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# REPORT TO THE CONGRESS



BY THE COMPTROLLER GENERAL  
OF THE UNITED STATES

*CWB*



## Problems Found In The Financial Disclosure System For Department Of Commerce Employees

UNITED STATES  
GENERAL ACCOUNTING OFFICE

AUG 10 1976

LIBRARY SYSTEM

The close relationship between the Department of Commerce and the Nation's business community calls for vigilance by the Department to have an effective financial disclosure system for its employees.

GAO reports weaknesses in the Department's financial disclosure system including the need to:

- Improve procedures for collecting, processing, and controlling financial disclosure statements.
- Develop criteria and systematic procedures to review statements.
- Improve procedures and timely follow-up on financial interests.
- Enforce and expand its criteria for identifying persons who should file financial disclosure statements.

FPCD-76-55

AUG. 10, 1976

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COMPTROLLER GENERAL OF THE UNITED STATES  
WASHINGTON, D.C. 20548

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B-180228

To the President of the Senate and the  
Speaker of the House of Representatives

Executive Order 11222 prescribes standards of ethical conduct for Government officials and directs the Civil Service Commission to establish guidelines for agency financial disclosure systems. Several Members of Congress requested that we review the effectiveness of Federal agencies' financial disclosure systems. This report discusses needed improvements in the Department of Commerce's financial disclosure system.

We made our review pursuant to the Budget and Accounting Act, 1921 (31 U.S.C. 53), and the Accounting and Auditing Act of 1950 (31 U.S.C. 67).

We did not obtain formal comments from Commerce Department officials; however, we did discuss the report informally with officials in the Department of Commerce's Offices of General Counsel and Personnel who are responsible for the financial disclosure system. Their comments are included in the report.

We are sending copies of this report to the Director, Office of Management and Budget; the Secretary of Commerce; and other interested parties.

A handwritten signature in black ink, appearing to read "Thomas A. Stacks".

Comptroller General  
of the United States

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ABBREVIATIONS

CSC	Civil Service Commission
DIBA	Domestic and International Business Administration
DOC	Department of Commerce
GAO	General Accounting Office
NOAA	National Oceanic and Atmospheric Administration

COMPTROLLER GENERAL'S  
REPORT TO THE CONGRESS

PROBLEMS FOUND IN THE  
FINANCIAL DISCLOSURE SYSTEM  
FOR DEPARTMENT OF COMMERCE  
EMPLOYEES

D I G E S T

The special relationship between the Department of Commerce and the Nation's business community calls for unusual attention by Commerce in maintaining a financial disclosure system that will insure employee financial holdings are effectively reviewed so that the employee, the agency, and the public are protected.

GAO reviewed

- effectiveness of the financial disclosure system at Commerce,
- financial interests reported by its employees, and
- the question of whether other of its officials should be filing financial disclosure statements.

The agency's financial disclosure system had deficiencies that could have caused it to be ineffective in preventing possible appearances of conflicts of interest. GAO found

- employees did not file statements when required,
- some employees not required to file financial disclosure statements have responsibilities that warrant the filing of a statement, and
- the agency had not developed adequate procedures for collecting, processing, controlling, and reviewing statements.

GAO's review of 328 of 3,200 financial disclosure statements filed by Commerce employees in 1975 revealed that 86 held 139 interests that give the appearance of conflicting with their assigned duties and responsibilities.

Accordingly, the Secretary of Commerce should

- review and take immediate action on employees' interests questioned by GAO;
- develop procedures for effectively collecting, controlling, and processing statements;
- establish criteria and a system for reviewing statements;
- devise a method to follow up promptly on financial interests;
- expand Commerce's comprehensive criteria for determining who should file; and
- insure statements are filed systematically by all employees who should file.

We discussed our findings with representatives in Commerce's Offices of General Counsel and Personnel that are responsible for the financial disclosure system. Commerce was not given an opportunity to formally comment on recommendations in this report, but the above officials, for the most part, did not offer any objections to the system deficiencies noted. Comments were not made on the financial holdings GAO questioned because Commerce had not had an opportunity to consider each case. (See p. 18.)

This is one in a series of GAO reports on financial disclosure systems in departments, boards, and commissions of the Government. (See pp. 20 and 21.)

## CHAPTER 1

### INTRODUCTION

The Department of Commerce was established by the act of March 4, 1913 (37 Stat. 736; 15 U.S.C. 1501) which reorganized the Department of Commerce and Labor, transferring labor activities into a separate department. The primary statutory mission of Commerce is to foster, promote, and develop foreign and domestic commerce of the United States. Through the years, the mission has evolved to encompass a responsibility to foster, serve, and promote the Nation's economic development and technological advancement. Commerce attempts to fulfill its mission, which is carried out by several agencies, through

- participating with other Government agencies in the creation of national policy, through the President's Cabinet and its subdivisions;
- promoting progressive business policies and growth;
- assisting States, communities, and individuals toward economic progress;
- strengthening the international economic position of the United States;
- improving man's comprehension and uses of the physical environment and its oceanic life;
- assuring effective use and growth of the Nation's scientific and technical resources; and
- acquiring, analyzing, and disseminating information concerning the Nation and the economy to help achieve increased social and economic benefit.

Those major agencies involved in fulfilling Commerce's mission and a brief description of their primary responsibilities follow:

- Economic Development Administration - provides assistance for long-range economic development of areas with severe unemployment and low-family-income problems.
- Office of Minority Business Enterprise - promotes and assists the expansion of minority enterprise by coordinating and encouraging action by Federal, State,

and local government agencies and the private sector.

- Office of Telecommunications - assists in improving public understanding of telecommunications and assuring the effective growth and use of the Nation's telecommunications resources.
- United States Travel Service - develops, plans, and carries out a comprehensive program to stimulate and encourage travel to the United States by residents of foreign countries, as a means of promoting friendly understanding and good will among peoples of foreign countries and of the United States.
- National Technical Information Service - serves as a central source for the public sale of Government-funded research and development reports and other analyses prepared by Federal agencies, their contractors, or grantees.
- National Fire Prevention and Control Administration - functions to reduce loss of life and property through better fire prevention and control with a program coordinated to support and reinforce the fire prevention and control activities of State and local governments.
- Bureau of Economic Analysis - provides basic measures and analyses of the U.S. economy through preparing, developing, and interpreting national economic accounts.
- Office of Energy Programs - develops Commerce's energy program and carries out energy programs in cooperation with the public and other Government agencies.
- Patent and Trademark Office - administers laws and regulations governing the issuance of patents and trademarks and adjudicates resulting questions.
- Bureau of the Census - collects and publishes basic statistics concerning the population and economy of the Nation to assist the U.S. Government and the public in interpreting and evaluating economic and social developments.
- Maritime Administration - conducts programs for developing and maintaining an efficient U.S. merchant marine to meet commercial and defense needs of the United States.



--Domestic and International Business Administration - conducts Commerce activities aimed at promoting progressive American business policies and economic growth and strengthening the U.S. international commercial position.

--The National Oceanic and Atmospheric Administration (NOAA) - carries out programs designed to further the Nation's safety, welfare, security, and commerce through increasing our knowledge and rational use of the environment.

--National Bureau of Standards - provides a national system for physical measurement and services to improve the use of materials and application of technology, including the computer sciences.

As indicated by the scope of Commerce's responsibilities, a sound financial disclosure system should be maintained to assure proper performance of Government business and citizens' confidence in their Government.

#### SCOPE OF REVIEW

Our review, conducted primarily at Department of Commerce headquarters, Washington, D.C., was made pursuant to requests from several Members of Congress. The primary concerns in these requests were whether:

--Federal agencies have effective financial disclosure systems for revealing conflicts of interest.

--All required financial disclosure statements were filed promptly and properly.

--The financial disclosure statements were adequately reviewed and analyzed.

We reviewed certain statements filed by employees in 1975 and previous years. In selecting individual cases for review, we concentrated on top-level officials and employees whose statements indicated financial interests.

The confidentiality of these statements was maintained at all times. Our working papers do not contain employee names but only codes which are traceable to the names of employees and their holdings under question. Lists of the employees, our code, and their holdings were given to Commerce at the completion of our audit. We also reviewed position descriptions of employees required to file statements. Responsibilities of certain employees not currently required

to file financial disclosure statements were also reviewed to determine whether they should be filing. We did not determine whether the employees who filed statements in 1975 were on Commerce's employment roles during our review nor did we talk with any individuals concerning their actual duties or their financial holdings.

Our review did not focus on existing statutory criminal provisions concerning activities of Federal employees affecting their personal financial interests (18 U.S.C. 208). We note, however, that disclosure requirements of the statute are no more stringent than requirements of the regulations we reviewed.

## CHAPTER 2

### FINANCIAL DISCLOSURE REQUIREMENTS

#### AND AGENCY PROHIBITIONS

Executive Order 11222 of May 8, 1965, prescribes standards of ethical conduct for Government officers and employees. These standards deal with both actual and appearances of conflicts of interests. The Civil Service Commission (CSC) is directed by the Executive order to establish implementing regulations. In November 1965 CSC issued instructions requiring each agency to prepare employee conduct standards and establish a review system for employee financial disclosure statements. Implementing regulations established by each agency were to incorporate the criminal provisions of Title 18 U.S.C. and any other restrictions that may have been imposed.

Department of Commerce Regulations 15 C.F.R. Part O governing employee responsibilities and conduct, reissued in November 1967, describe Commerce's financial disclosure system for all employees. The Secretary of Commerce and full-time committee members, boards, or commissioners appointed by the President are not included in this system. Executive Order 11222 requires these employees to file their statements with CSC. The General Counsel was designated Commerce counselor on employee responsibility and conduct matters and was appointed Commerce representative to CSC. The General Counsel is responsible for assuring that counseling and interpretations on conflicts of interest questions are available to deputy counselors who he designates to serve each operating unit. In addition, he reviews statements filed with him from officials in charge of operating units, from assistant secretaries, and from review officials.

The personnel director for the Office of the Secretary is responsible for collecting and reviewing financial disclosure statements of employees in the Economic Development Administration, Office of Minority Business Enterprise, Office of Telecommunications, United States Travel Service, National Technical Information Service, National Fire Prevention and Control Administration, Bureau of Economic Analysis, and the Office of Energy Programs. The director of personnel in each of the remaining operating agencies is the primary official responsible for collecting and reviewing each respective agency's employee statements.

Questions raised on employee financial interests are referred to a deputy counselor for resolution. If the

deputy counselor cannot resolve the matter as stated above, it is referred to the General Counsel. Remedial action provided in Commerce's regulation when a conflict cannot be resolved includes, but is not limited to, changes in assigned duties, divestiture by the employee of the conflicting interest, disciplinary action (including removal from service), or disqualification from a particular assignment.

PROHIBITIONS AFFECTING COMMERCE  
EMPLOYEES' FINANCIAL INTERESTS

Commerce regulations prohibit employees from having a direct or indirect financial interest that conflicts or appears to conflict substantially with their Government duties and responsibilities. Furthermore, regulations state that employees shall not, without prior authorization, (1) engage in, directly or indirectly, a financial transaction as the result of, or primarily relying on, information obtained through his Government employment; (2) participate in any manner, in negotiating contracts, making loans and grants, granting subsidies, fixing rates, issuing valuable permits or certificates, investigating or prosecuting, or transacting any other official business which affects chiefly a person (a) by whom he has been employed or with whom he has had any economic interest within the preceding 2 years or (b) with whom he has any economic interest or any pending negotiations concerning a prospective economic interest.

### CHAPTER 3

#### FURTHER ACTION NEEDED TO STRENGTHEN

##### THE FINANCIAL DISCLOSURE SYSTEM

During our review we noted weaknesses that should be corrected in Commerce's financial disclosure system. These include the need for improved procedures for (1) collecting, processing, and controlling financial disclosure statements, (2) reviewing statements, and (3) following up on financial interests questioned during review of the statements. Commerce has established comprehensive criteria for determining who should file financial disclosure statements. A weakness existed in that some employees who met the criteria were not identified and thus did not file. Certain other employees, although not required to file by the criteria, occupied positions which we believe warranted the filing of statements.

##### COLLECTING, PROCESSING, AND CONTROLLING PROCEDURES FOR FINANCIAL DISCLOSURE STATEMENTS

CSC and Commerce regulations state that employees required to file financial disclosure statements must do so within 30 days after appointment and supplement them annually as of June 30. At the time of our review, in late 1975 and January 1976, many statements required as of June 30, 1975, had not been filed. Further, most of the time the offices/bureaus did not require statements within 30 days of appointment from persons who were either hired or promoted into positions meeting the filing criteria.

The following table shows the number of statements that had not been filed at the time of our review.

<u>Office/Bureau</u>	Employees required to file as of <u>6/30/75</u>	<u>Statements not filed</u>	<u>Month of review</u>
Office of the Secretary	a/ 744	62	Oct. 1975
Patent Office	735	79	Dec. 1975
Bureau of the Census	50	4	Jan. 1976
Domestic and International Business Administration	487	b/ 3	Jan. 1976
Maritime Administration	400	58	Jan. 1976
National Oceanic and At- mospheric Administration	c/ 194	c/ 3	Jan. 1976
National Bureau of Stand- ards	<u>404</u>	<u>57</u>	Jan. 1976
Total	<u>3,014</u>	<u>266</u>	

a/Statements filed in the Office of General Counsel are included in this total.

b/Though these statements were not filed in January 1976, 88 had not been filed as of 9/12/75.

c/Figures do not include statements required to be filed by field office employees. As of January 30, 1976, no field unit had certified receipt of statements. As such, additional statements may not be on file (228 field employees were required to file statements in fiscal year 1974); this would make the total required to file about 3,200.

A problem existed at the National Bureau of Standards with respect to the collecting of statements. Annual supplementary statements were requested from employees in a Bureau weekly publication circulated to all employees. The notice suggested that employees could submit a written statement in the form of a memorandum, rather than using the standard form, if there had been no important change since the previous statement. Determination of importance was left to the employee. As a result, many employees filed by memorandum rather than use the standard form. This procedure may result in some financial holdings not being reported.

## STATEMENT REVIEW PROCEDURES

Our review showed that neither Commerce nor the individual offices/bureaus had adequate criteria or systematic procedures for reviewing financial disclosure statements. As a result, individual review officials, in most instances, were left to assert criteria or use their own judgment in reviewing statements and, in doing so, employed varying procedures in carrying out these responsibilities. The need for such criteria and systematic procedures is indicated in the following examples.

### Office of the Secretary

Officials responsible for reviewing financial disclosure statements were not using relevant information, such as lists of recipients of Economic Development Administration business loans, public works contracts, or technical assistant contracts in reviewing statements. The Office's primary review official was unable to describe what he looked for in reviewing the statements of several offices within his jurisdiction.

Officials told us that they only reviewed statements indicating a change in financial interests since the previous filing because the holdings had been reviewed at some time in the past. Further, the only reference material used by the Office was a 1973 publication which generally described companies' major lines of business.

### Patent Office

Art units, of which there are about 75, are subgroups where patent examiners handle specialized lines of patent applications under the three major areas of chemical, mechanical, and electrical.

The only formal criterion used in this office for determining patent examiners' conflicts of interest was a 1966 letter prepared by the Office's solicitor. The letter stated that common stock ownership would not be considered a possible conflict of interest unless the company's business was (1) related to the art unit where the examiner worked and (2) of such size and nature that the grant of a patent could greatly affect earning potential of the company. The guidelines also stated that well-diversified investment holdings and bond and real estate holdings will not normally be questioned.

The Office's primary review official informed us that the above guidelines were vague and that there are no

specific guidelines to follow. He also informed us he did not refer to employees' position descriptions or consult industrial directories for specific information on companies and he had not identified any conflicts of interest in 2-1/2 years of reviewing statements.

#### Bureau of the Census

This Bureau's primary review officials said that he relied heavily on his knowledge of job positions when reviewing statements. Further, he did not use available information such as a listing of contracts awarded by the Bureau, and he did not use employee position descriptions in all cases.

#### Domestic and International Business Administration (DIBA)

Officials involved in the statement review process in this agency described varying and inconsistent criteria to us as to what constituted potential or possible conflicts of interest.

Initial review of statements is made by the personnel office. The primary review official at this level told us that, in reviewing statements, she was almost exclusively concerned with outside employment and did not question stock holdings unless they represented a sizable percent of the company's total stock. The official, however, had no set percentage for determining what would be a large holding.

Holdings questioned by the personnel office are forwarded to the Office of Chief Counsel. A review official in the Office did question stock holdings as being conflicts based on percent of total stock of the companies. He informed us, however, that there was no criteria for reviewing employee statements and he believed each case had to be decided on its individual merit. Unresolved issues are forwarded to Commerce's General Counsel.

Commerce's General Counsel representative, responsible for resolving all matters referred by DIBA's Office of Chief Counsel, informed us that a DIBA commodity specialist having a single share of stock in a company in the industry of the employee's specialization could be a conflict of interest.

#### Maritime Administration

The primary review official in this agency told us that his review of statements was limited to identifying holdings



that appeared to pose problems. This official made the assumption that present holdings listed on past statements and not questioned during prior reviews posed no potential conflict. Also, the primary review official told us that, in reviewing statements, he did not use reference materials, such as lists of shipbuilders, lists of ship operators who received subsidies, or lists of companies who had research and development contracts. He also stated that he did not use employee position descriptions in performing the review function.

The Maritime Administration was not timely in reviewing June 30, 1975, statements. In late January 1976, review was still in process. Though questions had been raised on 55 statements, the statements had not been forwarded to the next review level for resolution.

#### National Oceanic and Atmospheric Administration

The primary review official stated that he used his own judgment and did not use position descriptions of incumbents, reference materials describing businesses of companies, or listings of NOAA contracts in reviewing statements. Further, the annual review of statements required as of June 30 was usually not conducted until the following December. We were told that few employee interests have been questioned in the past several years.

#### National Bureau of Standards

The personnel officer told us that in reviewing statements, he examines outside employment interests such as consulting or writing. However, he does not normally consider any stock holdings to be conflicts of interest unless the relationship between the employee's position and company is obvious to him. He informed us that in conducting his review, he does not refer to employee position descriptions, industrial manuals, or listings of businesses having contracts with or grants from the Bureau.

#### PROCEDURES AND FOLLOWUP ON FINANCIAL INTERESTS

During our review we noted that some review officials questioned numerous employee financial interests while other review officials questioned few, if any, interests. Though employee interests were questioned, matters were often not fully pursued or acted on in a timely manner. For example, review officials in the Office of the Secretary questioned 28 financial disclosure statements filed in 1974 and

referred them for resolution to Commerce's General Counsel. Similarly, statements of eight Economic Development Administration employees were questioned and forwarded to its Office of Chief Counsel for resolution. Copies of the employees' position descriptions were forwarded with the financial interest statements. However, the legal offices did not receive the benefit of any research or analyses performed by the primary review officials since no mention of the interests questioned was provided.

Warnings were given to employees whose interests were determined to represent possible conflicts. Warnings inform the employee he has a possible conflicting interest and he should not participate as a Government official in any manner with such company. However, warnings for the most part did not identify the specific holding(s) that created the possible conflict. Accordingly, employees generally knew little more than they did when they first submitted the statements.

Elapsed time between when the employee first submitted his statement and the issuance of a warning, if appropriate, was generally long. For example, one employee submitted a statement on August 1, 1974, listing holdings as of June 30, 1974. Final action was not taken on this statement until July 25, 1975. In another case, an employee filed his statement in July 1974; Commerce's General Counsel questioned a particular holding in December 1974 and the employee was not notified until the end of April 1975. Final action on statements submitted to Commerce's General Counsel was not taken for an average of about 6-1/2 months after the statements were filed. Also, final action on statements submitted to the Economic Development Administration's Chief Counsel was not taken for an average of about 4-1/2 months after the statements were filed.

We believe timely action on questionable holdings is needed to limit burdens placed on the employee and Commerce to insure employee disqualification and minimize any loss in productivity.

#### WHO SHOULD FILE FINANCIAL DISCLOSURE STATEMENTS?

Commerce regulations provide fairly comprehensive criteria for determining who should file financial disclosure statements. Persons who file include those responsible for making a decision or taking action on the part of the Government concerning contracting or procurement, administering or monitoring grants or subsidies, regulating non-Federal enterprise, auditing, or other activities where the decision has an economic impact on the interests of any non-Federal enterprise.

To test enforcement of this criteria, we reviewed 46 positions whose personnel did not file 1975 statements in the Economic Development Administration, Office of Minority Business Enterprise, Office of Telecommunications, and Bureau of the Census and compared position descriptions with Commerce criteria to determine if the employee should have filed statements. We found that in 20 of the 46 positions the employees should have been required to file because they performed duties and were in positions that met the filing requirement. Because of the above, we believe Commerce should develop procedures to insure identification of all persons required to file statements.

We also noted that Commerce could expand its criteria for determining who should file. For example, the Patent Office required 528 of its 1,053 Patent Examiners to file statements as of December 1975. Those required to file were GS-13s and above who had full signature authority for the approval of patent applications.

Our review of position descriptions and discussions with supervisory patent examiners revealed that decisions made by other GS-13s and some GS-12s sometimes heavily influenced whether or not patent applications were approved. At the time of our review, there were about 317 GS-12 and GS-13 Patent Examiners. Since certain employees at these grade levels could influence the awarding of patents, even though they do not have the final approval, we believe the Patent Office should identify those who have this influence and require them to file statements.

CHAPTER 4

REVIEW OF EMPLOYEES' FINANCIAL DISCLOSURE STATEMENTS

In 1975 approximately 3,200 Department of Commerce employees were required to file financial disclosure statements listing financial interests in creditors, real property, and business entities. We compared 328 employees' position descriptions with the financial interests listed on their statements and found that 86 employees reported 139 financial interests that appeared questionable in light of their assigned duties. Had adequate review procedures existed, Commerce would probably have specifically decided whether the questionable holdings created or did not create an appearance of a conflict of interest and would have taken appropriate action. The following table indicates by bureau/office system the results of our review.

<u>Bureau/Office</u>	<u>Statements reviewed</u>	<u>Appearance of conflict</u>	
		<u>Employees</u>	<u>Interests reported</u>
Office of the Secretary (note a)	159	29	41
Patent Office	72	27	49
Bureau of the Census	50	-	-
Domestic and International Business Administration	9	5	15
Maritime Administration	19	16	18
National Oceanic and Atmospheric Administration	15	5	11
National Bureau of Standards	<u>4</u>	<u>4</u>	<u>5</u>
Total	<u>328</u>	<u>86</u>	<u>139</u>

a/Includes agencies mentioned on page 5.

OFFICE OF THE SECRETARY

Our review of 159 statements filed by employees in 1975 in offices under the jurisdiction of the Office of the Secretary disclosed that 29 employees reported 41 apparent conflicting interests. Review officials had questioned interests on 15 of these statements before our review. We found little evidence that the employee was specifically informed of the particular interest questioned. For the most part, as stated on page 12, a general statement warning the employee to avoid any official activity with companies in which he had an interest was attached to the employee's statement. We found nothing to indicate further followup activity. Because the questionable interests were not

identified, we were unable to determine whether the ones we questioned were the same as those for which warnings were given by the Office's review official.

In addition to the above, we noted that certain Economic Development Administration employees had reported financial interests which may be questionable.

--Twelve employees reported having real estate interests, being partners in real estate firms, or otherwise having financial interest in real estate.

--Eighteen persons reported interests in financial institutions.

--Two persons reported interests in construction companies.

We could not readily determine whether these organizations conducted business with the Economic Development Administration or were involved in the employee's area of responsibility. Review officials, during their statement reviews, did not use lists of grant and loan recipients, construction companies working on public works projects, or lending institutions funding Economic Development Administration projects.

Due to the nature of business conducted by the Economic Development Administration, we believe the above interests should be examined to determine whether they create possible conflicts of interest with duties of the employees.

#### PATENT OFFICE

We reviewed 72 statements of patent examiners and various board members who held financial interests. We analyzed these statements by comparing the employee's subgroup area of expertise to the companies shown on the statement.

We considered a possible conflict of interest to exist if stock ownership or other interests were in companies or industries covered by the employee's subgroup; we found that 27 employees had 49 interests which appeared to be possible conflicts of interests.

#### BUREAU OF THE CENSUS

We reviewed 50 statements and found no interests that appeared to conflict with the employee's position descriptions.

DOMESTIC AND INTERNATIONAL  
BUSINESS ADMINISTRATION

We selected nine employees who were required to make decisions affecting business enterprises or who were given access to privileged information that could be used for personal gain, and we compared the employees' position descriptions with the financial holdings shown on their financial disclosure statements. We found that:

- Three employees held 13 interests that appeared to conflict with assigned duties and responsibilities.
- One employee held a 50-percent interest in a company that may have conducted business with Commerce during the time the employee held the interest.
- One employee held an interest in a company but data was not available on the company's activities. Additional information is necessary to permit a determination on this interest.

MARITIME ADMINISTRATION

Our review of 19 Maritime Administration employee statements disclosed that:

- Sixteen employees held 18 interests that appeared to conflict with their assigned duties.
- Five of the above employees held interests in companies that received subsidies from the Maritime Administration, creating the appearance of conflicts of interest.

NATIONAL OCEANIC AND  
ATMOSPHERIC ADMINISTRATION

We selected 15 employees who appeared to occupy positions that could influence the awarding of contracts and 11 listed financial interests on their statements. Of these 11 employees, 5 had 11 interests in nine companies that had active contracts with the National Oceanic and Atmospheric Administration. These nine companies had 25 contracts which amounted to about \$10 million. Seventeen of the contracts were sole-source noncompetitive contracts and involved about \$7 million. We found nothing to indicate that any of these employees exerted undue influence in the awarding of these contracts, but they may have been in positions to do so.

## NATIONAL BUREAU OF STANDARDS

A review of financial disclosure statements of four employees in the Bureau's Institute for Computer Sciences and Technology disclosed that each of the employees held interests which appeared to conflict with their assigned duties.

Three of these employees held stocks in three companies in the computer industry. Each employee was in a position to (1) evaluate systems and make recommendations to other Federal agencies on computer system standards and requirements and (2) contact private industry, and specifically, computer equipment manufacturers.

The fourth individual had a retirement trust from a company that had a computer-oriented research grant from the Bureau. Institute for Computer Sciences and Technology employees are asked to evaluate grant applications in the computer science area and make recommendations on their approval. If the retirement trust depends upon company profits, then the interest could be a problem.

## CHAPTER 5

### CONCLUSIONS, RECOMMENDATIONS, AND

#### AGENCY COMMENTS

#### CONCLUSIONS

The Department of Commerce's financial disclosure system had deficiencies which could have caused it to be ineffective in preventing conflicts of interests. These deficiencies include inadequate enforcement of criteria to determine those who should file statements, the need to expand its criteria for determining who should file, inadequate criteria and procedures for reviewing statements, and inadequate procedures for collecting, processing, and controlling statements.

Deficiencies in the system resulted in no action being taken on interests reported by employees. This gave the appearance of conflicting with the employees' assigned duties.

#### RECOMMENDATIONS

To improve effectiveness of the financial disclosure system, we recommend that the Secretary of Commerce

- review and take corrective action on questionable financial interests addressed in this report;
- develop effective procedures for collecting, processing, and controlling statements;
- develop criteria and systematic procedures for reviewing statements;
- develop procedures to promptly follow up on financial interests questioned;
- expand Commerce's comprehensive criteria for determining who should file; and
- develop procedures to insure statements are filed by all employees who should file.

#### AGENCY COMMENTS

On April 2, 1976, we discussed our system deficiency findings with representatives in Commerce's Offices of



General Counsel and Personnel. We also provided these officials our lists of employees and financial interests which we believed appeared to be possible conflicts of interests.

Generally, the above officials did not offer any objections to the system deficiencies noted in the report. The representative in the Office of Personnel, however, did not believe it was necessary to review employees job descriptions when reviewing financial disclosure statements. This position was not supported by the officials in the Office of General Counsel. The above officials generally did not comment on the financial holdings questioned (see p. 14) because Commerce had not had an opportunity to review and consider each case.

REPORTS ISSUED ON AGENCIES'FINANCIAL DISCLOSURE SYSTEM

<u>Agency</u>	<u>Report title, number, and issue date</u>
Federal Power Commission	Need for Improving the Regulation of the Natural Gas Industry and Management of Internal Operations, B-180228, 9/13/74.
Department of the Interior	Effectiveness of the Financial Disclosure System for Employees of the U.S. Geological Survey, FPCD-75-131, 3/3/75.
Civil Aeronautics Board	Effectiveness of the Financial Disclosure System For Civil Aeronautics Board Employees Needs Improvement, FPCD-76-6, 9/16/75.
Federal Maritime Commission	Improvements Needed In the Federal Maritime Commission's Financial Disclosure System For Employees, FPCD-76-16, 10/22/75.
U.S. Railway Association	Improvements Needed In Procurement and Financial Disclosure Activities of the U.S. Railway Association, RED-76-41, 11/5/75.
Department of the Interior	Department of the Interior Improves Its Financial Disclosure System For Employees, FPCD-75-167, 12/2/75.
Department of Health, Education, and Welfare	Financial Disclosure System for Employees of the Food and Drug Administration Needs Tightening, FPCD-76-21, 1/19/76.
Department of the Interior	Letter report to Congressman John Moss on U.S. Geological Survey Employees' Divestiture, FPCD-76-37, 2/2/76

<u>Agency</u>	<u>Report title, number, and issue date</u>
Inter-American Foundation	Inter-American Foundation's Financial Disclosure System for Employees and its Procurement Practices, ID-76-69, 6/30/76
Department of Transportation	Problems with the Financial Disclosure System, Federal Aviation Administration, FPCD-76-50,

PRINCIPAL DEPARTMENT OF COMMERCE OFFICIALS

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