; and (b) accrued costs for estimated, unbilled AT&T contract performance progress. See Note 1.M for information regarding the classification of these cost contributions as an asset, and the related amortization of the cost contributions.

The law establishing the Network Construction Fund can be found under Section 6206 of the Middle Class Tax Relief and Job Creation Act of 2012. For FY 2018 budgetary financial information for the Network Construction Fund, see the *Combining Schedule of Budgetary Resources by Major Budget Account* (unaudited), included in *Required Supplementary Information (Unaudited)*.

First Responder Network Authority fund

FirstNet is authorized to assess and collect fees, and also collects annual revenue from AT&T under the terms of its contract with AT&T to build, operate, and maintain the NPSBN. This fund received \$120.0 million of earned revenue for FY 2018 as reported on the FY 2018 *Combining Statement of Net Cost* reported in this Note, and this fund also received \$120.0 million of unearned revenue for FY 2019 as reported on the *Balance Sheet* as of September 30, 2018 in this Note.

The First Responder Network Authority fund was established primarily pursuant to Sections 6206 and 6208 of the Middle Class Tax Relief and Job Creation Act of 2012.

NTIA's **Public Safety Trust Fund** was created as a result of Section 6413 of the Middle Class Tax Relief and Job Creation Act of 2012 (Act). The Act provides funding for specified programs and activities to be derived from the proceeds of FCC auctions of spectrum licenses, to be deposited into the Public Safety Trust Fund.

Prior to the receipt of auction proceeds from FCC, the Act provided authority to NTIA to borrow up to \$2.00 billion from Treasury, interest-free, with the debt to be repaid from auction proceeds as the first priority. The Public Safety Trust Fund borrowed \$2.00 billion from Treasury through FY 2014, which was repaid in full as of September 30, 2015.

FCC carries out auctions in accordance with the Act, of which certain earned net auction proceeds (earned auction proceeds less any FCC administrative fees) are transferred from FCC to the Public Safety Trust Fund. A transfer in from FCC becomes a budgetary financing source on the *SCNP* and a budgetary resource on the *SBR* when the transfer is received. A transfer in of auction proceeds from FCC of \$5.90 billion was received in FY 2018, which is not available for obligation and which was not apportioned by OMB for FY 2018 for this fund, and is included as a budgetary financing source on the FY 2018 *SCNP* reported in this Note and as a budgetary resource on the FY 2018 *SBR (Appropriations)*. The \$5.90 billion of auction proceeds received in FY 2018 are excess funds beyond the needs of priorities 1 through 7 discussed below, and is invested in a market-based, one-day certificate as of September 30, 2018—see discussion further below about investments of the Public Safety Trust Fund. Transfers in of auction proceeds from FCC totaling \$28.28 billion through FY 2016 were previously received.

The Act directs the use of auction proceeds in an order of priority after the repayment of borrowings from Treasury (priority 1):

- Priority 1, the repayment of borrowings from Treasury, was fully completed as of September 30, 2015 as previously discussed.
- In FY 2015, the Public Safety Trust Fund transferred out \$130.9 million, net of sequestration, to NTIA's State and Local Implementation Fund, fully completing priority 2.
- In FY 2018, the Public Safety Trust Fund transferred out a total of \$54.3 million to NTIA's Network Construction Fund, toward priority 3 of up to \$7.00 billion. These transfers out are included in the FY 2018 *SCNP* reported in this Note. The Public Safety Trust Fund also similarly transferred out a total of \$6.77 billion to the Network Construction Fund through FY 2016 toward priority 3.
- In FY 2017, the Public Safety Trust Fund transferred out a total of \$13.6 million to NIST's Wireless Innovation Fund, fully completing priority 4 and priority 7 totaling \$300.0 million for transfers to NIST to carry out public safety research. These transfers are included in the FY 2017 *SCNP* reported in this Note. The Public Safety Trust Fund also similarly transferred out a total of \$286.4 million to the Wireless Innovation Fund through FY 2016 toward priority 4 and priority 7.
- Priority 5 specifies that the Public Safety Trust Fund is to deposit a total of \$20.40 billion in the General Fund of the U.S. Government for deficit reduction. Fully completing this priority, the Public Safety Trust Fund transferred out a total of \$20.40 billion during FY 2016 and FY 2015 to a receipt account utilized for transferring these funds to the General Fund of the U.S. Government, and the receipt account transferred a total of \$20.40 billion during FY 2016 and FY 2015 to the General Fund of the U.S. Government.
- Priority 6 specifies that the Public Safety Trust Fund make available \$115.0 million to the Assistant Secretary (NTIA) and the Administrator of the National Highway Traffic Safety Administration (NHTSA) to carry out the grant program of Next Generation 9-1-1. Fully completing this priority, the Public Safety Trust Fund transferred out \$7.8 million in FY 2017 and \$104.4 million in FY 2016 to NHTSA, and made available in FY 2016 \$2.8 million within the Public Safety Trust Fund for the Assistant Secretary (NTIA).



- Priority 8 specifies that any remaining amounts deposited in the Public Safety Trust Fund shall be deposited in the General Fund of the U.S. Government for deficit reduction. The Act further specifies that any amounts remaining in the Public Safety Trust Fund after the end of FY 2022 shall be deposited in the General Fund of the U.S. Government for deficit reduction. Toward priority 8, the Public Safety Trust Fund has recorded a liability (not covered by budgetary resources) to the General Fund of the U.S. Government of \$6.24 billion and \$336.2 million as of September 30, 2018 and 2017, respectively, as reported in the *Balance Sheets* in this Note. The large increase in the liability during FY 2018 was caused by the \$5.90 billion of auction proceeds received in FY 2018 as previously discussed. The corresponding FY 2018 and FY 2017 financing sources used to increase the liability for additional remaining amounts in the Fund are reported in the FY 2018 and FY 2017 *SCNP* reported in this Note, *Other Financing Sources (Non-exchange)* section.

The Act specifies that amounts in the Public Safety Trust Fund be invested in accordance with 31 U.S.C. Section 9702. The Public Safety Trust Fund has investment(s) in market-based Treasury securities totaling \$6.24 billion and \$334.1 million as of September 30, 2018 and 2017, respectively; see Note 1.G, *Investments, Net* and Note 3 for more information. The federal government does not set aside assets to pay future expenditures associated with the Public Safety Trust Fund. The dedicated cash receipts collected from the public into the Public Safety Trust Fund are deposited with Treasury, which uses the cash for general government purposes. Treasury securities are issued to the Public Safety Trust Fund as evidence of its receipts. Treasury securities are an asset to the Public Safety Trust Fund, and Treasury securities are a liability of Treasury. Because the Public Safety Trust Fund and Treasury are both parts of the federal government, these assets and liabilities offset each other from the standpoint of the federal government as a whole. For this reason, they do not represent an asset or a liability in the U.S. government-wide financial statements. Treasury securities provide the Public Safety Trust Fund with authority to draw upon Treasury to make future expenditures. When the Public Safety Trust Fund requires redemption of these securities to make expenditures, the federal government finances those expenditures out of accumulated cash balances by raising taxes or other receipts, by borrowing from the public or repaying less debt, or by curtailing other expenditures. This is the same way that the federal government finances all other expenditures.

For FY 2018 budgetary financial information for the Public Safety Trust Fund, see the *Combining Schedule of Budgetary Resources by Major Budget Account* (unaudited) included in *Required Supplementary Information (Unaudited)*.

NTIA's **State and Local Implementation Fund** includes a matching grants program to states, carried out by NTIA, in consultation with FirstNet, to assist state, regional, tribal, and local jurisdictions to identify, plan, and implement the most efficient and effective way for such jurisdictions to utilize and integrate the infrastructure, equipment, and other architecture associated with the NPSBN to satisfy the wireless communications and data services needs of that jurisdiction, including with regards to coverage, siting, and other needs. The program was initially funded by borrowings from Treasury, without interest, which had been fully repaid in FY 2015. The State and Local Implementation Fund in FY 2015 received transfers in totaling \$130.9 million from NTIA's Public Safety Trust Fund. If there is a balance remaining in the Fund on September 30, 2022, the Fund shall transfer such balance to the General Fund of the U.S. Government for deficit reduction. The law establishing this program can be found in Sections 6301 and 6302 of the Middle Class Tax Relief and Job Creation Act of 2012.

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

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

inventions and trademarks. USPTO may use monies from this account only as authorized by Congress. For FY 2018 budgetary financial information for the Salaries and Expenses Fund, see the *Combining Schedule of Budgetary Resources by Major Budget Account* (unaudited), included in *Required Supplementary Information (Unaudited)*.

The Patent and Trademark Surcharge Fund, a Special Fund Receipt Account at Treasury, is discussed in Note 19, *Combined Statements of Budgetary Resources*. USPTO may use monies from this account only as authorized by Congress and made available by the issuance of a Treasury warrant. As of September 30, 2018 and 2017, \$233.5 million of Fund Balance with Treasury is held in this fund. The law establishing the Patent and Trademark Surcharge Fund is the Omnibus Budget Reconciliation Act of 1990, Title X, Subtitle B, Section 10101 (Public Law 101-508).

The Patent and Trademark Fee Reserve Fund results from a provision that requires USPTO to deposit all patent and trademark fees collected in excess of the annual appropriation amount into the Fund. Funds made available may only be used for expenses of USPTO relating to the processing of patent applications and for other activities, services, and materials relating to patents and applicable administrative costs. No monies have been deposited into this Fund through September 30, 2018. The law establishing the Patent and Trademark Fee Reserve Fund can be found in 35 U.S.C. Section 42(c).

NOTE 23. RECONCILIATIONS OF NET COST OF OPERATIONS TO BUDGET

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

The third section's subsection, *Components Requiring or Generating Resources in Future Periods*, includes costs reported in the current period that are included in the Liabilities Not Covered by Budgetary Resources reported in Note 16. This subsection does not include all costs reported in prior fiscal years that are also included in Liabilities Not Covered by Budgetary Resources reported in Note 16.



The reconciliations of Net Cost of Operations to Budget for FY 2018 and 2017 are as follows:

	FY 2018	FY 2017
Resources Used to Finance Activities:		
Budgetary Resources Obligated:		
New Obligations and Upward Adjustments	\$ 21,920,632	\$ 15,970,699
Less: Spending Authority From Offsetting Collections and Actual Recoveries of Prior-years Unpaid Obligations	(5,783,390)	(5,292,233)
New Obligations and Upward Adjustments Net of Offsetting Collections and Actual Recoveries	16,137,242	10,678,466
Less: Distributed Offsetting (Receipts)/Outlays, Net	(37,765)	(40,066)
Net Obligations and Upward Adjustments	16,099,477	10,638,400
Other Resources:		
Donations and Forfeitures of Property	449	399
Transfers In/(Out) Without Reimbursement, Net	1,923	(6,900)
Imputed Financing Sources From Cost Absorbed by Others	300,335	200,225
Financing Sources Used for Recognizing Liability to General Fund of the U.S. Government for Deficit Reduction	(5,908,248)	(2,134)
Other Financing Sources/(Uses), Net	(6,137)	(13,372)
Net Other Resources Used to Finance Activities	(5,611,678)	178,218
Total Resources Used to Finance Activities	10,487,799	10,816,618
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	(5,278,605)	(953,133)
Resources that Fund Expenses Recognized in Prior Periods	(20,786)	(7,046)
New Obligations for Downward Subsidy Reestimates Payable to Treasury	(7,445)	(15,299)
New Obligation for a Transfer Out to National Highway Traffic Safety Administration (Note 22 – NTIA's Public Safety Trust Fund)	–	(7,820)
Budgetary Offsetting Collections and Receipts that Do Not Affect Net Cost of Operations:		
Distributed Offsetting (Receipts)/Outlays, Net (excludes Clearing Accounts' Gross Costs)	37,765	40,066
Credit Program Collections	81,700	75,300
Budgetary Financing Sources/(Uses), Net	43,466	(54,327)
Resources that Finance the Acquisition of Assets	(4,020,734)	(2,431,084)
Other Resources or Adjustments to Net Obligated Resources that Do Not Affect Net Cost of Operations:		
Change in Unfilled Customer Orders	85,470	31,611
Donations and Forfeitures of Property	(449)	(399)
Transfers In/(Out) Without Reimbursement, Net	(1,923)	6,900
Financing Sources Used for Recognizing Liability to General Fund of the U.S. Government for Deficit Reduction	5,908,248	2,134
Other Financing Sources/(Uses), Net	6,137	13,372
Other	402	1,789
Total Resources Used to Finance Items Not Part of Net Cost of Operations	(3,166,754)	(3,297,936)
Total Resources Used to Finance Net Cost of Operations	7,321,045	7,518,682

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	FY 2018	FY 2017
Components of Net Cost of Operations that Will Not Require or Generate Resources in the Current Period:		
Components Requiring or Generating Resources in Future Periods:		
Increase in Accrued Annual Leave Liability	14,374	7,553
Increase in Federal Employee Benefits	–	8,734
Increase in Environmental and Disposal Liabilities	530	2,047
Increase/(Decrease) in Contingent Liabilities	(39,172)	17,215
Other	40,821	3,558
Total Components of Net Cost of Operations that Will Require or Generate Resources in Future Periods	16,553	39,107
Components Not Requiring or Generating Resources:		
Depreciation and Amortization	1,241,008	793,047
NOAA Issuances of Materials and Supplies	36,319	33,117
Revaluation of Assets or Liabilities	7,439	6,623
Other	9,577	6,363
Total Components of Net Cost of Operations that Will Not Require or Generate Resources	1,294,343	839,150
Total Components of Net Cost of Operations that Will Not Require or Generate Resources in the Current Period	1,310,896	878,257
Negative Gross Costs for Recoveries of Prior-years Delivered Orders that are Excluded from Net Obligations and Upward Adjustments	(29,834)	(18,905)
NET COST OF OPERATIONS	\$ 8,602,107	\$ 8,378,034

NOTE 24. STEWARDSHIP PROPERTY, PLANT, AND EQUIPMENT

Preservation of stewardship property, plant, and equipment (PP&E) promotes the Department's mission of providing effective management and monitoring of our Nation's resources and assets to support both environmental and economic health. The physical properties of stewardship PP&E resemble those of General PP&E that is capitalized traditionally in the Balance Sheet of the financial statements of federal entities. Due to the nature of these assets, however, valuation would be difficult and matching costs with specific periods would not be meaningful. Therefore, federal accounting standards require the disclosure of the nature and quantity of these assets. NOAA, NIST, and the Census Bureau are the only entities within the Department that have stewardship PP&E.

Heritage Assets

Heritage assets are unique for their historical or natural significance, cultural, educational, or artistic importance, or 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 federal government operations, the asset is considered a multi-use heritage asset. The cost of acquisition, improvement, reconstruction, or renovation of a multi-use heritage asset is capitalized as General PP&E and is depreciated over its estimated useful life.

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

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

Heritage Assets maintained by NOAA include the Galveston Laboratory; National Marine Fisheries Service (NMFS) St. George Sealing Plant; NMFS St. George Cottage; NMFS St. Paul Old Clinic/Hospital; NMFS Woods Hole Science Aquarium; and Great Lakes Environmental Research Laboratory/Lake Michigan Field Station.

Information regarding deferred maintenance and repairs for heritage assets is included in the *Required Supplementary Information (Unaudited)* section.

Stewardship National Marine Sanctuaries, Marine National Monuments, Conservation Area, and Habitat Blueprint

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

NOAA maintains the following stewardship assets:

National Marine Sanctuaries: In 1972, Congress passed the Marine Protection, Research, and Sanctuaries Act (Act) in response to a growing awareness of the intrinsic environmental and cultural value of coastal waters. The Act authorized the Secretary of Commerce to designate special nationally-significant areas of the marine environment as national marine sanctuaries.

These protected waters provide a secure habitat for species close to extinction, and also protect historically significant shipwrecks and prehistoric artifacts. National marine sanctuaries are also used for recreation (e.g., boating, diving, and sport fishing), and support valuable commercial industries such as fishing and kelp harvesting. As of September 30, 2018, 13 National Marine Sanctuaries, which include both coastal and offshore areas, have been designated, as follows:

- Channel Islands National Marine Sanctuary
- Cordell Bank National Marine Sanctuary
- Florida Keys National Marine Sanctuary
- Flower Garden Banks National Marine Sanctuary
- Gray's Reef National Marine Sanctuary
- Greater Farallones National Marine Sanctuary
- Hawaiian Island Humpback Whale National Marine Sanctuary
- Monitor National Marine Sanctuary
- Monterey Bay National Marine Sanctuary
- National Marine Sanctuary of American Samoa
- Olympic Coast National Marine Sanctuary
- Stellwagen Bank National Marine Sanctuary
- Thunder Bay National Marine Sanctuary

Marine National Monuments: The Marine National Monuments were created to protect the abundant and diverse coral, fish, and seabird populations; to facilitate exploration and scientific research; and to promote public education regarding the value of these national treasures. The establishment of the Monuments provides the opportunity to protect areas of outstanding scientific, cultural, conservation, and aesthetic value, and provide for the long-term preservation of these natural and cultural legacies. There are currently five Marine National Monuments, as follows:

- Marianas Trench Marine National Monument
- Northeast Canyons and Seamounts Marine National Monument
- Pacific Remote Islands Marine National Monument
- Papahānaumokuākea Marine National Monument
- Rose Atoll Marine National Monument

Aleutian Islands Habitat Conservation Area: On July 28, 2006, NOAA formally established the Aleutian Islands Habitat Conservation Area in Alaska. The conservation area established a network of fishing closures in the Aleutian Islands and Gulf of Alaska, and protects habitat for deep-water corals and other sensitive features that are slow to recover once disturbed by fishing gear or other activities. This effort is part of a network of marine protected areas in Alaskan waters designed to protect essential fish habitat and prevent any further damage of the area.

NOAA Habitat Blueprint: NOAA has responsibility for protecting habitat for fish, threatened and endangered species, marine mammals, and other natural resources within the coastal zone. Recognizing the need for more concerted efforts to conserve, protect, and restore habitat, NOAA developed the NOAA Habitat Blueprint to build on existing programs, prioritize its activities, and guide its future actions. This is being accomplished by creating Habitat Focus Areas. There are currently 10 Habitat Focus Areas, as follows:

- Penobscot River Watershed, ME
- Choptank River Watershed, MD/DE
- Muskegon Lake, MI
- St. Louis River Estuary, MN/WI
- Russian River Watershed, CA
- Kachemak Bay, AK
- West Hawaii, HI
- Manell-Geus Watershed, GU
- Biscayne Bay, FL
- Northeast Reserves and Culebra Island, PR

Collection-type Heritage Assets:

NOAA:

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

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

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

NOAA's collection-type heritage assets also include items in the National Climatic Data Center Library.

National Climatic Data Center Library: By the late 1700s, accurate weather instruments, such as thermometers, were available to professional and amateur scientists. For the next two centuries, these weather observations accumulated in archives scattered across the country. In 1951, the federal government moved all weather records to Asheville, NC, where the archives were combined to form the National Weather Records Center, a predecessor agency to the National Climatic Data Center (NCDC). NCDC archives data from all over the world including from land-based stations, ships, buoys, weather balloons, radars, satellites, sophisticated weather and climate models, and even environmental recorders like tree rings and earth cores. NCDC's collection of heritage assets includes books, manuals, slides, thermometers, gauges, radiosondes, and laboratory equipment.

The Florida Keys National Marine Sanctuary (FKNMS) collection-type heritage assets include artifacts from shipwreck and wrecking events occurring in the Florida Keys over a 500-year period. FKNMS is an abundant mixture of natural and cultural, historical resources that include prehistoric cultures, and maritime history.

NIST:

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

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

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

Census Bureau:

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

The Census Bureau has in place a Project Charter that outlines policies and procedures for the acquisition and removal of Census Bureau’s heritage assets. The Census Bureau Heritage Assets Committee decides if an item meets the criteria for a heritage asset based on the uniqueness, historical age, and/or if the item helps to illustrate the Census Bureau’s historic contributions to the Nation’s growth. If the item is deemed a heritage asset, the applicable property management office will ensure the heritage asset is catalogued and stored in a safe, secure environment, allowing for appropriate preservation and conservation. All necessary actions will be taken to reduce deterioration of heritage assets due to environmental conditions, and to limit damage, loss, and misuse of heritage assets. The Committee meets on a regular basis to determine if any heritage assets should be removed from the approved list, or if a newly arrived item should be classified as a heritage asset. Once a determination has been made to no longer classify an item as a heritage asset, the Census Bureau will follow any applicable established policies and procedures for surplus property.

The following tables summarize the Department’s Collection-type Heritage Assets activity and balances.

Collection-type Heritage Assets: Collections
(In Actual Quantities)

Category	Description of Assets	Quantity of Items Held September 30, 2017	FY 2018 Additions	FY 2018 Withdrawals	Quantity of Items Held September 30, 2018
NOAA Central Library:					
Circulating Collection	Books, journals, and other publications	1	N/A ¹	N/A ¹	1
Rare Book Room Collection	Books and publications	1	N/A ¹	N/A ¹	1
Collection of Photographs and Motion Pictures	Photographs and motion pictures	1	N/A ¹	N/A ¹	1
Total		3	–	–	3

¹ N/A – Not applicable; this category is reported as one collection.

**Collection-type Heritage Assets: Individual Items
(In Actual Quantities)**

Category	Description of Assets	Quantity of Items Held September 30, 2017	FY 2018 Additions	FY 2018 Withdrawals	Quantity of Items Held September 30, 2018
NOAA National Ocean Service – Thunder Bay Sanctuary Research Collection	Data cards, photograph negatives, document copies, photographs, books, and other items	106,254	–	–	106,254
NOAA Central Library – Other	Artifacts, documents, and other items	28	1	–	29
NOAA National Climatic Data Center Library	Artifacts, books, documents, and other items	66	–	–	66
Florida Keys National Marine Sanctuary	Artifacts	253	–	–	253
NOAA Others	Artifacts, artwork, books, films, instruments, maps, and records	3,163 ¹	1	–	3,164
NIST Artifacts and Scientific Measures	National Bureau of Standards ² / NIST scientific instruments, equipment, and objects	1,385	8	–	1,393
NIST Historical Books and Manuscripts	Books/manuscripts of historical scientific interest by prominent scientists	61	–	–	61
Census Bureau Artwork and Gifts	Artifacts, artwork, books, films, instruments, and records	159	–	–	159
Census Bureau Collectable Assets	Publications, books, manuscripts, photographs, and maps	33	–	–	33
Total		111,402	10	–	111,412

¹ As adjusted.

² National Bureau of Standards is the former name of NIST.

NOTE 25. DISCLOSURE ENTITY

The Department's evaluation for the initial FY 2018 implementation of SFFAS 47, *Reporting Entity*, identified the organization discussed below that should be included, as a disclosure entity, in the Department's notes to the financial statements for FY 2018.

The **Corporation for Travel Promotion (CTP), also doing business as Brand USA**, was established by the Travel Promotion Act of 2009 (TPA) as the Nation's first public-private partnership to spearhead a globally coordinated marketing effort to promote the United States as a premier travel destination and to communicate U.S. visa and entry policies. CTP is a non-profit corporation that was incorporated in the District of Columbia and began operations in May 2011. As the destination marketing organization for the United States, CTP's mission is to increase incremental international visitation, spend, and market share to fuel the Nation's economy and to enhance the image of the U.S. worldwide. CTP's programs, activities, and operations are managed and primarily supported from its office in Washington, DC.

TPA set forth that the Secretary of Commerce shall appoint all 11 members of CTP's board of directors (after consultation with the Secretary of Homeland Security and the Secretary of State) and can remove board members with good cause. TPA's accountability measures included that CTP's board of directors shall establish annual objectives for the corporation for each fiscal year subject to approval by the Secretary of Commerce (after consultation with the Secretary of Homeland Security and the Secretary of State), that CTP shall provide an annual budget to the Secretary of Commerce, that CTP shall undergo annual financial audits of its operations, and that CTP shall submit an annual report to the Secretary of Commerce for transmittal to Congress.

The Travel Promotion, Enhancement, and Modernization Act of 2014 amended TPA, and its provisions included requirements for CTP to establish performance metrics and to establish a competitive procurement process.

The Department does not provide any funding to CTP. CTP currently receives federal funding, under a matching requirement, from the federal government's Travel Promotion Fund, which receives a designated portion of each fee collected by the federal government from international visitors who visit the United States under the Visa Waiver Program. The Travel Promotion Fund is not part of the Department and is not included in the Department's financial statements. The Travel Promotion, Enhancement, and Modernization Act of 2014 extended the sunset date of the federal government's designated fee (for deposit to the Travel Promotion Fund) from September 30, 2015 (under TPA) to September 30, 2020. ITA receives and processes, including supporting documentation, requests from CTP for funding from the Travel Promotion Fund. CTP will receive from the Travel Promotion Fund a matching portion of designated fees, equal to the amount collected from non-federal sources, not to exceed \$100.0 million annually, less any sequestrations. TPA's current matching requirement, in effect since the Travel Promotion, Enhancement, and Modernization Act of 2014 amended TPA, is that CTP shall provide matching amounts from non-federal sources that in the aggregate equals 100 percent of the amount transferred to CTP from the Travel Promotion Fund. In-kind matching contributions cannot account for more than 70 percent of the matching requirement.

CTP is included in the Department's FY 2018 financial reporting as a disclosure entity because it meets the inclusion principle of an organization that is controlled by the federal government with risk of loss or expectation of benefit—including because the Secretary of Commerce appoints all 11 members of the board of directors and can remove board members with good cause, while the federal government receives financial and/or nonfinancial benefits from CTP as a result of CTP furthering the federal government's objectives regarding increasing U.S. economic activity and economic benefits to the Nation.

Assets, liabilities, revenue, expenses, gains, and/or losses of CTP have no impact on the Department's financial statements.

The primary financial and/or nonfinancial exposures to the federal government regarding CTP appear to relate to the federal government's interest in ensuring that CTP is eligible for the federal funds it requests and receives from the Travel Promotion Fund, including CTP's proper meeting of matching requirements, and that CTP carries out its operations in accordance with the provisions of TPA, as amended. TPA, as amended, established several previously discussed accountability measures for CTP that will help the federal government monitor CTP's compliance with its provisions.

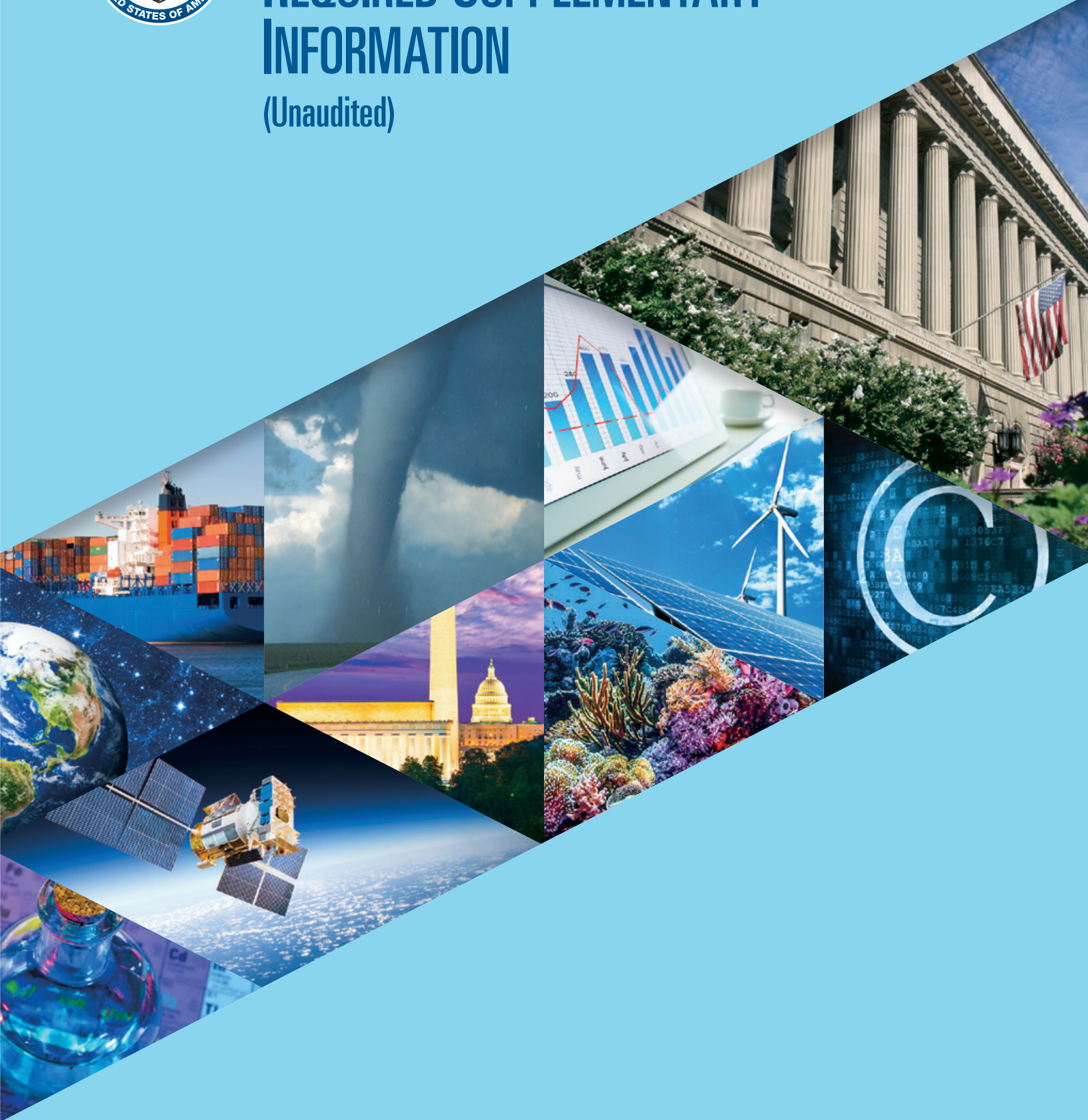
For more information about CTP, please see the following Web page: <https://www.thebrandusa.com>.



FINANCIAL SECTION

REQUIRED SUPPLEMENTARY INFORMATION

(Unaudited)



REQUIRED SUPPLEMENTARY INFORMATION (Unaudited)

A Deferred Maintenance and Repairs

Deferred Maintenance and Repairs (DM&R) are maintenance and repairs that were not performed when they should have been, that were scheduled and not performed, or that were delayed for a future period. Maintenance and Repairs are activities directed towards keeping Property, Plant, and Equipment (PP&E) in acceptable operating condition. These activities include preventive maintenance, replacement of parts and structural components, and other activities needed to preserve the asset so that it can deliver acceptable performance and achieve its expected life. Maintenance and Repairs exclude activities aimed at expanding the capacity of an asset or otherwise upgrading it to serve needs different from, or significantly greater, than those originally intended. The significant portions of Departmental DM&R relate to PP&E of both the National Oceanic and Atmospheric Administration (NOAA) and the National Institute of Standards and Technology (NIST). These two entities comprise 92 percent of the Department's General PP&E, Net balance as of September 30, 2018.

NOAA:

NOAA measures DM&R using Condition Assessment Surveys, which are periodic visual (i.e., physical) inspections of applicable PP&E to determine their current condition and estimated cost to correct any deficiencies, and by collecting information from its line offices. NOAA schedules its surveys for real property on a cyclical basis, with each appropriate asset being surveyed every five years. NOAA completed a condition survey of the entire applicable real property inventory in FY 2011. In FY 2015, NOAA started completing a new round of facility condition assessments (FCA), and plans to complete assessments of the applicable inventory by the end of FY 2020. NOAA plans to continue a five-year assessment cycle so that the entire applicable inventory is assessed approximately every five years.

NOAA performs condition assessment surveys for capitalized NOAA-owned buildings, structures with acquisition cost over \$200 thousand, heritage assets, and properties covered by capital lease that NOAA has executed. For financial reporting purposes, NOAA does not report on DM&R for:

- Owned real property that has been permanently removed from service or which NOAA is planning to permanently remove from service within five years;
- Structures with acquisition cost under \$200 thousand; and
- Land and Stewardship Land as land does not have deferred maintenance.

NOAA prioritizes maintenance and repair projects to sustain its PP&E in good operating condition, including maintaining warranties. DM&R is impacted by funding shortfalls. As such, NOAA selects projects that will remedy life safety deficiencies and minimize risk of mission failure.

Acceptable condition standards are established for real property by using building codes and/or industry standards for benchmarking and cost estimating. These standards are used to evaluate site and building conditions, which include the review of building systems such as civil, structure, architectural, life safety, mechanical, plumbing, elevators, electric, and others.

In measuring DM&R, FCAs report physical deficiencies that cannot be remedied with normal operating maintenance, excluding de minimis conditions that generally do not present a material physical deficiency to the subject property. Actionable items are typically considered to be (1) material existing or potential unsafe conditions; (2) material building or

fire code violations as revealed by municipal agencies; or (3) conditions that if left unremedied, have the potential to result in or contribute to critical element or system failure in the near term, or shall result most probably in a significant escalation of its remedial cost.

NOAA made changes in the method of calculating DM&R in the fourth quarter of FY 2017 to more accurately report DM&R. As discussed above, DM&R is not being reported for real property that is permanently removed from service or for which NOAA plans to permanently remove from service within five years. NOAA has added, to its reporting, DM&R for structures that are above the \$200 thousand acquisition cost threshold. In addition, as a large number of FCAs have now been completed, NOAA reviewed all DM&R data and recalculated escalations as described below.

The fourth quarter FY 2018 balance estimated cost is composed of DM&R for the applicable inventory from FCAs completed in FY 2015, FY 2016, FY 2017, and FY 2018. FCAs completed in FY 2015 utilized cost databases from 2014, and FCAs completed in FY 2016 and FY 2017 used a 2016 cost database. DM&R estimates have been escalated based on changes to the "Engineering News-Record" construction cost index changes since January 2014, January 2016, and January 2018 for FCAs completed in FY 2015, FY 2016/FY 2017, and FY 2018 respectively. If an asset has yet to be assessed, the DM&R estimate from the Integrated Facilities Inspection Program in FY 2011 was utilized and escalated. All data has been escalated through September 2018.

Specific to personal property, DM&R relates solely to capitalized personal property meeting the \$200 thousand threshold criteria. DM&R on capitalized personal property is reported with an estimated project cost of \$25 thousand or more.

With the exception of NOAA's vessels, most of NOAA's capitalized personal property, such as weather systems, is required to be maintained on a regular basis as the public relies on information from these systems for their safety and livelihood. It is imperative that NOAA ensures that the systems are functioning properly. Therefore, maintenance on these systems is rarely deferred. Capitalized personal property is normally maintained through maintenance contracts, when appropriate.

NOAA performs Condition Assessment Surveys to determine the status of ships according to the priorities shown below:

- Urgent and Immediate:** Program has stopped until maintenance is performed.
- Important:** Maintenance must be performed within six months or program will stop.
- Medium:** Maintenance must be performed within two years or program will stop.
- Low:** Maintenance must be performed within five years or program will stop.
- Very Low:** Maintenance can be delayed indefinitely. No threat to program.

The following table shows NOAA's DM&R as of September 30, 2018 and September 30, 2017:

(In Thousands)

Asset Category	Deferred Maintenance and Repairs as of September 30, 2018	Deferred Maintenance and Repairs as of September 30, 2017
Buildings	\$ 94,798	\$ 90,178
Multi-use Heritage Assets	545	529
Ships	26,095	28,808 ¹
Other Personal Property	25	-
Total	\$ 121,463	\$ 119,515

¹ As adjusted.

NIST:

NIST measures DM&R (related to real property) using FCA surveys, which are periodic visual inspections of PP&E to determine their current condition, and estimates the costs to correct identified deficiencies. NIST accomplishes its FCAs by contract. NIST originally scheduled its surveys on a cyclical basis with each appropriate asset being surveyed once every three years. For DM&R reporting purposes, NIST completed a baseline condition survey of the entire applicable inventory for the Gaithersburg, MD campus in 2011 and for the Boulder, CO campus in 2013. A third of the Gaithersburg inventory was reassessed in the third quarter of FY 2013, in the third quarter of FY 2014, and in the first quarter of FY 2015. A third of the Boulder inventory was reassessed in the second quarter of FY 2015, in the fourth quarter of FY 2016, and in the first quarter of FY 2017.

Deficiencies can be added to the respective location's backlog in years when contractor inspections are not scheduled. During the scheduled on-site assessment, the contract inspector estimates the remaining useful life of various components that comprise a building's mechanical or electrical or architectural system, and records this information in the assessment software program. When a particular building system nears the end of its useful life, a new self-generated (by the software program) facility deficiency is added to the backlog list.

With the end of the Gaithersburg FCAs contract in 2016 and the end of the Boulder contract in mid FY 2018, NIST's next contract will encompass both campuses within the same contract, unlike in the past where FCAs were conducted through separate, individual campus-focused contracts. The Federal Real Property Council's latest guidance requires facility assessments for each facility every five years if using condition assessments for reporting DM&R needs. NIST, in coordination with the Department, migrated its facility condition assessments data over to the U.S. Army Corps of Engineer's BUILDER Sustainment Management System (SMS). The BUILDER SMS uses a knowledge-based philosophy that does not rely on fixed frequencies of inspections or assessments. It is widely accepted and being used by all branches of the U.S. Department of Defense, the National Nuclear Security Administration within the U.S. Department of Energy, and other Executive Branch offices of the U.S. Government. During FY 2018, our existing database of backlog deficiencies was migrated from VFA facility software to the Army Corps of Engineers' BUILDER SMS. In FY 2019, we plan to competitively award a Capital Asset Management contract to a firm that is well versed in BUILDER SMS. Over the next two years, FY 2019 and FY 2020, we plan to issue task orders to the selected consulting firm to have them review/become familiar with the deficiency backlog that was migrated to BUILDER SMS and to assess the condition of our facilities and infrastructure at our two main campuses. NIST will perform facility condition assessment surveys for capitalized NIST-owned buildings (including those fully depreciated). NIST does not make a distinction between active or inactive assets for reporting DM&R.

DM&R relates to capitalized, non-capitalized, and fully depreciated real property. DM&R for real property is reported for individual items with DM&R estimates greater than \$25 thousand (\$5 thousand for FY 2017). Items estimated to cost \$25 thousand or less are shared with the facility managers for correction as emergency/service calls or minor work orders. Examples of the types of items that do not exceed the \$25 thousand threshold include minor repairs to interior finishes and doors, caulk replacement, crack repairs, minor pipe and valve leaks, and minor mechanical and electrical repairs and replacements.

NIST prioritizes maintenance and repair projects to sustain its real property in good operating condition, including maintaining warranties. DM&R is impacted by funding shortfalls. As such, NIST selects projects that will remedy life safety deficiencies and minimize risk of mission failure as real property enables the accomplishment of the mission.



Individual maintenance and repair projects are prioritized using a risk matrix procedure which determines the severity of the risk-rank (i.e., minimal, low, medium, serious, or critical). Based on the type of project (maintenance and repair, code compliance and safety, operational support, or capacity) and the distress type, the appropriate risk matrix is used and a risk-rank assigned. A ranking can be adjusted to take into account current projects underway, prioritization of future candidate projects, and budgetary funding outlook.

Acceptable real property facility condition standards are established by using building codes and/or industry standards for benchmarking and cost estimating. These standards are used to evaluate site and interior conditions, life safety, mechanical and plumbing systems, elevator and conveying systems, electrical systems, structural systems, building envelope closure systems, etc.

Facility condition index (FCI) values are calculated for each NIST facility. The ratio of the cost of correcting all facility deficiencies in a building divided by the cost of replacing the building is expressed on a 100 percentage point scale. The FCI index is 100 minus this ratio of cost expressed. This is somewhat similar to a system described by the Building Research Board of the National Research Council. Generally, a facility with an index above 95 is considered excellent, between 95 and 90 is considered good, between 90 and 85 is considered fair, and below 85 is considered poor.

DM&R has significantly increased from \$357.5 million as of September 30, 2017 to \$675.8 million as of September 30, 2018. This increase in backlog of deficiencies is primarily due to (1) increased dollar amount of Buildings DM&R associated with senior facility managers applying their cost estimating experience to update DM&R cost estimates, including the updating of Plant Replacement Values within the last year; and (2) increased DM&R for site utilities and infrastructure findings, primarily due to significant efforts in the last year to more completely and accurately estimate DM&R for major utility systems and condition of the roads, parking lots, sidewalks, etc. at the Gaithersburg, MD and Boulder, CO campuses..

The following table shows NIST’s DM&R as of September 30, 2018 and September 30, 2017:

(In Thousands)

Assets Category	Deferred Maintenance and Repairs as of September 30, 2018	Deferred Maintenance and Repairs as of September 30, 2017
Buildings	\$ 544,733	\$ 331,737
Site Utilities and Infrastructure	131,027	25,777
Total	\$ 675,760	\$ 357,514

B Combining Schedule of Budgetary Resources by Major Budget Account

The table on the following pages illustrates the Department’s FY 2018 budgetary resources by major budget account.

United States Department of Commerce Combining Schedule of Budgetary Resources by Major Budget Account
For the Year Ended September 30, 2018 (In Thousands)

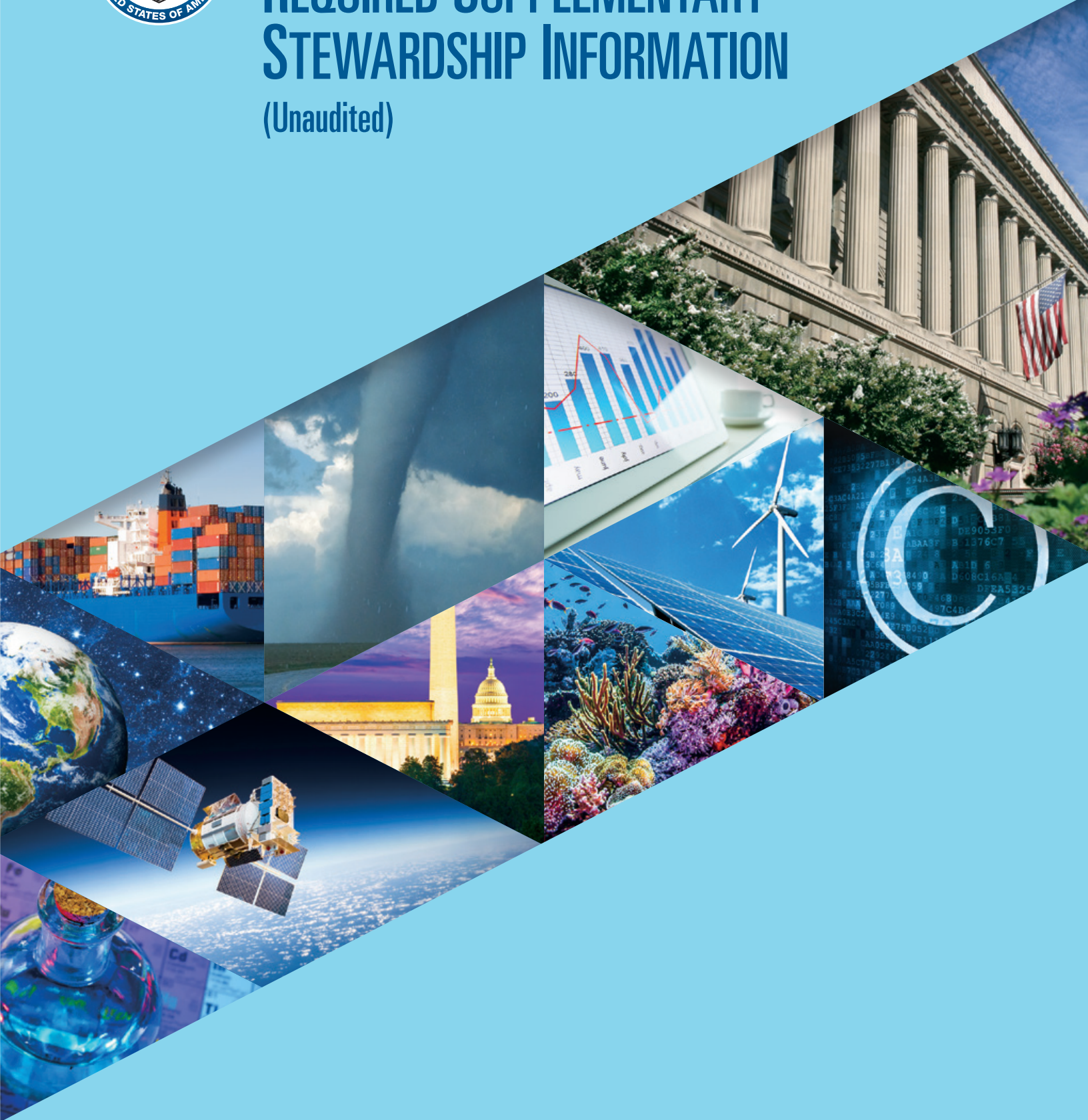
	Combined Total	Census Bureau Periodic Censuses and Programs	EDA Economic Development Assistance Programs	NOAA Operations, Research, and Facilities	NOAA Procurement, Acquisition, and Construction	NTIA Digital Television Transition and Public Safety Fund	NTIA Network Construction Fund	NTIA Public Safety Trust Fund	USPTO Salaries and Expenses	Other Budget Accounts
BUDGETARY RESOURCES:										
Unobligated Balance From Prior Years Budget Authority, Net	\$ 9,466,446	\$ 29,043	\$ 76,249	\$ 386,442	\$ 432,784	\$ 3,005	\$ 6,216,233	\$ 475,017	\$ 409,664	\$ 1,438,019
Appropriations	18,291,399	2,545,420	850,000	3,846,004	2,366,244	-	-	5,906,354	-	2,777,377
Borrowing Authority	57,537	-	-	-	-	-	-	-	-	57,537
Spending Authority From Offsetting Collections	5,446,919	-	-	245,146	-	-	54,393	175	3,341,661	1,805,544
TOTAL BUDGETARY RESOURCES	\$ 33,262,301	\$ 2,574,463	\$ 926,249	\$ 4,477,592	\$ 2,799,028	\$ 3,005	\$ 6,270,626	\$ 6,381,546	\$ 3,751,315	\$ 6,078,477
MEMORANDUM: Net Adjustments to Unobligated Balance, Brought Forward, October 1	\$ 1,000,239	\$ 9,363	\$ 32,111	\$ 42,020	\$ 34,139	\$ 3,005	\$ 6,767,753	\$ 2,554	\$ 36,079	\$ 164,215
STATUS OF BUDGETARY RESOURCES:										
New Obligations and Upward Adjustments	\$ 21,920,632	\$ 1,522,164	\$ 396,653	\$ 4,011,131	\$ 2,296,827	\$ -	\$ 6,230,297	\$ 65,041	\$ 3,304,480	\$ 4,094,039
Unobligated Balance, End of Year										
Appropriated, Unexpired Accounts	4,555,064	1,036,627	529,408	379,512	490,502	-	40,298	77,550	446,835	1,554,332
Exempt From Apportionment, Unexpired Accounts	634	-	-	-	-	-	-	-	-	634
Unapportioned, Unexpired Accounts	6,433,077	-	188	-	31	3,005	31	6,238,955	-	190,867
Unobligated Balance, End of Year, Unexpired Accounts	10,988,775	1,036,627	529,596	379,512	490,533	3,005	40,329	6,316,505	446,835	1,745,833
Unobligated Balance, End of Year, Expired Accounts	352,894	15,672	-	86,949	11,668	-	-	-	-	238,605
Total Unobligated Balance, End of Year	11,341,669	1,052,299	529,596	466,461	502,201	3,005	40,329	6,316,505	446,835	1,984,438
TOTAL STATUS OF BUDGETARY RESOURCES	\$ 33,262,301	\$ 2,574,463	\$ 926,249	\$ 4,477,592	\$ 2,799,028	\$ 3,005	\$ 6,270,626	\$ 6,381,546	\$ 3,751,315	\$ 6,078,477
OUTLAYS, NET:										
Outlays, Net	\$ 8,612,798	\$ 1,455,444	\$ 240,079	\$ 3,521,531	\$ 1,738,235	\$ 279	\$ (319,382)	\$ 65,401	\$ (117,951)	\$ 2,029,162
Distributed Offsetting (Receipts)/Outlays, Net	(37,765)	-	-	-	-	-	-	-	-	(37,765)
AGENCY OUTLAYS, NET	\$ 8,575,033	\$ 1,455,444	\$ 240,079	\$ 3,521,531	\$ 1,738,235	\$ 279	\$ (319,382)	\$ 65,401	\$ (117,951)	\$ 1,991,397



FINANCIAL SECTION

REQUIRED SUPPLEMENTARY STEWARDSHIP INFORMATION

(Unaudited)



REQUIRED SUPPLEMENTARY STEWARDSHIP INFORMATION

(Unaudited)

Stewardship Investments

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

Investments in Non-federal Physical Property:

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

EDA's and NOAA's investments in non-federal physical property for FY 2014 through FY 2018 were as follows:

(In Millions)

Program	FY 2018	FY 2017	FY 2016	FY 2015	FY 2014	Total
EDA:						
Public Works	\$ 136.2	\$ 121.3	\$ 113.8	\$ 101.0	\$ 114.0	\$ 586.3
Economic Adjustment Assistance	23.6	16.3	25.4	32.5	42.3	140.1
Global Climate Change Mitigation Incentive Fund	–	–	–	–	10.6	10.6
Assistance to Coal Communities	24.6	20.3	8.5	–	–	53.4
Disaster Recovery	66.5	7.7	15.6	8.8	98.7	197.3
EDA Subtotal	250.9	165.6	163.3	142.3	265.6	987.7
NOAA:						
National Estuarine Research Reserves	2.3	1.2	1.6	0.7	1.1	6.9
Coastal and Estuarine Land Conservation Program	–	–	0.5	0.2	0.5	1.2
NOAA Subtotal	2.3	1.2	2.1	0.9	1.6	8.1
Total	\$ 253.2	\$ 166.8	\$ 165.4	\$ 143.2	\$ 267.2	\$ 995.8

EDA:

EDA's investments in non-federal physical property, other than Disaster Recovery, require matching funds by state and local governments of 20 to 50 percent. Disaster Recovery grants do not require matching funds and can be up to 100 percent of the investment costs.

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

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

Global Climate Change Mitigation Incentive Fund (GCCMIF): The last fiscal year of funding for the GCCMIF program was FY 2011. The funding for this program is fully expensed. EDA is not anticipating future grants from this funding source. GCCMIF program financed projects that fostered economic development by advancing the green economy in distressed communities and developed and used products and services that contributed to economic growth and alleviated economic distress by respecting and revitalizing the environment. GCCMIF program supported projects that created jobs through, and increase private capital investment in, efforts to limit the Nation's dependence on fossil fuels, enhance energy efficiency, curb greenhouse gas emissions, and protect natural systems.

Assistance to Coal Communities: This program competitively awards grants to coalitions of regionally-driven economic development and workforce development organizations anchored in impacted coal communities. These grants enable grantees to take deliberate and measured steps to build economic resilience, industry diversification, and promote new job creation opportunities. Competitive projects are tightly linked to existing economic and workforce development strategic plans. These activities should result in more competitive and resilient "pipelines" of skilled workers moving into new job opportunities. Eligible activities include helping communities: organize themselves to respond on behalf of affected workers and businesses; strengthen or develop targeted industry clusters; prepare and train the existing workforce for new jobs; and help and execute coordinated economic and workforce development activities based on communities' strategic plans. These activities should result in more competitive and resilient "pipelines" of skilled workers moving into new job opportunities.

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

NOAA:

National Estuarine Research Reserves (NERR): NERR system consists of 29 estuarine reserves protected by federal, state, and local partnerships that work to preserve and protect the Nation's estuaries. NERR system helps to fulfill NOAA's stewardship mission to sustain healthy coasts by improving the Nation's understanding and stewardship of estuaries. Estuarine reserves are the areas where freshwater from rivers meet the ocean. These areas are known as bays, swamps, sloughs, and sounds. These important coastal habitats are used as spawning grounds and nurseries for the Nation's commercial fish and shellfish. Estuaries filter much of the polluted runoff from rivers and streams that would otherwise contaminate oceans. The reserves were created with the passage of the Coastal Zone Management Act of 1972, and, as of September 30, 2018, encompassed approximately 1.4 million acres of estuarine waters, wetlands, and uplands. The most recent reserve, He'eia, HI, was designated on January 19, 2017. NERRs are state-operated and managed in cooperation with NOAA. NOAA's investments in non-federal physical property are for the acquisition of lands and development or construction of facilities, auxiliary structures, and public access routes for any NERR site.

Coastal and Estuarine Land Conservation Program: This program was established under the Commerce, Justice, and State Appropriations Act of 2002, “for the purpose of protecting important coastal and estuarine areas that have significant conservation, recreation, ecological, historical, or aesthetic values, or that are threatened by conversion from their natural or recreational state to other uses.” The investments in non-federal physical property include matching grants awarded to state and local governments for land acquisition in coastal and estuarine areas. Since FY 2002, matching grants have been directed to 209 such projects.

Coastal Zone Management Fund: The Coastal Zone Management Program is authorized by the Coastal Zone Management Act of 1972, and administered at the federal level by NOAA’s Office of Ocean and Coastal Resource Management. NOAA’s financing supports various coastal states in their redevelopment of deteriorating and urbanized waterfronts and ports, as well as providing for public access to beaches and coastal areas. The state and local governments receive funding for these investments through NOAA grant expenditures, for the purpose of preservation or restoration of coastal resources and habitats. 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. The amount of Coastal Zone Management Funds expended by the U.S. federal government is zero.

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 investments in human capital are by NOAA.

The following table summarizes NOAA’s investments in human capital for FY 2014 through FY 2018:

(In Millions)

Program	FY 2018	FY 2017	FY 2016	FY 2015	FY 2014	Total
National Sea Grant College Program	\$ 0.9	\$ 1.1	\$ 0.9	\$ 0.7	\$ 0.8	\$ 4.4
National Estuarine Research Reserve Program	1.7	1.5	1.5	1.5	1.3	7.5
Educational Partnership Program	15.3	14.1	14.3	14.3	14.3	72.3
Ernest F. Hollings Undergraduate Scholarship Program	5.9	5.7	5.8	5.5	6.2	29.1
Other Programs	–	0.2	0.2	0.4	0.7	1.5
Total	\$ 23.8	\$ 22.6	\$ 22.7	\$ 22.4	\$ 23.3	\$ 114.8

National Sea Grant College Program: Sea Grant is a nationwide network, administered through NOAA, of 34 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. During FY 2018, the program awarded 57 fellowships: 15 fellowships funded by the National Sea Grant College Program, and 42 fellowships funded by other NOAA offices and other federal agencies. During FY 2018, NOAA's National Marine Fisheries Service's (NMFS) Sea Grant Graduate Fellowship Program began funding six new fellows. A total of 21 current Fellows have funding through at least 2018. 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.

Educational Partnership Program: The NOAA **Educational Partnership Program (EPP)** with **Minority Serving Institutions (MSI)** provides financial assistance through competitive processes to minority serving institutions that support research and training of students in NOAA-related sciences (EPP Cooperative Science Centers). The program's goal is to increase the number of trained and graduated students, from underrepresented communities in science and technology, directly related to NOAA's mission. EPP/MSI also seeks to increase collaborative research efforts between NOAA scientists and researchers at minority serving academic institutions through the EPP Cooperative Science Centers. In FY 2018, EPP Cooperative Science Centers awarded approximately 75 degrees to students.

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 United States. In FY 2018, the program added 150 students.

Investments in Research and Development (R&D):

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

NIST:

The following table summarizes NIST’s R&D investments for FY 2014 through FY 2018:

(In Millions)

Program	FY 2018				FY 2017	FY 2016	FY 2015	FY 2014	Total
	Basic	Applied	Development	Total					
NIST Laboratories Program	\$ 266.9	\$ 454.8	\$ 11.5	\$ 733.2	\$ 734.2	\$ 756.0	\$ 717.2	\$ 657.5	\$ 3,598.1
Manufacturing USA, Advanced Manufacturing Technology Consortia, and Technology Innovation Program	0.6	3.6	3.4	7.6	8.6	14.4	5.2	7.2	43.0
Public Safety Communications Research Program	–	36.2	–	36.2	21.7	–	–	–	57.9
Total	\$ 267.5	\$ 494.6	\$ 14.9	\$ 777.0	\$ 764.5	\$ 770.4	\$ 722.4	\$ 664.7	\$ 3,699.0

NIST Laboratories Program:

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

- NIST Laboratories work at the frontiers of measurement science to ensure that the Nation’s system of measurements is firmly grounded on a sound scientific and technical foundation. NIST also promotes the use of measurements based on the international system of units.
- NIST Laboratories work to assure that the Nation’s realization of the basic and derived measurement units is consistent with the realization in other nations. NIST Laboratories engage in a number of international activities to support trade and global science, and to promote the international acceptance of the Nation’s measurement standards.
- NIST Laboratories provide industry and academia with unique user facilities that support innovation in materials science, nanotechnology, and other emerging technology areas through the NIST Center for Neutron Research, which provides world-class neutron measurement capabilities to the Nation’s research community, and through the NIST Center for Nanoscale Science and Technology, which supports nanotechnology development from discovery to production.
- NIST Laboratories also support the development of standards and specifications that define technical and performance requirements for goods and services. These standards—also known as documentary standards—are often developed collaboratively with the private sector through an open, consensus-based process. NIST scientists and engineers lend their expertise to these efforts in order to promote standards that are based on sound science, and to ensure that the standards are supported by effective measurements and testing methods for conformity. In addition, NIST is designated under the National Technology Transfer Advancement Act as the coordinator for all federal agencies using documentary standards that are developed by private sector consensus bodies to carry out their policy objectives.

Manufacturing USA:

Manufacturing USA was renamed from the National Network for Manufacturing Innovation in September 2016. This program was first appropriated funds of \$25.0 million in FY 2016, pursuant to the Revitalize American Manufacturing and Innovation Act of 2014 (RAMI). The FY 2017 appropriations for NIST also provided funding for this program of \$25.0 million. The FY 2018 appropriations were \$15 million. This program and funding is part of government-wide efforts to strengthen the U.S. advanced manufacturing sector.

As part of its efforts to revitalize U.S. manufacturing, NIST proposed and Congress authorized (RAMI) Manufacturing USA, which would consist of a network of manufacturing innovation institutes where researchers, companies, universities, community colleges, and entrepreneurs can come together to develop new manufacturing technologies with broad applications, as well as train the workforce needed to work in advanced manufacturing industries. The primary goal is to ensure that American innovations and inventions, currently going off-shore for production in competitor nations, would be scaled up from the lab-scale experiments to industrial scale by developing new manufacturing processes to be used by entire industry sectors.

Each institute in Manufacturing USA has a unique technology focus with the objective of creating self-sustaining regional manufacturing hubs that have national impact. The institutes help support an ecosystem of manufacturing activity in regions of the United States. The institutes support manufacturing technology commercialization by helping to bridge the gap from the laboratory to the market and address core gaps in scaling manufacturing process technologies.

In FY 2018, six Manufacturing USA institutes were in their first year of operation, for a total of 14 manufacturing innovation institutes in the network. This included the first NIST-sponsored institute, on the topic of biopharmaceuticals manufacturing: the National Institute for Innovation in Manufacturing Biopharmaceuticals (NIIMBL). NIIMBL's mission is to accelerate biopharmaceutical manufacturing capabilities, and educate and train a world-leading biopharmaceutical manufacturing workforce, fundamentally advancing the United States competitiveness in this burgeoning industry. In addition, NIST's Office of Advanced Manufacturing provides infrastructure support for the network and all institutes within the network.

The Manufacturing USA network is operated by the interagency Advanced Manufacturing National Program Office of NIST. The office is staffed by representatives from federal agencies with manufacturing-related missions as well as fellows from manufacturing companies and universities, and provides infrastructure support for the network and all institutes within the network. The office operates in partnership with the U.S. Department of Defense, U.S. Department of Energy, National Aeronautics and Space Administration, National Science Foundation, U.S. Department of Education, U.S. Department of Agriculture, U.S. Department of Health and Human Services, and U.S. Department of Labor.

NIST Public Safety Communications Research Program:

As part of the Middle Class Tax Relief and Job Creation Act of 2012, NIST received through FY 2017 one-time (non-recurring) mandatory budgetary resources of \$300.0 million from the National Telecommunications and Information Administration (NTIA) to help develop cutting-edge wireless technologies for public safety users. In partnership with industry and public safety organizations, NIST will continue to conduct research and develop new standards, technologies, and applications to advance public safety communications in support of NTIA's First Responder Network Authority's efforts to build an interoperable nationwide broadband network for first responders.

NOAA:

NOAA's R&D investments by program from FY 2014 through FY 2018 were as follows:

(In Millions)

Program	FY 2018				FY 2017	FY 2016	FY 2015	FY 2014	Total
	Basic	Applied	Development	Total					
Environmental and Climate	\$ -	\$ 403.1	\$ 85.5	\$ 488.6	\$ 452.5	\$ 405.5	\$ 298.4	\$ 294.1	\$ 1,939.1
Fisheries	-	45.1	15.0	60.1	57.7	53.4	50.3	43.4	264.9
Marine Operations and Maintenance and Aircraft Services	-	66.9	-	66.9	26.0	29.9	29.2	29.7	181.7
Weather Service	-	1.7	17.8	19.5	20.7	18.7	42.7	29.3	130.9
Other	-	103.9	35.2	139.1	68.1	70.4	30.0	63.5	371.1
Total	\$ -	\$ 620.7	\$ 153.5	\$ 774.2	\$ 625.0	\$ 577.9	\$ 450.6	\$ 460.0	\$ 2,887.7

NOAA conducts a substantial program of environmental R&D in support of its mission, much of which is performed to improve the United States' understanding of and ability to predict environmental phenomena, and is intended to provide a solid scientific basis for environmental policy-making in government. The scope of research includes:

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

Here is a brief description of the major R&D programs of NOAA:

Environmental and Climate: The Office of Oceanic and Atmospheric Research (OAR) is NOAA's primary R&D office. This office conducts research in three major areas: climate research; weather and air quality research; and ocean, coastal, and Great Lakes research. NOAA's research laboratories, Climate Program Office, and research partners conduct wide-ranging research into complex climate systems, including the exploration and investigation of ocean habitats and resources. NOAA's research organizations conduct applied research to predict severe weather events and hazardous conditions that threaten life, property, and economic well being. OAR research laboratories then develop high-resolution regional and global weather prediction models and software applications for forecasters that transfer into operations at the National Weather Service to significantly improve services to the public. These products are helping to evolve the National Weather Service into providing decision support to users in addition to weather forecasts.

Fisheries: NOAA's NMFS supports sustainable fisheries and protected resources management specifically improving aquaculture, improvements to fishery data collection and assessment, protected species science, techniques for reducing bycatch and other adverse impacts, adapting to climate change and other long-term ecosystem change, and socio-economic research. Other examples of R&D are process-oriented studies to understand mechanisms that control reproductive success, population genetics and stock structure, animal behavior, biophysical modeling, and the functional value of habitat.



Marine Operations and Maintenance and Aircraft Services: NOAA's Office of Marine and Aviation Operations (OMAO) manages a variety of specialized ships and aircraft that play a critical role in the in-situ collection of oceanographic, atmospheric, hydrographic, and fisheries data in support of NOAA's missions. The NOAA fleet operates throughout the world supporting a wide array of NOAA missions including fisheries research, nautical charting, hurricane reconnaissance and research, snow surveys, and specialized atmospheric and ocean research. NOAA ships range from large oceanographic research vessels capable of exploring the world's deepest oceans to smaller ships responsible for charting the shallow bays and inlets of the United States. NOAA aircraft range from the four engine WP-3D, capable of penetrating hurricanes, to the De Havilland Twin Otters, well-suited for water resource management data collection and marine mammal surveys where slower airspeeds and low altitudes are essential.

Weather Service: NOAA's National Weather Service (NWS) conducts applied research and development to support integrated water prediction, with advances to the initial operational capability for the National Water Model, tsunami modeling for more accurate predictions, and development of the Next Generation Global Prediction System (NGGPS). NGGPS, a global prediction system to address growing service demands, will increase the accuracy of weather forecasts out to 30 days. The goal is to expand and accelerate critical weather forecasting research to operation through accelerated development and implementation of current global weather prediction models, improved data assimilation techniques, and improved software architecture and system engineering. Improvements to hurricane forecasts are being transitioned into operations; NGGPS as the backbone for NWS' environmental predictions will support these and all high-impact weather forecasts.

Other Programs: As a national lead for coastal stewardship, NOAA's National Ocean Service (NOS) supports research and development on the cartographic, hydrographic and oceanographic sciences that underpin mapping, observing, and modeling efforts. This research and development leads to new technologies, models, and products and tools. NOS conducts applied research and delivers scientific information for disaster response and management, protection, and restoration of ocean and coastal resources. Finally, NOS research contributes to the national effort to make the coast more resilient to natural and man-made changes. NOAA's National Environmental Satellite Data and Information Service, Center for Satellite Applications and Research accelerates the transfer of satellite observations of land, atmosphere, ocean, and climate from scientific research and development into routine operations, enabling NOAA to offer state-of-the-art data, products, and services to decision-makers.

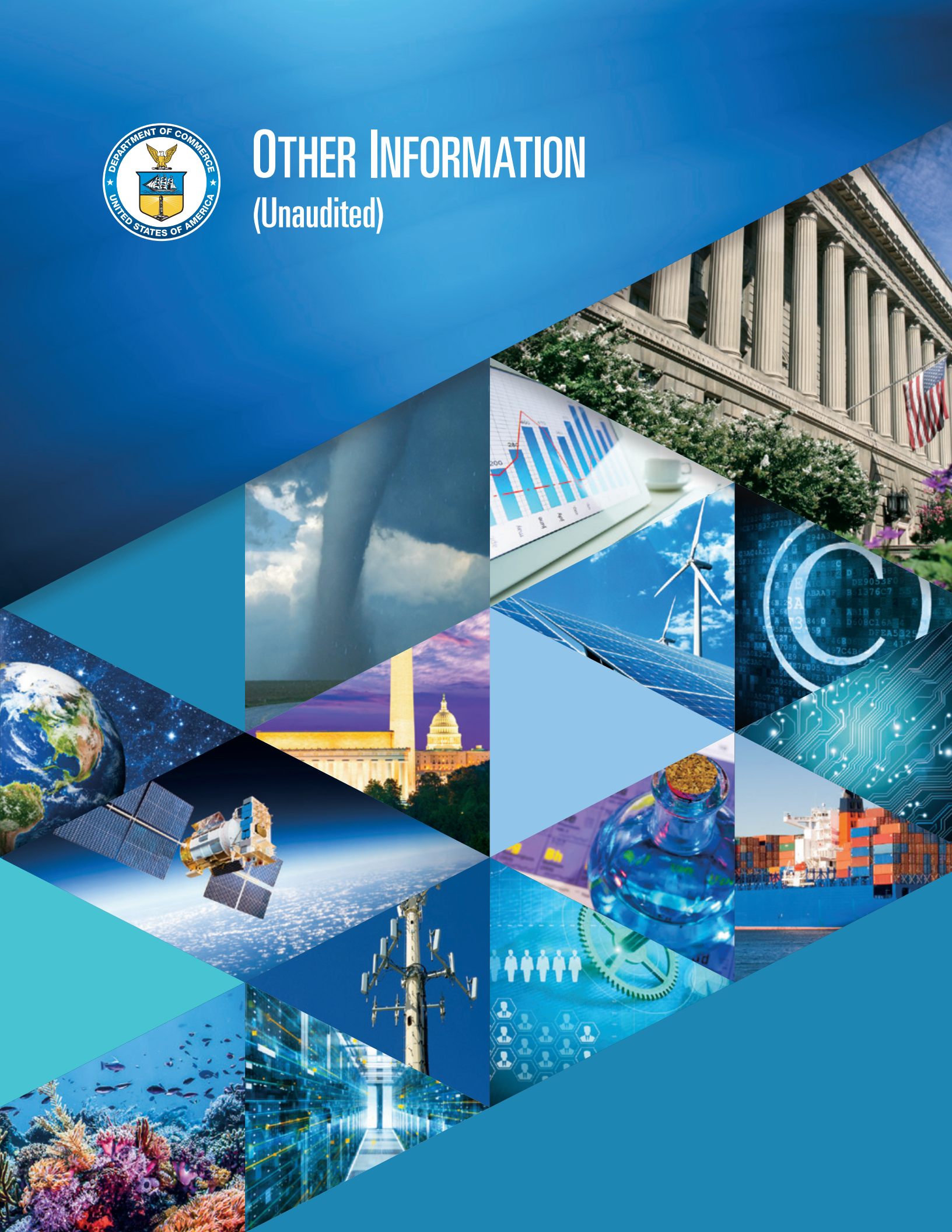
NOAA's Spectrum Efficient National Surveillance Radar Program includes research and development activities to determine the feasibility of improving the efficiency and effectiveness of the spectrum use by federal radar operations. The primary focus is making available a minimum of 30 MHz in the 1300-1350 MHz band for reallocation to shared federal and non-federal use through updated radar technology.

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OTHER INFORMATION

(Unaudited)



OFFICE OF INSPECTOR GENERAL SUMMARY ON TOP MANAGEMENT AND PERFORMANCE CHALLENGES



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

OIG's Top Management and Performance Challenges Facing the Department of Commerce in FY 2019

The Office of Inspector General is required by statute¹ to report annually the most serious management and performance challenges facing the Department of Commerce. Below is a summary of our final report on the Department's top management and performance challenges for fiscal year (FY) 2019.

1. Successfully Completing 2020 Census Testing and Systems Integration of New Innovations in Time to Deliver a Cost-Effective, Accurate Decennial Census

Following the 2010 Census, the Census Bureau (the Bureau) recognized that it needed to address the trend of increasing decennial costs. Early this decade, the Bureau committed to making fundamental changes to the decennial census design in order to complete the 2020 Census at a lower cost than the 2010 Census² while maintaining quality. The Bureau also committed to measuring 2020 Census design options with respect to cost and quality by developing improved cost models for operations and applying cost-benefit analyses to all proposed operations. The Bureau's research and testing strategy focused on implementing numerous technological and methodological innovations in four key areas: (1) reengineering address canvassing,³ (2) optimizing self-response, (3) utilizing administrative records and third-party data,⁴ and (4) reengineering field operations with technology. However, throughout the decade, the Bureau has modified its strategy by both reducing the number and scope of tests, citing funding constraints as the primary reason. In addition, technology changes in May 2016 required the Bureau to implement new systems on a condensed time schedule. As a result, with Census Day⁵ less than 2 years away, the Bureau has not fully integrated and tested all of its new, innovative decennial census design solutions—and is quickly running out of time and facing the risk of increasing costs.

The Bureau must also operate within statutory and regulatory legal constraints and meet the primary requirements of the decennial census as defined in the U.S. Constitution—to

¹ 31 U.S.C. § 3516(d).

² Per housing unit and adjusted for inflation.

³ The address canvassing operation serves two purposes: to deliver a complete and accurate address list and spatial database for enumeration; and to determine the type and address characteristics for each living quarter.

⁴ The goal of the *administrative records* operation is to use information people have already provided to governmental and nongovernmental entities to improve the efficiency and effectiveness of the 2020 Census, and in particular, to reduce expensive in-person follow-up activities. Administrative record data refers to information from federal and state governments. Third-party data refers to information from commercial sources.

⁵ The 2020 Census will count where the population is living as of Census Day, which is April 1, 2020.



enumerate the population in order to apportion representatives among the states.⁶ To ensure a quality decennial census in 2020, the Bureau must ensure that its innovative systems and methods will allow it to “count everyone once, only once, and in the right place.”⁷ The challenge of conducting a complex and innovative decennial census is compounded by the Bureau’s commitment to data quality while honoring privacy and protecting confidentiality.

OIG’s FY 2019 top management and performance challenges include these priority areas related to the 2020 Census:

- Minimizing the challenges associated with incomplete testing of 2020 Census systems and innovations
- Mitigating the risks of unplanned changes
- Preventing further reductions to cost avoidance, reducing cost overruns, and eliminating unaccounted-for costs

Progress made/challenges remaining since the FY 2018 TMC: In last year’s top management and performance challenges report, we identified the following Bureau challenges: to maintain continuity of leadership, develop an accurate 2020 Census life-cycle cost estimate, and ensure timely implementation of reengineered processes and systems.

In July 2018, the President nominated a new Director of the Bureau for the remainder of a 5-year term that expires on December 31, 2021; if confirmed, the new Director would provide leadership through the completion of the 2020 Census. To address the challenge of developing a life-cycle cost estimate, the Bureau released a revised estimate in December 2017 that increased the expected 2020 Census cost to \$15.6 billion. According to the Secretary of Commerce’s testimony, the revised cost estimate “meets the characteristics of a high-quality estimate and improve [sic] control over how risks and uncertainty are accounted for in the cost estimate.”⁸ Finally, the Bureau conducted its 2018 End-to-End Census Test, which included significant field data collection components. This 2018 Test represents progress that the Bureau has made toward last year’s challenge.

⁶ Decennial census data are also used, for example, to define boundaries for Congressional districts, state legislative districts, school districts, and voting precincts; enforce voting rights and civil rights legislation; and determine the distribution of federal funds to local communities. The data are also used for decisions about U.S. commerce and the economy at local and national levels.

⁷ U.S. Census Bureau, September 2017. *2020 Census Operational Plan: A New Design for the 21st Century*, version 3.0. Washington, DC: Census Bureau.

⁸ House Committee on Oversight and Government Reform, Hearing on the 2020 Census, October 12, 2017. Written Statement: Wilbur Ross, Secretary of Commerce [online]. <https://oversight.house.gov/wp-content/uploads/2017/10/Written-SWLR-HOGR-Testimony-FINAL.pdf> (accessed August 27, 2018).

2. Maximizing Efficiencies of Environmental Satellite Programs

Satellite data and imagery are essential to National Oceanic and Atmospheric Administration's (NOAA's) capability to understand, predict, and track weather and other environmental phenomena. NOAA's primary sources of these observations are satellites in geostationary and polar orbits.

NOAA's constellation of Geostationary Operational Environmental Satellites (GOES) maintains a constant watch over the Western hemisphere for tracking and forecasting severe storms. NOAA's Joint Polar Satellite System (JPSS) and other polar satellites circle above Earth from pole to pole, observing the entire globe approximately twice a day. Their data provide important input for numerical weather prediction systems' 3–7 day forecasts. Beyond its own satellites and those of international and intergovernmental partners, NOAA has a pilot program seeking to leverage capabilities in the emerging sector of commercial space services.

While continuing to ensure the continuity of its environmental satellite observations, NOAA must maximize efficiencies in its established satellite programs and further explore opportunities to augment its capabilities through data obtained from new sources.

OIG's FY 2019 top management and performance challenges include these priority areas related to NOAA's satellite programs:

- Reducing life-cycle costs of the Polar Weather Satellite program
- Identifying an optimal launch strategy for remaining satellites in the series
- Managing risks in next-in-series satellites
- Planning an optimal next-generation satellite system architecture

Progress made/challenges remaining since the FY 2018 TMC: OIG's past top management and performance challenges reports have emphasized NOAA's challenge mitigating the risk of satellite data gaps. In FY 2018, NOAA made some progress by (a) transitioning GOES-16 and JPSS-1 into operations (the latter, now providing data that forecast models assimilate, helps reduce risk of data gaps from the polar orbit); (b) addressing issues and risks in the acquisition and development of the next-in-series satellites (system testing and key instrument acquisition/development still present risk); (c) receiving full funding for revised Polar Follow-On program baselines; and (d) delaying its reporting and further assessment of the viability of using commercial data in weather forecasts.

3. Deploying a Nationwide Public Safety Broadband Network (NPSBN)

The Middle Class Tax Relief and Job Creation Act of 2012 established the First Responder Network Authority (FirstNet) as an independent authority within the National Telecommunications and Information Administration (NTIA) to build, deploy, and operate a NPSBN dedicated to first responders. On March 30, 2017, FirstNet entered into

a 25-year contract with AT&T for the construction and operation of the NPSBN. FirstNet's partnership with AT&T involves (a) an initial obligation of up to \$6.5 billion in funds to the private company to deploy the network, (b) AT&T's use of dedicated broadband spectrum, and (c) payments from AT&T to FirstNet over the life of the contract. FirstNet is to use these proceeds to support its operations and to fund future upgrades to the network.

Although FirstNet has made progress in implementing the Middle Class Tax Relief and Job Creation Act's requirements since its 2012 enactment, FirstNet continues to face challenges as it deploys and operates the NPSBN.

OIG's FY 2019 top management and performance challenges include these priority areas related to FirstNet:

- Deploying the NPSBN
- Securing public safety participation
- Ensuring the successful performance of the contract awarded to AT&T
- Ensuring effective and efficient use of proceeds AT&T provides annually to FirstNet
- Strengthening operational controls

Progress made/challenges remaining since the FY 2018 TMC: In March 2018, FirstNet made progress addressing challenges by launching its core network and awarding the task order to execute the plan to build, operate, maintain, and improve the Radio Access Network in each state. In addition, AT&T allows first responders to immediately take advantage of AT&T's long-term evolution spectrum bands and maintains a list of certified devices. However, questions about initial deployment and beyond remain. It is critical that both AT&T and FirstNet meet their contractually agreed upon milestones. In addition, they must address future coverage, the ability to operate reliably and continually during severe conditions, and the continuous improvements the network will require.

4. Ensuring USPTO Provides High-Quality Intellectual Property Rights

The U.S. Patent and Trademark Office (USPTO) faces the challenge of issuing reliable patents. Innovators and creators must have confidence that their patents will withstand scrutiny and litigation; in light of this challenge, USPTO's Director has indicated a need to increase the reliability of patents. As noted by stakeholders, patentability concerns will deteriorate innovators' confidence in the U.S. patent system, stifle innovation, and weaken the value of U.S. intellectual property rights.⁹

⁹ George Mason University Antonin Scalia Law School Center for the Protection of Intellectual Property, April 28, 2017. An Ever-Weakening Patent System is Threatening the Future of American Innovation [online].

OIG's FY 2019 top management and performance challenges with respect to USPTO include these priority areas:

- Ensuring that the Patent Trial and Appeal Board operates fairly and effectively
- Ensuring that examiners perform thorough patent application reviews
- Improving the management of IT acquisitions and operations

Progress made/challenges remaining since the FY 2018 TMC: Over the previous 2 years, OIG has identified the modernization of USPTO's legacy IT systems as a top management and performance challenge. Although USPTO identified interim accomplishments such as trademark document migration into the Trademark Next Generation (TMNG) application, OIG remains concerned about USPTO's progress in this area.

USPTO relies upon mission-critical IT systems in every aspect of its operation for examination, rights management, and revenue collection associated with patents and trademarks. To help meet its strategic goals and mission, USPTO aggressively pursues modernization of its IT systems for core applications, such as Patent End to End, TMNG, and Fee Processing Next Generation. However, as noted in the FY 2018 top management and performance challenges, several major systems are still behind their original implementation schedule and over estimated costs.

5. Continuing to Improve the Department's Cybersecurity Posture

In recent years, strengthening the cybersecurity of federal government networks and critical infrastructure has increasingly become a high priority. To meet this priority, the Department has actively participated in a government-wide effort to deploy cybersecurity capabilities that provide a dynamic approach to fortifying the cybersecurity of government networks and systems. Although the Department has made progress in this area, it continues to face significant challenges to improving its enterprise cybersecurity posture. In addition, the Department is increasingly relying on cloud technology services to support its business operations, including the 2020 decennial census. While cloud technologies can bring great benefits, they unavoidably introduce new security challenges. The Department must provide adequate security to support the 2020 decennial census as well as other critical mission functions, fully implement the enterprise cybersecurity capabilities, and ensure it has a sustainable cyber workforce to meet its cybersecurity needs. As security threats become increasingly sophisticated and more numerous, the Department faces the challenge of reevaluating and expanding its approaches to securing information technology (IT) systems. The Department must work to fulfill existing requirements, while also implementing new strategies, to meet the additional security demands of cloud-based computing, as well as other technological developments.

<https://cpip.gmu.edu/2017/04/28/an-ever-weakening-patent-system-is-threatening-the-future-of-american-innovation/> (accessed August 30, 2018).

OIG's FY 2019 top management and performance challenges include these priority areas with respect to the Department's cybersecurity posture:

- Implementing security controls to protect the systems supporting the 2020 Census
- Securing cloud-based systems and assets
- Sustaining Department-wide implementation of the Continuous Diagnostics and Mitigation (CDM) program
- Maintaining a robust IT workforce to manage an effective IT security program

Progress made/challenges remaining since the FY 2018 TMC: In the FY 2017 *Top Management and Performance Challenges*, OIG reported that the Department had made substantial progress toward implementing the Enterprise Continuous Monitoring Operation (ECMO) capability on its system components—but not on high-impact systems. As a result, the Department has no continuous monitoring cybersecurity capability over its most critical systems. While NOAA and BIS continue to deploy ECMO on their high-impact systems, crucial data will not automatically feed into the Department's ECMO operation until mid-2019. The Department must make a concerted effort to ensure complete ECMO deployment on its high-impact systems, sustain Department-wide implementation of the CDM program, and provide real-time continuous monitoring to enhance its cybersecurity posture.

6. Utilizing Resources and Developing Processes to Rebalance Trade Enforcement and Promotion Priorities

Among the federal government's leading trade enforcement and promotion agencies, the Department faces the challenge of helping U.S. companies be more competitive abroad while simultaneously protecting U.S. national security interests. The Department's trade enforcement and promotion responsibilities primarily reside with two bureaus: (1) ITA, which enforces U.S. trade laws and agreements and assists U.S. exporters to sell their products overseas, and (2) BIS, which administers and enforces U.S. export control laws and regulations to support U.S. national security interests. With the Administration prioritizing trade enforcement activities to promote fair and secure trade, the Department must continue to rebalance its resources and capabilities to that end.

In the area of international trade, the Administration has prioritized enforcing laws that promote fair and secure trade using existing and new laws and regulations, in addition to using rarely exercised authorities.¹⁰ The two Department components affected the most by this prioritization are ITA and BIS. The Enforcement and Compliance (E&C) business unit of ITA is responsible for conducting antidumping (AD) and countervailing duty (CVD) investigations and reviews to remedy unfairly dumped and/or subsidized imports. ITA's Industry and Analysis (I&A) business unit leads, with extensive BIS collaboration,

¹⁰ U.S. Department of Commerce Office of Inspector General, September 27, 2017. *Top Management and Performance Challenges Facing the Department of Commerce*, OIG-17-033. Washington, DC: DOC OIG, 21.

the Department's engagement in interagency efforts to review transactions involving potential foreign ownership of U.S. companies. BIS leads, with substantive ITA support, the Section 232 investigations to determine whether tariffs on imports are warranted for national security reasons. ITA and BIS must use their resources effectively and efficiently as they participate in government-wide efforts to ensure fair trade that protects national security.

OIG's FY 2019 top management and performance challenges include these priority areas related to trade and enforcement promotion:

- Building staff expertise for the self-initiation of AD and CVD cases
- Institutionalizing processes for Section 232 product exclusion request reviews and managing the increased foreign investment review workload
- Managing the downsizing of trade promotion capacity

Progress made/challenges remaining since the FY 2018 TMC: In the last year, ITA has made progress on top management and performance challenges relating to AD and CVD cases. E&C has tasked its Petition Counseling and Analysis Unit within the Office of Policy and Negotiations, staffed with five full-time positions, with self-initiating AD and CVD investigations, when warranted, on behalf of affected domestic interested parties. However, further challenges remain.

7. Providing Adequate Oversight to Effectively Manage the Significant Increase in Disaster Assistance Funding to the Economic Development Administration (EDA)

According to NOAA, the United States experienced a historic year of weather-related disasters in 2017. Our nation endured 16 separate billion-dollar disaster events, including severe weather, hurricanes, flooding, and wildfires. In response, the President signed into law the Bipartisan Budget Act of 2018, which designated \$1 billion in disaster recovery funds to the Department, \$600 million of which was appropriated to the Department's Economic Development Administration (EDA), while the remaining \$400 million was appropriated to NOAA. There is \$587 million available for EDA grants, following transfers related to grant administration and oversight.

Providing assistance in a post-disaster recovery environment introduces its own unique challenges, such as the reliance on impaired local infrastructure, awarding funds to recipients that might not be familiar with federal requirements, and unanticipated impact on resources due to the increased workload. This is especially critical to EDA, as the additional disaster assistance funding triples its typical annual budget authority from about \$300 million to nearly \$900 million. This significant increase in funding will place additional demands on EDA's existing workforce, oversight processes, business practices, and financial management systems to ensure proper oversight and use of the funds. Additionally, EDA is responsible for integrating the expertise of the federal government to assist local, state, tribal governments, and the private sector in economic recovery efforts following a major disaster. EDA has taken proactive steps to start

addressing this challenge. To date, EDA has developed four Disaster Supplemental Implementation working groups, whose responsibility is to promote policies and procedures that address disaster assistance related priority areas.

However, to ensure proper and timely use of the disaster assistance fund, EDA must develop and implement comprehensive strategic planning, develop consistent policies, and maintain a highly-skilled workforce as it increases its oversight efforts to effectively administer the disaster assistance appropriations.

OIG's FY 2019 top management and performance challenges include these key areas related to EDA disaster relief:

- Following a comprehensive oversight implementation strategy
- Acquiring and maintaining sufficient staff with appropriate proficiency
- Developing a risk management strategy to strengthen internal control

Progress made/challenges remaining since the FY 2018 TMC: This challenge is new for FY 2019.

8. Addressing Departmental Management Matters Involving Acquisitions

A continuing challenge for the federal government generally, and the Department specifically, is spending taxpayer dollars wisely and protecting them from waste and abuse. In FY 2017, the Department awarded various types of contracts—totaling approximately \$3.2 billion—for goods and services related to satellite acquisitions, support for intellectual property operations, management of coastal and ocean resources, IT, and construction and facilities management. Consequently, it is imperative that these funds result in the best value for the taxpayer. OIG audits have identified a number of areas where the Department can better manage and oversee contracts to improve program performance, achieve cost savings, and help prevent fraud, waste, and abuse.

OIG's FY 2019 top management and performance challenges include these key areas:

- Improving monitoring of blanket purchase agreements (BPAs)
- Developing and maintaining a competent acquisition workforce to maximize cost savings
- Establishing oversight of mission-support service delivery
- Increasing the pace of NOAA ship acquisitions

Progress made/challenges remaining since the FY 2018 TMC: In FY 2017, the Department reported progress in the recruitment and retention of a capable workforce that can manage complex acquisition programs. For example, the number of acquisition professionals increased 14 percent and the attrition rate decreased from 14.3 to 12.6 percent. Nevertheless, the Department continues to face workforce challenges.

PAYMENT INTEGRITY

The Improper Payments Information Act (IPIA) of 2002, as amended by the Improper Payments Elimination and Recovery Act of 2010 and the Improper Payments Elimination and Recovery Improvement Act of 2012, requires agencies to periodically review all programs and activities and identify those that may be susceptible to significant improper payments, take multiple actions when programs and activities are identified as susceptible to significant improper payments, and annually report information on their improper payments monitoring and minimization efforts. The Office of Management and Budget's (OMB) Circular A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control* (July 15, 2016), Appendix C, *Requirements for Payment Integrity Improvement* (June 26, 2018), defines an improper payment¹ and provides guidance to agencies to comply with IPIA, as amended, and for agency improper payments efforts. The Department has not itself identified any programs or activities susceptible to significant improper payments.

The Department recognizes the importance of maintaining adequate internal controls to ensure proper payments, and the Department's commitment to continuous improvement in the overall disbursement management process remains high. Each of the Department's payment offices has implemented policies and procedures to detect and prevent improper payments. For FY 2019 and beyond, the Department will continue its efforts to ensure the integrity of its disbursements.

On January 29, 2013, the President signed into law the Disaster Relief Appropriations Act (Act), which provided a total of \$50.5 billion government-wide in aid for Hurricane Sandy disaster victims and their communities. The National Oceanic and Atmospheric Administration (NOAA) received \$326 million of funds under the Act for Hurricane Sandy recovery and other disaster-related activities. Pursuant to OMB Memorandum M-13-07, *Accountability for Funds Provided by the Disaster Relief Appropriations Act* (March 12, 2013), the Department in March 2013 submitted its final plan for accountability, internal controls, and other requirements, for funds provided to NOAA that are deemed by OMB as susceptible to significant improper payments for the purposes of requirements under IPIA of 2002, as amended, and the Department was required, for FY 2013 through FY 2016 disbursements, to calculate and report an

¹ **Excerpts:** An improper payment is any payment that should not have been made or that was made in an incorrect amount under statutory, contractual, administrative, or other legally applicable requirements. Incorrect amounts are overpayments or underpayments that are made to eligible recipients (including inappropriate denials of payment or service, any payment that does not account for credit for applicable discounts, payments that are for an incorrect amount, and duplicate payments). An improper payment also includes any payment that was made to an ineligible recipient or for an ineligible good or service, or payments for goods or services not received (except for such payments authorized by law). In addition, when an agency's review is unable to discern whether a payment was proper as a result of insufficient or lack of documentation, this payment should also be considered an improper payment. A "questioned cost" should not be considered an improper payment until the transaction has been completely reviewed and is confirmed to be improper.

The term "payment" in this guidance means any disbursement or transfer of Federal funds (including a commitment for future payment, such as cash, securities, loans, loan guarantees, and insurance subsidies) to any non-Federal person, non-Federal entity, or Federal employee, that is made by a Federal agency, a Federal contractor, a Federal grantee, or a governmental or other organization administering a Federal program or activity. The term "payment" includes disbursements made pursuant to prime contracts awarded under the Federal Acquisition Regulation and Federal awards subject to the 2 C.F.R. Part 200 – Uniform Administrative Requirements, Costs Principles and Audit Requirements for Federal Awards (Uniform Guidance) that are expended by recipients.



annual improper payments estimate. The Department, effective with FY 2017 disbursements, is no longer required by OMB to calculate and report an annual improper payments estimate, and is no longer required to report in the FY 2018 Agency Financial Report (AFR) on the Disaster Relief Appropriations Act funds.

The Department, effective with its FY 2019 AFR, will begin reporting on disaster funds received by the Economic Development Administration (EDA) of \$600.0 million and disaster funds received by NOAA of \$400.0 million, under the Bipartisan Budget Act of 2018 (February 9, 2018). Pursuant to OMB Memorandum M-18-14, *Implementation of Internal Controls and Grant Expenditures for the Disaster-Related Appropriations* (March 30, 2018), the Department submitted in FY 2018 its internal control plans for funds provided to EDA and NOAA that are deemed by OMB as susceptible to significant improper payments for the purposes of requirements under IPIA of 2002, as amended. The Department is required to submit a statistical sampling and estimation plan(s) to OMB by June 30, 2019 for EDA and NOAA FY 2018 disbursements, to calculate and report an annual improper payments estimate(s).

I. Improper Payments Risk Assessments.

The Department annually conducts an assessment of the effectiveness of internal control over financial reporting, in compliance with OMB Circular A-123, Appendix C. Furthermore, every three years, the assessment includes a review of internal controls over disbursement processes, including Department-wide sample testing of disbursements for improper payments and for appropriate internal control attributes. The most recent review performed indicated that internal controls over disbursement processes were sound.

Each of the Department's bureaus/reporting entities periodically completes or updates, over a one to three-year period (depending on the size of the entity), improper payments risk assessments covering all of its programs/activities as required by OMB Circular A-123, Appendix C. These improper payments risk assessments of the entity's programs/activities also incorporate improper payments risk assessments every three years of the control, procurement, and grants management environments. The program/activity improper payments risk assessments performed in FY 2018 address the nine minimum improper payments risk factors set forth in the previous October 20, 2014 version of OMB Circular A-123, Appendix C that should be addressed, which are: whether the program or activity reviewed is new to the agency; the complexity of the program or activity reviewed, particularly with respect to determining correct payment amounts; the volume of payments made annually; whether payments or payment eligibility decisions are made outside of the agency, for example, by a state or local government, or a regional federal office; recent major changes in program funding, authorities, practices, or procedures; the level, experience, and quality of training for personnel responsible for making program eligibility determinations or certifying that payments are accurate; the inherent risks of improper payments due to the nature of agency programs or operations; significant deficiencies in the audit reports of the agency including, but not limited to, the agency Inspector General or the U.S. General Accountability Office audit report findings, or other relevant management findings; and results from prior improper payment work.

The following table presents a summary of the Department's program/activity improper payments risk assessments performed in FY 2018; none of these improper payments risk assessments performed (or performed in prior fiscal years) revealed any programs or activities considered susceptible to significant improper payments.

SUMMARY OF PROGRAMS/ACTIVITIES FOR WHICH IMPROPER PAYMENTS RISK ASSESSMENTS WERE PERFORMED IN FY 2018

Program/Activity	Program/Activity
Census Bureau	National Institute of Standards and Technology
Current Demographic Statistics	Foreign Guest Researcher/Miscellaneous
Current Economic Statistics	Grants
Decennial Census	Payments to Employees
Periodic Economic Statistics	National Oceanic and Atmospheric Administration
Economic Development Administration	Grants
Disaster Funds received in FY 2018	Payments to Employees
Economic Adjustment Assistance	National Telecommunications and Information Administration
Regional Innovation Strategies	Digital Television Transition and Public Safety Fund, excluding TV Converter Box Coupon Program and Public Safety Interoperable Communications
Research and Evaluation	First Responder Network Authority (FirstNet)
Technical Assistance	Information Infrastructure Grants
Trade Adjustment Assistance	Non-FirstNet Activity included in Public Safety Trust Fund and Network Construction Fund
Economics and Statistics Administration	Public Telecommunications Facilities Program
Economics and Statistics Administration	State and Local Grant Implementation Program
International Trade Administration	
Executive Direction and Administration	

II. Overpayments Identified in FY 2018 and FY 2018 Recaptures of Overpayments.

- a. When applicable, for all programs and activities that expend \$1 million or more annually, agencies shall describe any action the agency has taken or plans to take to recover improper payments and intends to take to prevent future improper payments.**

The Department has extensive payment integrity monitoring, minimization, recapturing, and corrective actions efforts in place, including the identification of improper payments through bureau post-payment reviews, the Office of Inspector General (OIG) audits or reviews, Single Audit Act audits of grants/cooperative agreements, other grants/cooperative agreements audits, contract closeout reviews, grants/cooperative agreements closeout reviews, other audits or reviews, sample reviews of Department-wide sustained disallowed costs, and Department-wide sample testing of disbursements under internal controls testing.

A type of improper payment that the Department’s applicable bureaus experience is the improper drawdown(s) (i.e., payment(s) to recipient) of funds by a recipient against a Departmental grant or cooperative agreement award in the Automated Standard Application for Payments (ASAP). ASAP is a secure, Web-based, all electronic payment and information application operated by the U.S. Department of the Treasury (Treasury) that allows recipients to drawdown funds from accounts preauthorized by federal agencies. A recipient can normally drawdown on its authorized funds with little or no oversight by the Department prior to drawdown if the drawdown is in accordance with the conditions of the grant/cooperative agreement. Since these drawdowns are at the discretion of the recipient, it is difficult for the Department to control an improper drawdown(s) by a recipient. The recipient, however, will often report the overpayment to the Department and promptly return the funds to the Department via ASAP. When a recipient establishes a history of improper drawdowns against its awards, or for several other valid reasons, bureau financial assistance personnel can place the recipient on “Agency Review” within ASAP to help prevent future improper payments.

A standard procedure is for bureau financial assistance personnel to review recipients' periodic Standard Form (SF) 425, *Federal Financial Report*, submissions to the Department, and when an overpayment is discovered, the recipient is promptly notified and requested to return the overpayment to the Department via ASAP. These bureaus now require that project officers sign and date progress reports after review, and place the signed documents in the grant files. In-house training, furthermore, is being provided to bureau financial assistance personnel on performing comprehensive reviews of the SF 425 submissions from recipients. To ensure that proper review and approval procedures are being followed, bureaus have established a peer-to-peer review process where financial assistance specialists review their partners' financial assistance files. The results of these reviews are shared and discussed with other bureau financial assistance specialists. Bureaus' supervisory staff are conducting desk audits of financial assistance specialists to ensure that procedures are followed in a timely manner. Bureaus also schedule periodic audits or reviews of financial assistance files to ensure that all procedures are being followed. Bureau financial assistance offices continue to make considerable investments in vendor-provided training certification programs for their financial assistance personnel on the full range of federal financial assistance policy, including technical requirements such as the preparation of SF 425s.

Overpayments can also be recaptured from recipients via other methods if recapture via ASAP is not appropriate. Improper payments for grants/cooperative agreements are also detected during post-award closeout procedures and similar action is taken to recapture an overpayment from a recipient.

Two additional types of improper payments encountered by the Department are (a) improper payments determined resulting from an audit, review, or investigation by the Department's OIG; and (b) improper payments determined resulting from an audit of a federal grant/cooperative agreement award under the Single Audit Act of 1984, as amended. It is often difficult or not possible for the Department to identify, prior to payment, the types of improper payments that are identified in these audits, reviews, or investigations. One bureau financial assistance office's efforts to help prevent incorrect overhead rates being billed by a grant/cooperative agreement recipient include (a) overhead rates are reviewed through the review of a recipient's approved Negotiated Indirect Cost Rate Agreements and line item budget; and (b) overhead costs will not be allowable costs against an award unless permitted under the award, and specifically included as a line item in the award's approved budget. Furthermore, at the time of award closeout, a final comprehensive SF 425 must be submitted by the recipient within 90 days after award expiration. If overhead costs were included as a line item in the award's approved budget, the SF 425 must include the cumulative total of overhead costs charged to the award. This SF 425 requires the review and approval of the bureau's financial assistance office. This bureau's financial assistance office has also taken steps to help ensure recipients do not overdraw their awards. Award funds are monitored through the review of interim Federal Financial Cash Flow Reports to ensure that (a) recipients are expending funds at an appropriate rate; (b) federal disbursements are comparable with the period covered by requests for payment; (c) reports submitted by the recipient agree with the bureau's accounting records for payments made; and (d) recipients are not maintaining excess cash on hand. The financial assistance office, monthly, furthermore obtains a cash flow tracking report, which serves as an internal control for monitoring recipients' cash on-hand balances.

One bureau finance office has indicated an additional identifiable reason for improper payments to vendors is a lack of resources that can sometimes lead to short staffing in the accounts payable processing operations, resulting in, due to heavy workload for individual technicians, data entry or other types of errors that result in improper payments. In response to this condition, the bureau is hiring additional accounts payable staff, and providing periodic training to staff to address errors that have been made.

For an identified overpayment that is not promptly recaptured, the Department's policy is to establish a receivable for the overpayment and the Department then pursues the overpayment through the Department's normal debt collection management process. See the *Receivables with the Public and Debt Collection Management* subsection of the *Financial Management and Analysis* subsection of *Management's Discussion and Analysis* in this report for more information on the Department's debt collection management process for receivables from the public.

In September 2018, the Department performed a review of the statuses of sustained disallowed costs of \$10 thousand or more, issued between August 1, 2016 through April 30, 2018. Sustained disallowed costs could result, for example, from Single Audit Act audit reports related to grants/cooperative agreements, OIG audits or reviews, post-payment reviews, closeout reviews, grant/cooperative agreement-specific audits or reviews, and contracts/obligations-specific audits or reviews. The statuses of the sustained disallowed costs provided by the contractor are utilized by the Department for its comprehensive payment integrity and overpayment recapture efforts, including reporting, monitoring, recapturing, and corrective actions; the statuses are further followed up on by the Department as appropriate.

b. All programs and activities that expend \$1 million or more annually shall be considered for payment recapture audits. See OMB Circular A-123, Appendix C, Part III.C, *Payment Recapture Audits*, for more information about payment recapture audits. An agency shall discuss payment recapture audit efforts, if applicable. The discussion should describe:

- i. the actions and methods used by the agency to recoup overpayments;**
- ii. a justification of any overpayments that have been determined not to be collectable; and**
- iii. any conditions giving rise to improper payments and how those conditions are being resolved (e.g., the business process changes and internal controls instituted and/or strengthened to prevent further occurrences).**

c. If the agency has excluded any programs or activities from review under its payment recapture audit program because the agency has determined a payment recapture audit program is not cost-effective, the agency must provide the justification and a summary of the analysis that is used to determine that conducting a payment recapture audit program for the program or activity was not cost effective (i.e., a discussion of the analysis conducted to determine that a payment recapture audit program would not be cost effective). See OMB Circular A-123, Appendix C, Part III.C.6, *What should an agency do if it determines that a payment recapture audit program would not be cost-effective*, for additional information regarding payment recapture audit cost-effectiveness.

In conformity with IPFA, as amended, the Department had been performing from 2005 through June 2017, primarily with contractor assistance, annual payment recapture audits of closed contracts/obligations for many of the Department's bureaus/reporting entities on a rotational basis. From 2012 through June 2017, the scope of payment recapture audits of contracts/obligations was expanded to additionally include contracts/obligations for which the period of performance ended and last payment was made; however, for which the closeout process has not yet been completed. Annual payment recapture auditing was additionally performed by a contractor, effective 2011, for Department-wide grants and other cooperative agreements (i.e., financial assistance). Per OMB Circular A-123, Appendix C, intragovernmental transactions were not required to be reviewed.



In March 2018, the Department completed a cost/benefit analysis for contracts/obligations and for grants and other cooperative agreements, and determined that it is not able to conduct a cost-effective payment recapture audit program (one in which the benefits, including recaptured amounts, exceed the costs) for the above noted categories. Since 2005 through June 2017, the cumulative amount subject to review in the payment recapture audits performed was \$17.53 billion, and \$5.85 billion was reviewed by the payment recapture auditors. The cumulative adjusted overpayments subject to recapture that were identified was only \$113 thousand, which was fully recaptured. This cumulative recaptured amount of \$113 thousand fell well short of the cumulative contractor costs for the payment recapture audits performed of \$582 thousand, before taking into consideration the significant staff time incurred across the Department to support the individual payment recapture auditor and the payment recapture audit program.

In May 2011, the Department completed an evaluation of possible additional categories of disbursements for which payment recapture auditing could be performed, if cost-effective, as discussed below, held a meeting with OMB to discuss the Department's evaluation, and provided the written summary of the evaluation to OMB.

The Department's evaluation of payroll disbursements in May 2011 determined that it would likely not be cost-effective to perform payment recapture auditing for payroll disbursements. Payroll-administration services are primarily provided to the Department by the U.S. Department of Agriculture's National Finance Center (NFC). Based on the Department's review of available risk assessments and audits/reviews, at that time, the Department's payroll processes were rated at a low risk and only had a few minor audit and review findings. Further, no significant payroll improper payments had been identified by the bureaus. The latest audit report at that time regarding the adequacy of the internal controls of NFC as a servicing organization revealed no significant issues. The Department will continue to reevaluate, in FY 2019, whether payment recapture auditing should be performed, if considered cost-effective, for payroll and other payments to employees.

With regard to loan disbursements, NOAA is currently the only bureau with loan disbursements. As part of NOAA's internally-conducted reviews and testing processes, NOAA loan disbursements are significantly tested every three years for both internal controls and improper payments, and the disbursement testing for improper payments is considered to be essentially equivalent to a payment recapture audit. Regarding the NOAA Corps Retirement System and the NOAA Corps Health Benefits benefit programs, these programs are cross-serviced for disbursements by the U.S. Department of Defense; and, therefore, are not subject to payment recapture auditing by the Department.

d. For each program or activity that expends \$1 million or more annually and either conducts a payment recapture audit or recaptures payments outside of a payment recapture audit:

- i. report the amount recovered through recapture audits in that fiscal year including the percent such amounts represent of the total overpayments identified through payment recapture audits during that fiscal year.**
- ii. report amounts recovered through sources other than payment recapture audits in that fiscal year, including the percent such amounts represent of the total overpayments identified for recapture through sources other than payment recapture audits in the fiscal year. For example, agencies could report on improper payments identified through: statistical samples conducted under IPIA; agency post-payment reviews or audits; OIG reviews; Single Audit reports; self-reported overpayments; or reports from the public. Agencies may group amounts by program or activity or in total per the source of recapture, as appropriate.**

The following table summarizes the Department's FY 2018 overpayments identified, and overpayments verified as recaptured in FY 2018, through all sources. The Overpayments Recaptured column includes both (a) recaptures of overpayments during FY 2018 of overpayments reported in FY 2018; and (b) recaptures of overpayments that were previously identified in prior fiscal years.

OVERPAYMENTS IDENTIFIED IN FY 2018 AND FY 2018 RECAPTURES OF OVERPAYMENTS*(In Millions)*

Bureau/Reporting Entity	Overpayments Identified in FY 2018 and FY 2018 Recaptures of Overpayments	
	Overpayments Identified	Overpayments Recaptured ¹
BIS	\$ 1.095	\$ 0.013
Census Bureau	0.610	0.505
DM/S&E	0.263	0.250
DM/WCF	0.312	0.309
EDA	0.002	0.005
ITA	1.254	0.018
NIST	3.060	1.753
NOAA	1.016	0.671
NTIA	0.646	0.138
NTIS	0.108	0.090
USPTO	0.289	0.242
Total	\$ 8.655	\$ 3.994

¹ Includes both (a) recaptures of overpayments during FY 2018 of overpayments that were reported in FY 2018; and (b) recaptures of overpayments that were previously reported in prior fiscal years.

III. Departmental Use of Treasury's Do Not Pay Portal for Payment Integrity.

Agencies should provide a brief narrative of the reduction in improper payments that is attributable to the Do Not Pay Initiative, as applicable. See OMB Circular A-123, Appendix C, Part V, *the Do Not Pay Initiative*, for a thorough overview of the roles and responsibilities of agencies to use centralized data sources such as the Treasury Working System and other government databases to prevent improper payments.

Pursuant to OMB Memorandum M-12-11 dated April 12, 2012, *Reducing Improper Payments through the "Do Not Pay List,"* the Department in 2013 implemented the Department's OMB-approved plan to perform periodic (primarily weekly) prepayment eligibility reviews of Do Not Pay portal databases for the Department's domestic, non-classified, non-employee-related, non-intragovernmental disbursements. The Department currently performs prepayment checking of the following Do Not Pay portal databases: (a) Social Security Administration's Death Master File (DMF); and (b) the U.S. General Services Administration's System for Award Management (SAM) Exclusion Records.

The prepayment checking performed by the Department excludes prepayment eligibility reviews of grantees under ASAP, as Treasury performs continuous monitoring of the Do Not Pay portal of ASAP grantees. Bureau payment and acquisition offices, as appropriate, follow up on any vendors initially matched to the Do Not Pay portal databases checked, and perform further research as necessary to follow through and resolve any issues identified by the Do Not Pay portal matches. In most cases, the initial matches are subsequently determined by the Department to be false matches. Other Departmental offices are also consulted as appropriate.



Furthermore, the Department's payment offices receive, from the Do Not Pay portal, monthly reports listing any match results of payments made to the following databases: (a) DMF; and (b) SAM Exclusion Records. Payment offices research and follow up on matches, as appropriate, and submit to the Do Not Pay portal monthly Adjudication Reports summarizing the results of their efforts.

Since the inception of the payment offices' Do Not Pay portal prepayment eligibility reviews and reviews of the Do Not Pay portal post-payment match reports, the Department has not had any significant true matches to DMF and SAM Exclusion Records. While the Department's use of the Do Not Pay portal since inception has not yet identified or led to the prevention of any significant improper payments, the Department supports the use of the Do Not Pay portal as a sound financial management practice to identify and minimize improper payments.

IV. PaymentAccuracy.gov Website.

Treasury, in coordination with the U.S. Department of Justice and OMB, established the PaymentAccuracy.gov website, located at <https://paymentaccuracy.gov>, to create a centralized location to publish information about U.S. government improper payments made to individuals, organizations, and contractors. This website also provides a centralized place where suspected incidents of fraud, waste, and abuse can be reported, and contains information about (1) current and historical rates and amounts of improper payments; (2) why improper payments occur; and (3) what agencies are doing to reduce and recapture improper payments. The website also contains extensive information, guidance, and links to other useful resources for addressing improper payments.

This website contains additional information and data about the Department's improper payments, including improper payments information included in previous Departmental AFRs that is no longer included in the FY 2018 AFR.

FRAUD REDUCTION REPORT

Fraud risk management is an important aspect of the Department's strategy to achieve its mission and goals. Fraud prevention, detection, monitoring, and response are key to managing fraud risk and is continually being integrated in the culture and controls throughout the Department. Several key control strategies have been implemented in FY 2018.

Fraud risk has been identified as one of 10 categories of risk by the Department's Enterprise Risk Management (ERM) Framework. The Department's ERM Framework is designed to facilitate a risk-based approach to fraud risk assessment at different levels within the organization. Management uses the U.S. Government Accountability Office (GAO) Fraud Risk Management Framework leading practices as a guide to combat fraud, increase emphasis on prevention, and put into place corrective actions to address identified deficiencies. The Department also utilizes several processes and sources to identify, manage, and mitigate fraud risks. These processes and sources include, but are not limited to, the Agency Risk Profile, GAO High-Risk List, and Mission Critical Programs and Activities List.

Analyses of risks, including fraud risks, are also an integral process of the Department's financial internal control program. The Department annually performs an assessment of the risks at the entity and process levels. At the entity level, the Department and components assess exposures and controls around fraud risk. How the Department anticipates, identifies, and responds to fraud is considered during the assessment. Existing Departmental policies and procedures are also examined to ensure that they adequately meet their objective. At the process level, inherent and control risks are assessed for each of the Department's key business processes and sub-processes. The process level assessment includes evaluations such as the Department's payroll, contracts, purchase card, and grants management business cycles. The exercise and results of these assessments aids in identifying types and levels of risks within the Department and informs the mitigation process.

Business process workshops are also held annually in which interdisciplinary teams, including task owners and the Internal Control Senior Assessment Team, come together to identify and examine the control activity and control design around key business processes. During these workshops, key control objectives and activities are discussed and control gaps are identified and addressed. Internal control test steps are also discussed and/or modified.

Finally, the Department has a data analytics team to perform, collect, and analyze data to detect and monitor for potential fraud. The data analytics program involves the development of continuous monitoring processes, data science techniques, analytics and visualizations, to be applied to sensitive programs and financial data in order to identify trends, anomalies, and other meaningful patterns that may signify potential internal control weakness or indicators of fraud, waste, and abuse. In FY 2018, the Department completed reviews of Purchase Card datasets and worked together with bureaus on sensitive issues and corrective actions. The Department plans to continue to expand its data analytics program to enhance the capabilities and scope of additional analysis.

REDUCE THE FOOTPRINT

Per section 3 of the Office of Management and Budget (OMB) Memorandum 12-12, *Promoting Efficient Spending to Support Agency Operations*, and OMB Management Procedures Memorandum 2013-02, the Freeze the Footprint policy implementation guidance, Chief Financial Officers (CFO) Act departments and agencies shall not increase the total square footage of their domestic office and warehouse inventory compared to the FY 2012 baseline, unless increased footage is offset through consolidation, co-location, or disposal of space from the inventory of that agency. Under the Freeze the Footprint initiative from FY 2013 to FY 2015 DOC achieved an overall 4.7 percent space reduction in three years by looking for office consolidation opportunities, revisiting storage requirements, and tighter management of space allocations.

On March 25, 2015, OMB issued Memorandum 2015-01, *Implementation of OMB Memorandum M-12-12 Section 3: Reduce the Footprint*. The Reduce the Footprint requirement is focused on workspace planning, better managing of space requirements, and a disciplined approach to aligning agency missions and collaboration of space to provide a variety of reconfigurable space and technology options.

The Department's goals are to monitor and limit long-term growth of real property space by systematically and strategically eliminating unneeded assets regardless of space type. In the five-year period between FY 2018 and FY 2022, the Department's goal is to reduce its office and warehouse inventory by 4.3 percent, or 529,429 square feet of its leased, owned, and U.S. General Services Administration (GSA) occupancies compared to its FY 2017 year-end inventory. The largest property is a U.S. Patent and Trademark Office warehouse of nearly 278 thousand square feet that was closed at the end of FY 2018. These goals do not include the 2020 Decennial Census space because the Decennial 2020 space has net zero impact on the five-year period as a whole. The Census Bureau, working through GSA, began acquisition of the decennial locations in FY 2017, and will continue through FY 2019. However, these locations are short-term, and they will be vacated and out of Departmental inventory by the end of FY 2022.

The Department has determined its principle strategic approaches. They are: (1) focus on office utilization rate improvement to reduce space; (2) consolidate underutilized assets; and (3) dispose of all unneeded assets. Because of budget constraints, operating units will need to consider the use of GSA's Workplace Engagements for consolidations.

REDUCE THE FOOTPRINT BASELINE COMPARISONS

<i>(In Millions)</i>	FY 2015 Baseline	FY 2017 Actuals	+/- Change
Square Footage	12.12	12.21	0.09 ¹

OPERATING COST OF DIRECT LEASED AND OWNED PROPERTIES

<i>(In Millions)</i>	FY 2015 Baseline	FY 2017 Actuals	+/- Change
Operations and Maintenance Costs	\$35.04	\$41.48	\$6.44 ²

¹ The net increase in square feet from FY 2015 to FY 2017 is due to the start of Decennial 2020 Census acquisition of space.

² The increase in operating costs is about 18 percent over two years. The increase is the renewal of two direct leases with new rental rates that are higher than previous rates that were 10 years old.

CIVIL MONETARY PENALTIES' ADJUSTMENTS FOR INFLATION

The Federal Civil Penalties Inflation Adjustment Act of 1990, as amended by the Debt Collection Improvement Act of 1996 and the Federal Civil Penalties Inflation Adjustment Act Improvements Act of 2015, requires agencies to adjust their civil monetary penalties (CMP) for inflation to maintain their deterrent effect. A CMP is defined as any penalty, fine, or other sanction that is (1) for a specific monetary amount as provided by federal law, or has a maximum amount provided for by federal law; (2) assessed or enforced by an agency pursuant to federal law; and (3) assessed or enforced pursuant to an administrative proceeding or a civil action in the federal courts. The Department has been adjusting its CMPs for inflation since 1996 in accordance with the Federal Civil Penalties Inflation Adjustment Act of 1990, as amended. Effective 2017, agencies are required to make annual adjustments for inflation to CMPs, to take effect not later than January 15.

The Department published its 2018 adjustments for inflation to CMPs (15 CFR Part 6, *Civil Monetary Penalty Adjustments for Inflation*) in the Federal Register on January 6, 2018 (Vol. 83, No. 5, *Rules and Regulations*, pages 706-709). These adjustments for inflation to CMPs, which became effective on January 15, 2018, are also available at the Department's website at http://www.osec.doc.gov/ofm/OFM_Publications.html. The following table provides detailed information on each of the Department's CMPs as of January 15, 2018.

Penalty Description	Statutory Authority	CMP Name	Year CMP Originally Enacted	Latest Year of CMP Non-inflation Adjustment (via Statute or Regulation)	Current CMP Level
Department of Commerce					
Penalty for each submission of a false, fictitious, or fraudulent claim for payment or benefits.	31 U.S.C. 3802(a)(1), Program Fraud Civil Remedies Act of 1986	Violation	1986	1986	Maximum \$11,181
Penalty for each submission of a false, fictitious, or fraudulent written statement.	31 U.S.C. 3802(a)(2), Program Fraud Civil Remedies Act of 1986	Violation	1986	1986	Maximum \$11,181
Penalty for each submission of a false, fictitious, or fraudulent claim for payment.	31 U.S.C. 3729(a)(1)(G), False Claims Act	Violation	1863	1986	Minimum \$11,181 Maximum \$22,363
Bureau of Industry and Security					
Penalty for each violation of the requirements in this Act.	15 U.S.C. 5408(b)(1), Fastener Quality Act	Violation	1990	1990	Maximum \$46,192
Penalty for refusing to permit entry or inspection.	22 U.S.C. 6761(a)(1)(A), Chemical Weapons Convention Implementation Act	Violation	1998	1998	Maximum \$37,601

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Penalty Description	Statutory Authority	CMP Name	Year CMP Originally Enacted	Latest Year of CMP Non-inflation Adjustment (via Statute or Regulation)	Current CMP Level
Bureau of Industry and Security (continued)					
Penalty for failing or refusing to establish and maintain records, submit any required report or notice, or permit access or copying of any records as required by the Act.	22 U.S.C. 6761(a)(1)(B), Chemical Weapons Convention Implementation Act	Violation	1998	1998	Maximum \$7,520
Penalty for committing an unlawful act described in subsection 1705(a).	50 U.S.C. 1705(b), International Emergency Economic Powers Act	Violation	1977	2007	Maximum \$295,141
Penalty for each violation to subsection 8124: willful failure to permit, or to disrupt, delay or impede complementary access authorized by this subchapter.	22 U.S.C. 8142(a), United States Additional Protocol Implementation Act (Nuclear Nonproliferation Treaty between United States and the International Atomic Energy Commission)	Violation	2006	2006	Maximum \$30,557
Penalty for prohibited conduct described in section 1760(a)(2) or any regulations related to this Act. (new penalty in 2018).	Export Control Reform Act of 2018, Pub. L. No. 115-232, tit. 17, subtitle B, 132 Stat. 2208 (2018).	Violation	2018	2018	Maximum \$300,000
Census Bureau					
Penalty for each day's delinquency in filing required export information reports.	13 U.S.C. 304, Collection of Foreign Trade Statistics	Violation	1962	2002	Each day's delinquency of a violation: Maximum \$1,360 Maximum per violation: \$13,605
Penalty for violating provisions of this chapter.	13 U.S.C. 305(b), Collection of Foreign Trade Statistics	Violation	1962	2002	Maximum \$13,605
Economics and Statistics Administration					
Penalty for failure to furnish any information required, or comply with any rule, regulation, order or instruction.	22 U.S.C. 3105(a), International Investment and Trade in Services Act	Violation	1990	1990	Minimum \$4,619 Maximum \$46,192
International Trade Administration					
Penalty for violation of the chapter or any regulation under this chapter.	19 U.S.C. 81s, Foreign Trade Zone	Violation	1934	1934	Maximum \$2,852
Penalty for violation of protective orders under NAFTA and this agreement.	19 U.S.C. 1677f(f)(4), U.S.-Canada FTA Protective Order	Violation	1988	1988	Maximum \$205,211

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Penalty Description	Statutory Authority	CMP Name	Year CMP Originally Enacted	Latest Year of CMP Non-inflation Adjustment (via Statute or Regulation)	Current CMP Level
National Oceanic and Atmospheric Administration					
Penalty for noncompliance with the requirements of licenses or regulations issued under this subchapter.	51 U.S.C. 60123(a), Land Remote Sensing Policy Act of 2010	Violation	2010	2010	Maximum \$11,278
Penalty for receiving or using unenhanced LANDSAT solely for non-commercial purposes.	51 U.S.C. 60148(c), Land Remote Sensing Policy Act of 2010	Violation	2010	2010	Maximum \$11,278
Penalty for committing acts prohibited by section 773(e) of this title.	16 U.S.C. 773f(a), Northern Pacific Halibut Act of 1982	Violation	1982	2007	Maximum \$236,114
Penalty for taking or catching sponges in the Gulf or Florida Straits that are less than prescribed size.	16 U.S.C. 783, Sponge Act	Violation	1914	1914	Maximum \$1,686
Penalty for fishing violations described in section 957(a).	16 U.S.C. 957(d), (e), and (f), Tuna Conventions Act of 1950	Violation	1962	1962	Maximum \$84,264
Penalty for record keeping violations described in section 957(b).	16 U.S.C. 957(d), (e), and (f), Tuna Conventions Act of 1950	Violation	1962	1962	Maximum \$181,493
Penalty for subsequent violations described in section 957(a).	16 U.S.C. 957(d), (e), and (f), Tuna Conventions Act of 1950	Violation	1962	1962	Maximum \$2,852
Penalty for subsequent record keeping violations described in section 957(b).	16 U.S.C. 957(d), (e), and (f), Tuna Conventions Act of 1950	Violation	1962	1962	Maximum \$16,853
Penalty for import violations described in section 957(c).	16 U.S.C. 957(d), (e), and (f), Tuna Conventions Act of 1950	Violation	1962	1962	Maximum \$362,986
Additional penalties for violations, see the Magnusson-Stevens Act (MSA) section 1826g, then section 1858 of this title.	16 U.S.C. 957(i), Tuna Conventions Act of 1950	Violation	1962	1990	Maximum \$184,767 ¹
Penalties for violations, see the MSA section 1826g, then section 1858 of this title.	16 U.S.C. 959, Tuna Conventions Act of 1950	Violation	1962	1990	Maximum \$184,767 ¹
Penalties for violations, see the MSA section 1826g, then section 1858 of this title.	16 U.S.C. 971f(a), Atlantic Tunas Convention Act of 1975	Violation	1990	1990	Maximum \$184,767 ¹
Penalty for violations described in section 973(c).	16 U.S.C. 973f(a), South Pacific Tuna Act of 1988	Violation	1988	1988	Maximum \$513,026
Penalty for violating any provisions of this chapter.	16 U.S.C. 1174(b), Fur Seal Act Amendments of 1983	Violation	1983	1983	Maximum \$24,421
Penalty for violating any provisions of this subchapter.	16 U.S.C. 1375(a)(1), Marine Mammal Protection Act of 1972	Violation	1972	1972	Maximum \$28,520

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Penalty Description	Statutory Authority	CMP Name	Year CMP Originally Enacted	Latest Year of CMP Non-inflation Adjustment (via Statute or Regulation)	Current CMP Level
National Oceanic and Atmospheric Administration (continued)					
Penalty for violating any provisions of this subchapter.	16 U.S.C. 1385(e), Dolphin Protection Consumer Information Act	Violation	1990	1990	Maximum \$184,767 ¹
Penalty for violating any provisions of this subchapter.	16 U.S.C. 1437(d)(1), National Marine Sanctuaries Act	Violation	1984	1992	Maximum \$173,951
Penalty for knowingly violating any provisions of this chapter.	16 U.S.C. 1540(a)(1), Endangered Species Act of 1973	Violation	1973	1988	Maximum \$51,302
Penalty for knowingly violating any provision of any regulation issued under this chapter.	16 U.S.C. 1540(a)(1), Endangered Species Act of 1973	Violation	1973	1988	Maximum \$24,625
Penalty for otherwise violating any provision of any regulation issued under this chapter.	16 U.S.C. 1540(a)(1), Endangered Species Act of 1973	Violation	1973	1988	Maximum \$1,686
Penalty for violations described in section 1857, Prohibited Acts.	16 U.S.C. 1858(a), Magnuson-Stevens Fishery Conservation and Management Act	Violation	1976	1990	Maximum \$184,767 ¹
Penalties for violations described in section 2435, see the MSA section 1826g, then section 1858 of this title.	16 U.S.C. 2437(a), Antarctic Marine Living Resources Convention Act of 1984	Violation	1984	1990	Maximum \$184,767 ¹
Penalties for violations described in section 2435, see the MSA section 1826g, then section 1858 of this title.	16 U.S.C. 2465(a), Antarctic Protection Act of 1990	Violation	1990	1990	Maximum \$184,767 ¹
Penalty for import, export, transport, selling, receiving, acquiring, or purchasing any fish or wildlife or plant taken, possessed, transported, or sold in violation of any law, treaty, or regulation of the United States.	16 U.S.C. 3373(a)(1), Lacey Act Amendments of 1981	Violation	1981	1981	Maximum \$26,409
Penalty for import, export, transport, selling, receiving, acquiring, or purchasing any fish or wildlife or plant valued under \$350, taken, possessed, transported, or sold in violation of any law, treaty, or regulation of the United States.	16 U.S.C. 3373(a)(2), Lacey Act Amendments of 1981	Violation	1981	1981	Maximum \$660

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Penalty Description	Statutory Authority	CMP Name	Year CMP Originally Enacted	Latest Year of CMP Non-inflation Adjustment (via Statute or Regulation)	Current CMP Level
National Oceanic and Atmospheric Administration (continued)					
Penalty for conducting directed fishing of Salmon from 12 miles seaward of territorial waters, or for violating any provision under this chapter.	16 U.S.C. 3606(b)(1), Atlantic Salmon Convention Act of 1982	Violation	1982	1990	Maximum \$184,767 ¹
Penalties for violations of any provisions under this chapter, see the MSA section 1826g, then section 1858 of this title.	16 U.S.C. 3637(b), Pacific Salmon Treaty Act of 1985	Violation	1985	1990	Maximum \$184,767 ¹
Penalty for violating any provision, order or regulation issued under this chapter.	16 U.S.C. 4016(b)(1)(B), Fish and Seafood Promotion Act of 1986	Violation	1986	1986	Minimum \$1,118 Maximum \$11,181
Penalty for fishing or taking anadromous fish in the convention area.	16 U.S.C. 5010, North Pacific Anadromous Stocks Act of 1992	Violation	1990	1990	Maximum \$184,767 ¹
Penalty for otherwise violating any provision of any regulation issued under this chapter.	16 U.S.C. 5103(b)(2), Atlantic Coastal Fisheries Cooperative Management Act	Violation	1990	1990	Maximum \$184,767 ¹
Penalties for violations of any provisions under this chapter, see the MSA section 1858 of this title.	16 U.S.C. 5154(c)(1), Atlantic Striped Bass Conservation Act	Violation	1984	1990	Maximum \$184,767 ¹
Penalty for violations described in section 5505, Unlawful Activities.	16 U.S.C. 5507(a), High Seas Fishing Compliance Act of 1995	Violation	1995	1995	Maximum \$160,484
Penalties for violations of any provisions under this chapter, see the MSA section 1826g, then section 1858 of this title.	16 U.S.C. 5606(b), Northwest Atlantic Fisheries Convention Act of 1995	Violation	1990	1990	Maximum \$184,767 ¹
Penalties for violations of any provisions under this chapter, see the MSA section 1826g, then section 1858 of this title.	16 U.S.C. 6905(c), Western and Central Pacific Fisheries Convention Implementation Act	Violation	1990	1990	Maximum \$184,767 ¹
Penalties for violations of any provisions under this chapter, see the MSA section 1826g, then section 1858 of this title.	16 U.S.C. 7009(c) and (d), Pacific Whiting Act of 2006	Violation	1990	1990	Maximum \$184,767 ¹
Penalty for importing fish in violation of any provisions of this section.	22 U.S.C. 1978(e), Fishermen's Protective Act of 1967	Violation	1971	1971	Maximum \$28,520

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Penalty Description	Statutory Authority	CMP Name	Year CMP Originally Enacted	Latest Year of CMP Non-inflation Adjustment (via Statute or Regulation)	Current CMP Level
National Oceanic and Atmospheric Administration (continued)					
Penalty for importing fish in subsequent violation of any provisions of this section.	22 U.S.C. 1978(e), Fishermen's Protective Act of 1967	Violation	1971	1971	Subsequent Violation: Maximum \$84,264
Penalty for violating any provision of this chapter, any regulation issued under this chapter.	30 U.S.C. 1462(a), Deep Seabed Hard Mineral Resources Act	Violation	1980	1980	Maximum \$72,718
Penalty for violations described in section 9151, Prohibited Acts.	42 U.S.C. 9152(c), Ocean Thermal Energy Conversion Act of 1980	Violation	1980	1980	Maximum \$72,718
Penalty for selling Billfish or Billfish products.	16 U.S.C. 1827a, Billfish Conservation Act of 2012	Violation	1990	1990	Maximum \$184,767 ¹
Penalty for refusing inspection or violating any provision of this chapter or the regulations issued under this chapter.	16 U.S.C. 7407(b), Port State Measures Agreement Act of 2015	Violation	1990	1990	Maximum \$184,767 ¹
Penalties for violations of any provisions under this chapter, see section 1858 of this title.	16 U.S.C. 1826g(f), High Seas Driftnet Fishing Moratorium Protection Act	Violation	1990	1990	Maximum \$184,767 ¹
Penalty for violating any of 15 prohibited acts listed in section 7706. See section 1858 of this title.	16 U.S.C. 7705, Ensuring Access to Pacific Fisheries Act	Violation	1990	1990	Maximum \$184,767 ¹
Penalty for violating any of 15 prohibited acts listed in section 7806. See section 1858 of this title.	16 U.S.C. 7805, Ensuring Access to Pacific Fisheries Act	Violation	1990	1990	Maximum \$184,767 ¹

¹ This National Oceanic and Atmospheric Administration maximum CMP, as prescribed by law, is the maximum CMP per 16 U.S.C. 1858(a), Magnuson-Stevens Fishery Conservation and Management Act CMP.



GRANTS OVERSIGHT AND NEW EFFICIENCY (GONE) ACT REPORTING OF UNCLOSED GRANT AND COOPERATIVE AGREEMENT AWARDS FOR WHICH THE PERIOD OF PERFORMANCE HAS EXPIRED MORE THAN TWO YEARS

The Office of Management and Budget (OMB) Management Procedures Memorandum 2016-04, *GONE Act Reporting of Unclosed Grant and Cooperative Agreement Awards For Which the Period of Performance Has Expired More Than Two Years* (August 15, 2016), requires the following information to be reported in the Other Information section of the Department's FY 2018 Agency Financial Report:

- a. A brief high-level discussion on a subset of GONE Act information, including:
 - i. A summary table of the total number of federal grant and cooperative agreement awards and balances for which closeout has not yet occurred but for which the period of performance has elapsed more than two years—with zero dollar balances, or with undisbursed dollar balances.
 - ii. A brief narrative of the progress made in closing grant and cooperative agreement awards listed in the FY 2017 GONE Act submission, challenges that remain, and any remaining actions to be taken.

The table below summarizes the total number of the Department's grant and cooperative agreement awards and balances, as of September 30, 2018, for which closeout has not yet occurred but for which the period of performance has lapsed more than two years with zero dollar balances, or with undisbursed dollar balances as of September 30, 2018, and the related dollar amounts of undisbursed balances.

(Numbers of Agreements in Actual Amounts; Dollars in Thousands)

Category	Period of Performance has Expired as of September 30, 2018		
	Closeout Lapse of more than Two Years and up to Three Years	Closeout Lapse of more than Three Years and up to Five Years	Closeout Lapse of more than Five Years
Number of Grants/Cooperative Agreements with Zero Dollar Balances	–	1	3
Number of Grants/Cooperative Agreements with Undisbursed Balances	–	1	–
Total Dollar Amount of Undisbursed Balances	\$ –	\$ 40	\$ –

In FY 2018, the Department successfully closed 11 of the 16 grants and cooperative agreements that were open as of September 30, 2017. Additionally, the total amount of undisbursed dollar balances was reduced from \$134 thousand as of September 30, 2017 to \$40 thousand as of September 30, 2018. The remaining 5 grant and cooperative agreements that are not yet closed are delayed due to an audit resolution dispute and the completion of debt collection.

UNDISBURSED BALANCES IN EXPIRED GRANT ACCOUNTS

Undisbursed balances in expired grant accounts include budget authority that is no longer available for new obligations but is still available for disbursement. The period of disbursement lasts for five years after the last unexpired year unless the expiration period has been lengthened by legislation. Specifically, one may not incur new obligations against expired budget authority, but one may liquidate existing obligations by making disbursements (section 20.4(c), *Period of availability of budget authority*, of the Office of Management and Budget's (OMB) Circular A-11 Revised dated June 29, 2018, *Preparation, Submission, and Execution of the Budget*).

OMB Memorandum M-16-18, *Financial and Performance Reporting on Undisbursed Balances in Expired Grant Accounts* (July 15, 2016), requires the following information to be reported in the Department's annual Agency Financial Report and annual performance plans/budgets for FY 2018 and subsequent fiscal years regarding undisbursed balances in expired grant accounts:

- (1) In the preceding three fiscal years, provide the total number of expired grant accounts with undisbursed balances for the Department and the total amount that has not been obligated to a specific grant or project remaining in the accounts;
- (2) Details on future action the Department will take to resolve undisbursed balances in expired grant accounts;
- (3) The method that the Department uses to track undisbursed balances in expired grant accounts; and
- (4) Process for identification of undisbursed balances in expired grant accounts that may be returned to the U.S. Department of the Treasury (Treasury).

Six bureaus report information under this guidance: Census Bureau, International Trade Administration (ITA), Minority Business Development Agency (MBDA), National Institute of Standards and Technology (NIST), National Oceanic and Atmospheric Administration (NOAA), and National Telecommunications and Information Administration (NTIA). NIST's Grants Management Division (GMD) manages all grants awarded by NIST as well as a portion of those grants funded by NTIA. NOAA's GMD manages all grants awarded by NOAA as well as those grants awarded by the Census Bureau, ITA and MBDA and the remainder of the NTIA awards.

Both NIST GMD and NOAA GMD have teams that are specifically responsible for reviewing, closing out, and deobligating undisbursed balances in expired awards. As part of their routine grants management responsibilities, these offices review reports that identify expired awards with undisbursed balances of funds as well as expired awards that may have existing audit findings or other unresolved matters which require further coordination prior to deobligating funds and closing out an award.

During its reviews of expired awards with undisbursed obligations, NIST GMD reconciles the recipient's Standard Form (SF) 425, *Federal Financial Report*, against the amount of funding remaining in the payment system and in NIST's financial system. NIST GMD works with all relevant parties to resolve any discrepancies prior to the deobligation of funds and begins the deobligation process once it is determined that the recipient is not owed any further federal funding and that all relevant issues are resolved. The NIST grants specialist actively checks NIST's Grant Management Information System (GMIS) for awards eligible for closeout, and begins closing awards with the largest de-obligated funded awards first. NIST has a Grants Management Officer (GMO) assigned to oversee the closeout process. This individual routinely obtains

reports from GMIS to identify any awards that have expired and that are eligible for the closeout process. Additionally, these reports identify if any undisbursed obligations remain in the award account. The GMO also collects regular status updates on all the awards in the closeout process, and advises on appropriate next steps to resolve any outstanding issues that may be preventing a deobligation or the closeout of an award. The status updates are reconciled against reports run from GMIS to help ensure that no awards warranting attention are missed during the process. If there is an unobligated balance, NIST's finance office uses the budget account to determine what unobligated funds, if any, may be returned to Treasury. Any funds that are returned to Treasury are typically returned to Treasury upon the budget account entering the cancelled phase. NIST has made significant progress in reducing the backlog of closeouts and deobligations in the past three fiscal years; any aged closeouts are being tracked and reported to the Department's GMD to help ensure progress is made.

NOAA GMD obtains and reviews monthly an Undisbursed Funds Chart which is used to track expired grant awards with undisbursed obligations. The monthly Undisbursed Funds Charts are also provided to the Department's GMD. Upon review and acceptance of the recipient's SF 425, NOAA GMD completes and submits to NOAA's finance office a deobligation request. After deobligation is completed, NOAA's finance office identifies the applicable budget account and determines what, if any, unobligated funds may be returned to Treasury. NOAA will continue to expedite deobligations and closeout of expired to the maximum extent within 90 days from NOAA receipt of a recipient's final SF 425. Recipients have 90 days after award expiration to drawdown remaining funds for expenses incurred during the award period.

Each bureau submits a monthly report to the Department's GMD detailing the current status of expired awards—number of expired awards not yet closed and undisbursed balances of funds in these awards. The Department's GMD consolidates these reports and presents the information during the Department's bi-monthly Grants Council meetings for review and analysis. Over the past three fiscal years, numerous lessons learned and business process improvements have been identified and implemented across the Department's grants offices. A direct impact of the Grants Council's oversight has been the Department's significant progress in reducing the backlog of closeouts and deobligations.

The table on the following page presents, for each budget account that had undisbursed obligations for expired grant awards as of September 30, 2018 (last day of FY 2018), September 30, 2017 (last day of FY 2017), or September 30, 2016 (last day of FY 2016), the dollar amount of undisbursed obligations for expired grant awards as of September 30, 2018, 2017, and 2016; the dollar amount of the total unobligated balance for the budget account as of September 30, 2018, 2017, and 2016; and, for each bureau reported in this table, the total number of expired grant awards with undisbursed obligations as of September 30, 2018, 2017, and 2016.

(Numbers in Actual Amounts; Dollars in Thousands)

Bureau	Budget Account	As of September 30, 2018			As of September 30, 2017			As of September 30, 2016		
		Number of Expired Grants with Undisbursed Obligations	Undisbursed Obligations for Expired Grant Awards	Total Unobligated Balance in Budget in Account	Number of Expired Grants with Undisbursed Obligations	Undisbursed Obligations for Expired Grant Awards	Total Unobligated Balance in Budget in Account	Number of Expired Grants with Undisbursed Obligations	Undisbursed Obligations for Expired Grant Awards	Total Unobligated Balance in Budget in Account
ITA	1250 Operations and Administration, ITA, Commerce	5	\$ 34	\$ 57,719	2	\$ 30	\$ 69,579	8	\$ 863	\$ 58,931
MBDA	0201 Minority Business Development, MBDA	49	13,739	5,353	2	72	5,867	60	8,945	6,795
NIST	0500 Scientific and Technical Research and Services, NIST		1,679	29,609		1,037	10,268		2,359	21,818
	0513 Wireless Innovation Fund, NIST		-	195,107		-	239,241		1	275,341
	0515 Construction of Research Facilities, NIST		-	266,727		-	47,607		-	24,216
	0525 Industrial Technology Services, NIST		981	8,506		953	8,368		8,616	43,243
	0549 Scientific and Technical Research and Services, Recovery Act, NIST, Commerce		-	113		-	113		-	-
	4650 Working Capital Fund, NIST		210	133,548		308	117,090		7,112	90,168
	Total	312	2,870	633,610	157	2,298	422,687	175	18,088	454,786
NOAA	1450 Operations, Research, and Facilities, NOAA		17,041	466,461		15,043	344,422		11,589	379,957
	1451 Expenses, Pacific Coastal Salmon Recovery, NOAA		159	793		254	163		2	434
	1460 Procurement, Acquisition, and Construction, NOAA, Commerce		272	502,201		1,136	398,645		83	264,553

(continued on next page)

UNDISBURSED BALANCES IN EXPIRED GRANT ACCOUNTS

(continued from previous page)
 (Numbers in Actual Amounts; Dollars in Thousands)

Bureau	Budget Account	As of September 30, 2018			As of September 30, 2017			As of September 30, 2016			
		Number of Expired Grant Awards with Undisbursed Obligations	Undisbursed Obligations for Expired Grant Awards	Total Unobligated Balance in Budget in Account	Number of Expired Grant Awards with Undisbursed Obligations	Undisbursed Obligations for Expired Grant Awards	Total Unobligated Balance in Budget in Account	Number of Expired Grant Awards with Undisbursed Obligations	Undisbursed Obligations for Expired Grant Awards	Total Unobligated Balance in Budget in Account	
NOAA <i>(continued)</i>	2055		\$ 59	\$ 219,858		\$ -	\$ 78		\$ 159	\$ -	
	4316	Damage Assessment and Restoration Revolving Fund, NOAA	35	137,657	1	119,678		2,686	118,529		
	5139	Promote and Develop Fishery Products and Research Pertaining to American Fisheries, NOAA	395	2,089	228	3,706		455	2,414		
	5284	Limited Access System Administration Fund, NOAA	608	17,777	-	16,197		52	13,731		
	5362	Environmental Improvement and Restoration Fund, NOAA	1,285	-	-	8,222		1,298	-		
	5439	Western Pacific Sustainable Fisheries Fund, NOAA	240	-	-	17		-	418		
	Total		542	20,094	1,346,836	357	16,662	891,128	292	16,324	780,036
	NTIA	0550	Salaries and Expenses, NTIA, Commerce	144	35,439	9	30,874		-	39,423	
		0551	Public Telecommunication Facilities, Planning and Construction, NTIA, Commerce	39	855	39	852		39	903	
		0554	Broadband Technology Opportunities Program, Recovery Act, NTIA, Commerce	-	169,792	-	169,784		80,291	168,850	
4358		Network Construction Fund, NTIA, Commerce	1,012	40,329	154	5,539,480		-	-		
Total			4	1,195	246,415	7	202	5,740,990	11	80,330	209,176
Total		912	\$ 37,932	\$ 2,289,933	525	\$ 19,264	\$ 7,130,251	546	\$ 124,550	\$ 1,509,724	

GLOSSARY OF ACRONYMS

Abbreviation	Title
A	
AFR	Agency Financial Report
APG	Agency Priority Goal
APPR	Annual Performance Plan and Report
ASAP	Automated Standard Application for Payments (Treasury)
ASR	Annual Strategic Review
B	
BAR	Budget and Accrual Reconciliation
BEA	Bureau of Economic Analysis
BIS	Bureau of Industry and Security
BRS	Blended Retirement System (NOAA Corps)
C	
CBS	Commerce Business Systems
CEIP	Coastal Energy Impact Program (a NOAA direct loan program)
CFO	Chief Financial Officer
CFO/ASA	Chief Financial Officer and Assistant Secretary for Administration (DM)
CFR	Code of Federal Regulations
CMP	Civil Monetary Penalty
COTS	Commercial off-the-shelf [software]
CPI	Consumer Price Index
CSTARS	Commerce Standard Acquisition and Reporting System
CSRS	Civil Service Retirement System (OPM)
CTP	Corporation for Travel Promotion
D	
DATA Act	Digital Accountability and Transparency Act of 2014
DM	Departmental Management
DM&R	Deferred Maintenance and Repairs
DMF	Death Master File (Social Security Administration)
DOI	U.S. Department of the Interior
DOL	U.S. Department of Labor

Abbreviation	Title
E E2	Employee Travel System, version 2 or E2 Solutions (travel management system)
EDA	Economic Development Administration
EPP	Educational Partnership Program (NOAA)
ERM	Enterprise Risk Management
ES	Enterprise Services (DM)
ESA	Economics and Statistics Administration
F FACE	Financial Assistance Committee for E-Government
FASAB	Federal Accounting Standards Advisory Board
FCA	Facility Condition Assessment (NIST and NOAA)
FCC	Federal Communications Commission
FCCS	Federal Claims Collections Standards
FCI	Facility Condition Index (DM&R)
FDI	Foreign Direct Investment
FECA	Federal Employees' Compensation Act
FEGLI	Federal Employees' Group Life Insurance Program (OPM)
FEHB	Federal Employees Health Benefit Program (OPM)
FERS	Federal Employees Retirement System (OPM)
FFMIA	Federal Financial Management Improvement Act of 1996
FirstNet	First Responder Network Authority (an independent authority within NTIA)
FKNMS	Florida Keys National Marine Sanctuary (NOAA)
FMFIA	Federal Managers' Financial Integrity Act of 1982
FVOG	Fishing Vessel Obligation Guarantee Program (a NOAA loan guarantee program)
FWC	Future Workers' Compensation
FY	Fiscal Year ended September 30
G G-Invoicing	Government Invoicing System (Treasury)
GAAP	Generally Accepted Accounting Principles
GAO	U.S. Government Accountability Office



Abbreviation	Title
GCCMIF	Global Climate Change Mitigation Incentive Fund (EDA)
GEMS	Grants Enterprise Management Solution
GMD	Grants Management Division
GMIS	Grant Management Information System (NIST)
GMO	Grants Management Officer (NIST)
GOES	Geostationary Operational Environmental Satellites (NOAA)
GONE Act	Grants Oversight and New Efficiency Act of 2016
GPRA	Government Performance and Results Act of 1993
GPROMA	Government Performance and Results Modernization Act of 2010
Grants Manual	Grants and Cooperative Agreements Manual (Department of Commerce)
GSA	U.S. General Services Administration
H	
HCOP	Human Capital Operating Plan (OMB)
HR	Human Resources
I	
IFQ	Individual Fishing Quota Loans (a NOAA direct loan program)
IP	Intellectual Property
IPIA	Improper Payments Information Act of 2002
ISO	Information Services Office (NIST)
IT	Information Technology
ITA	International Trade Administration
IUS	Internal Use Software
J	
JPSS	Joint Polar Satellite System (NOAA)
M	
MBDA	Minority Business Development Agency
MD&A	Management's Discussion and Analysis
MSI	Minority Serving Institutions (EPP)
N	
NCDC	National Climatic Data Center (NOAA)
NERR	National Estuarine Research Reserves (NOAA)
NESDIS	National Environmental Satellite, Data, and Information Service (NOAA)
NFC	National Finance Center (U.S. Department of Agriculture)

Abbreviation	Title
NGGPS	Next Generation Global Prediction System (NOAA)
NHTSA	National Highway Traffic Safety Administration (U.S. Department of Transportation)
NIIMBL	National Institute for Innovation in Manufacturing Biopharmaceuticals
NIST	National Institute of Standards and Technology
NMFS	National Marine Fisheries Service (NOAA)
NOAA	National Oceanic and Atmospheric Administration
NOS	National Ocean Service (NOAA)
NPSBN	Nationwide Public Safety Broadband Network
NTIA	National Telecommunications and Information Administration
NTIS	National Technical Information Service
NWS	National Weather Service (NOAA)
O	
OAM	Office of Acquisition Management (DM)
OAR	Office of Oceanic and Atmospheric Research (NOAA)
OFM	Office of Financial Management (DM)
OIG	Office of Inspector General (DM)
OMAO	Office of Marine and Aviation Operations (NOAA)
OMB	Office of Management and Budget
OPM	U.S. Office of Personnel Management
OS	Office of the Secretary (DM)
P	
P3	Public–Private Partnership
PAR	Position Action Request
PIFSC	Pacific Islands Fisheries Science Center (NOAA)
PP&E	Property, Plant, and Equipment
R	
R&D	Research and Development
RAMI	Revitalize American Manufacturing and Innovation Act of 2014
RPPR	Research Performance Progress Report
RT&C	Research Terms and Conditions



Abbreviation	Title
S	
S&E	Salaries and Expenses (DM)
SAM	System for Award Management (GSA)
SBR	Combined Statement of Budgetary Resources
SCNP	Consolidated Statement of Changes in Net Position
SF 425	Standard Form 425, <i>Federal Financial Report</i>
SFFAS	Statement of Federal Financial Accounting Standards (FASAB)
SMS	Sustainment Management System
SPRI	Strategic Plan Review and Implementation
ST&C	Standard Terms and Conditions
T	
TIBCO	The Information Bus Company
TMC	Top Management Challenges
TPA	Travel Promotion, Enhancement, and Modernization Act of 2014
Treasury	U.S. Department of the Treasury
TROR	Treasury Report on Receivables
TSP	Thrift Savings Plan
U	
USDA	U.S. Department of Agriculture
USPTO	U.S. Patent and Trademark Office
W	
WCF	Working Capital Fund (DM)
WIPO	World Intellectual Property Organization
X	
XML	Extensible Markup Language

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CERTIFICATE OF EXCELLENCE IN ACCOUNTABILITY REPORTING

In May 2018, the U.S. Department of Commerce received the *Certificate of Excellence in Accountability Reporting* (CEAR) from the Association of Government Accountants (AGA) for its Fiscal Year 2017 Agency Financial Report. The CEAR Program was established by the AGA, in conjunction with the Chief Financial Officers Council and the U.S. Office of Management and Budget, to improve the effectiveness of financial and program accountability reporting.





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