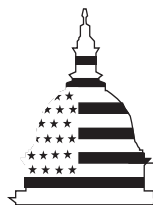


**June 2000**

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# INFORMATION POLICY

## NTIS' Financial Position Provides an Opportunity to Reassess Its Mission

**G A O****Accountability \* Integrity \* Reliability**

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GAO

Accountability \* Integrity \* Reliability

United States General Accounting Office  
Washington, D.C. 20548

General Government Division

B-284351

June 30, 2000

### Congressional Committees

This report responds to the requirement in Senate Report 106-76 that we examine an issue involving the Department of Commerce's National Technical Information Service (NTIS). NTIS is a permanent repository and principal disseminator for scientific, technical, and engineering information (hereafter referred to as research). As agreed with your offices, this report also responds to broader NTIS issues of concern to the Senate Committee on Commerce, Science, and Transportation and the House Committee on Science.

NTIS' World News Connection (WNC) operates an on-line foreign news service that disseminates to the public, for a fee, news obtained from the Central Intelligence Agency's (CIA) Foreign Broadcast Information Service (FBIS). The Senate Report asked us to determine whether WNC's foreign news service (1) falls within NTIS' statutory authority and (2) is detrimental to private businesses that offer similar news services.

For over 55 years, NTIS (or its predecessor agency) has collected and disseminated agencies' research reports to the public. However, during the late 1990s, the agencies increasingly began making many of their research reports available to the public for free through the World Wide Web. This contributed to a decline in NTIS' revenues from the sale of these reports.

This decline in sales is a serious problem for NTIS because its enabling legislation requires that to the fullest extent feasible, all of the services and functions provided by NTIS be self-sustaining.<sup>1</sup> In August 1999, Secretary of Commerce Daley proposed to close NTIS by September 2000 because he believed that declining sales revenues soon would not be sufficient to recover all of NTIS' operating costs. He also proposed transferring NTIS' research report archives to the Library of Congress and requiring federal agencies to give the public free on-line access to new research reports. Commerce's draft legislation to close NTIS has not been introduced in Congress.

Our objectives were to (1) determine whether NTIS can continue to be self-sufficient and, if not, what issues need to be addressed; and (2)

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<sup>1</sup> 15 U.S.C. 1153.

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determine whether WNC's on-line foreign news service exceeds NTIS' statutory authority to the detriment of private firms offering similar news services.

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## Results in Brief

NTIS may be able to remain self-sufficient (or solvent) for a few years, but its solvency beyond fiscal year 2003 remains in doubt. Solvency for a few years may be possible because Commerce and NTIS officials acted in fiscal year 1999 to reduce costs when it appeared there would not be sufficient funds to operate. For example, Commerce officials transferred 45 NTIS employees to other agencies within the department. These actions allowed NTIS to report a \$600,000 profit in fiscal year 1999, and NTIS officials project an estimated \$1 million profit for fiscal year 2000. However, NTIS' solvency beyond fiscal year 2003 is in doubt based on our forecast of NTIS' revenues and costs that suggests that losses will begin in fiscal year 2001 and continue. If these losses are realized, retained earnings from previous years' operations could be absorbed, and NTIS could run out of operating funds after fiscal year 2003.

However, if any of three events not included in our financial analysis occur, they could cause financial reversals that would threaten NTIS' self-sufficiency before fiscal year 2003. First, the 5-year decline in NTIS' revenues from selling reports may accelerate, as larger segments of the public gain access to the Web and as more agencies make their research reports available for free over the Web. For example, Congress recently appropriated \$250,000 for the Department of Transportation to give the public free on-line Web access to more than 400,000 research reports. Second, NTIS' costs may increase faster than accounted for in our financial analysis because NTIS officials say they have nearly exhausted their plans to reduce costs. Third, the fees that federal agencies pay NTIS for various brokerage and Web services (\$12.4 million, or 37 percent of NTIS' total fiscal year 1999 revenue of \$33.3 million) may begin to decline rapidly if agencies decide to obtain those services elsewhere because of the Secretary's announced plan to close NTIS or for other reasons. For example, 11 percent of NTIS' total revenues came from fees it charges the Internal Revenue Service (IRS) to host that agency's Web page and for other services. IRS asked the Secretary of Commerce in May 2000 for assurance that NTIS would continue to provide IRS with services through fiscal year 2001.

Because of NTIS' precarious financial position, policymakers may want to address the question of whether the government still needs NTIS (or another agency) to serve as a permanent repository and disseminator for research reports. To help in this reassessment, congressional committees

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could benefit from the annual financial and operational reports on NTIS that Commerce is required to submit to Congress but has not submitted since fiscal year 1995.

Regarding our second objective, WNC's foreign news service falls within NTIS' statutory mission to disseminate technical information. Nevertheless, WNC's service may have a detrimental impact on private sector firms that offer similar electronic news services because NTIS does not pay to obtain or translate the foreign news, or pay taxes, as private firms do.

Although NTIS is still solvent, we suggest that Congress consider whether and how NTIS' mission should be carried out in the future. In addition, we are recommending that the Secretary of Commerce resume submitting the required annual reports to the appropriate congressional committees to help keep them fully informed on NTIS' operations and financial condition. Commerce agreed that Congress should review NTIS' mission and said it would work to ensure that Congress receives all of the relevant information.

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## Background

Since 1945, NTIS (or its predecessor agency) has served as a permanent repository and principal disseminator for scientific, technical, and engineering information that is useful to American business, industry, and the public. NTIS acquires its information primarily from federal agencies and their contractors and grantees, as well as from international sources. Its collection includes about 3 million titles.

Customers learn of the availability of NTIS information through a variety of publications, searches of major commercial information brokers, and the NTIS bibliographic database in FedWorld.<sup>2</sup> According to NTIS officials, NTIS classifies, maintains, and disseminates information in the formats most useful to customers; develops electronic and other new methods and media for information dissemination; provides information processing services to other federal agencies; and charges fees for its products and services that recover its operating costs.

In addition to selling research reports, NTIS offers various services to other federal agencies that account for a significant portion of its total revenues. For example, NTIS' FedWorld provides agencies an on-line information network that enables agencies to meet their information

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<sup>2</sup> FedWorld is an on-line information network system, allowing users with a computer and a modem or Internet connection to identify and gain access to a broad array of government information products.

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dissemination obligations. Also, the systems, equipment, financial structure, and specialized staff skills used in the clearinghouse program allow NTIS to offer production and dissemination services to other agencies and provide them with brokerage (billing, collection, and financial management) services.

Although NTIS' enabling legislation intended that to the fullest extent feasible, all the services and functions provided by NTIS would be self-sustaining, NTIS received annual appropriations from its inception in 1945 through 1987. In 1988 Congress enacted legislation—the National Technical Information Act<sup>3</sup>—that expanded NTIS' authority to, among other things, enter into contracts, cooperative agreements, joint ventures, and other transactions with private firms; and make its bibliographic information products (catalogs, abstracts, etc.) available to the Government Printing Office's (GPO) Depository Library Program. In 1992, legislation was enacted to establish the National Technical Information Service Revolving Fund.<sup>4</sup> This legislation provided that without further appropriations, all expenses NTIS incurs shall be paid from the fund.

From fiscal years 1988 through 1994, NTIS showed a net profit in all years except 1 and generated a cumulative net profit of \$5.8 million. However, over the next 5-year period of fiscal years 1995 through 1999, NTIS had a cumulative net loss of about \$4.2 million. Revenue declined 3 percent during this period, decreasing from \$34.3 million to \$33.3 million; sales of research reports declined 28 percent from about 1.8 million to 1.3 million. Over this same period, the number of reports that NTIS obtained from agencies declined by 51 percent, from 104,000 to 51,000. In fiscal year 1998, NTIS lost \$1.3 million. Through some cost reduction initiatives, such as reducing staff from 337 at the end of fiscal year 1998 to 255 at the end of fiscal year 1999, NTIS rebounded in fiscal year 1999 and showed a profit of \$600,000.

According to NTIS' 1999-2003 Strategic Plan, the decline in sales revenue that began in 1995 can be attributed, at least in part, to the explosive growth of the World Wide Web. Agencies made greater use of the Web to disseminate their reports, and some customers may have expected that federal information was free or inexpensive from the Web. This may have affected what people were willing to pay NTIS for the same reports. Also, as more information became available for free on the Web, customers

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<sup>3</sup> P.L. 100-519, October 24, 1988.

<sup>4</sup> P.L. 102-395, October 6, 1992.

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abandoned the information brokers that paid fees to NTIS for access to NTIS' database of reports. According to NTIS' strategic plan, this resulted in the loss of potential sales as well as reduced revenues from fees.

In order for Congress to provide oversight of NTIS' financial condition, the Secretary of Commerce and the NTIS Director are required to keep the appropriate committees of Congress fully and currently informed about all activities related to the performance of NTIS, including changes in fee policies. Section 3704b(f)(3) of Title 15 of the U.S. Code requires that the Secretary submit an annual report to Congress that, among other things, summarizes the operations of NTIS during the preceding year, including financial details and staff levels broken down by major activities, and discusses its operating plan for the upcoming year.

As discussed previously, WNC is an on-line electronic foreign news service that is accessible via NTIS' World Wide Web page. WNC receives foreign news from the CIA's FBIS, which collects this information from foreign newspapers, conference proceedings, television and radio broadcasts, periodicals, and nonclassified reports. FBIS translates the news into English if necessary and provides it daily to WNC in an electronic format without charge. WNC updates this information on-line daily, so it is usually available for sale to the public within 48 to 72 hours after the original publication or broadcast appeared in the foreign media. NTIS is responsible for resolving any copyright complaints resulting from its dissemination of FBIS information. From 1974 to 1996, NTIS sold the foreign information in paper form but no longer does.

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## Scope and Methodology

To evaluate whether NTIS can continue to be self-sufficient and, if not, what issues need to be addressed, we analyzed NTIS' audited financial data for fiscal years 1991 through 1999.<sup>5</sup> We used the simple trend forecasting method to forecast NTIS' costs and revenues through fiscal year 2004. Forecasting methods use data about past history to develop models to predict the future. If trends for the future do not follow what occurred in the past, then the future predictions will be inaccurate. To perform this analysis, we assumed that future costs and revenues would change at a rate approximately equal to NTIS' historical 8-year average. (See app. I for more detail on our forecast and the results.) To determine when NTIS' retained earnings would be depleted, we compared our projected losses for NTIS to NTIS' projected retained earnings at the end of fiscal year 2000.

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<sup>5</sup> We excluded data for the midpoint of our series – fiscal year 1995 – from our forecasting method because the method required an even number of data points.

In addition to this analysis, we interviewed NTIS and Commerce officials, as well as officials from agencies that paid NTIS at least \$140,000 in fees in fiscal year 1999 for various services that NTIS provided. These interviews were to determine if agencies had contingency plans to find a source—other than NTIS—as a result of Commerce’s announced plan to close NTIS. We also monitored a study by the National Commission on Libraries and Information Science (NCLIS)<sup>6</sup> on alternatives to NTIS operating the repository.

To determine whether WNC’s on-line foreign news service exceeds NTIS’ statutory authority to the detriment of private firms offering similar news services, we interviewed NTIS, Commerce, and FBIS officials; reviewed various federal laws and accounting rules and regulations; obtained NTIS’ audited financial documentation on amounts of retirement contributions, taxes, etc. paid; and contacted private sector firms considered to be competitors of WNC to determine how their foreign news services and prices compared to WNC’s services. We also determined how WNC sets prices for its products.

We conducted our work between September 1999 and June 2000 in accordance with generally accepted government auditing standards. On June 8, 2000, we provided a draft of this report to the Secretary of Commerce for review and comment. The Secretary’s comments are discussed at the end of this letter and reprinted in appendix II.

## **NTIS May Be Able to Remain Self-Sufficient for a Few Years, but Future Solvency Is in Doubt**

NTIS may be able to remain self-sufficient (or solvent) for a few years, but its solvency beyond fiscal year 2003 remains in doubt, particularly if it experiences one or more potential financial reversals. Solvency through fiscal year 2003 may be possible because Commerce and NTIS officials acted in fiscal year 1999 to reduce costs when it appeared there would not be sufficient funds to operate. Commerce and NTIS officials transferred 45 NTIS employees to other agencies within the department, implemented an NTIS hiring freeze, consolidated NTIS operations into 1 building, and canceled NTIS staff bonuses and awards. These actions allowed NTIS to report a \$600,000 profit in fiscal year 1999, and NTIS officials project an estimated \$1 million profit for fiscal year 2000.

However, based on our forecast of NTIS’ revenues and costs that suggests that losses will begin in fiscal year 2001 and continue through fiscal year

<sup>6</sup> NCLIS is an independent agency of the federal government charged by P. L. 91-345 to take a leadership position on matters pertaining to the library and information needs of the nation and advise the President and Congress on the implementation of national policy.



2004, NTIS' solvency beyond fiscal year 2003 is in doubt. If these losses are realized, nearly all the funds in retained earnings from previous years' operations could be absorbed, and NTIS could run out of operating funds after fiscal year 2003. Our forecast, which incorporated some financial data not available to the Secretary when he proposed in August 1999 to close NTIS by September 2000, generally supports the Secretary's view of the viability of NTIS.

#### Financial Statement Audit Report Cites NTIS Profit in Fiscal Year 1999

The fiscal year 1999 financial statement audit report showed significant cost reductions and areas where revenues increased. This report noted several positive developments that occurred during the year:

- NTIS made a \$600,000 profit in 1999, after reporting losses the 2 previous years.
- NTIS' brokerage services for agencies recorded their fifth consecutive year of profits, and profits were at the highest levels in fiscal year 1999.
- NTIS had seven new FedWorld projects that generated almost \$300,000.

Not all of the report's findings were positive, however. For example:

- NTIS' total revenue declined \$3.4 million.
- The number of research reports that NTIS acquired from agencies for sale to the public declined significantly.
- The number of paper copies of reports sold declined 4.6 percent.

#### NTIS Management Forecasts \$1 Million Profit in Fiscal Year 2000

In April 2000, NTIS' Deputy Director and former Chief Financial Officer told us that the agency is estimating about \$1 million profit in fiscal year 2000 and that the agency should be able to remain self-sufficient in the near future. However, without any appropriated funds, he said that NTIS would not be able to invest adequately in technology, products, and services to position itself in the marketplace to serve its customers, safeguard its collection of reports, and maximize the public's investment in research. He added: "In short, we can survive—but we cannot operate as all similar organizations do by building upon the rapid technological change that is now occurring."

#### Financial Forecast Suggests That Retained Earnings Are Sufficient to Absorb Losses for 3 Additional Years

Our analysis of NTIS' financial data suggests that it has sufficient funds in retained earnings from previous years' operations to absorb estimated future losses and remain self-sufficient through fiscal year 2003—barring any financial reversals. This statistical analysis used NTIS financial data as of September 30, 1999, and assumes that revenues and costs would change at a rate approximately equal to NTIS' historical 8-year average.

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The financial statement audit report for fiscal year 1999 cited about \$1.63 million in retained earnings. If the agency realizes its projected \$1 million profit for fiscal year 2000, total retained earnings would be about \$2.63 million as of September 30, 2000.

Our forecast of NTIS' costs and revenues suggests these retained earnings would be sufficient to continue operations through the end of fiscal year 2003 if past cost and revenue trends continue. According to our forecast, the agency's losses could exceed the funds it has available in retained earnings in the middle of fiscal year 2004. Specifically, the forecast shows losses of \$0.2 million in fiscal year 2001, \$0.6 million in fiscal year 2002, \$1.0 million in fiscal year 2003, and \$1.4 million in fiscal year 2004. In sum, we estimate a total of \$3.2 million in losses for the 4 fiscal years starting in fiscal year 2001—more than the projected \$2.63 million in retained earnings available to absorb these losses. Our forecast can be found in appendix I.

However, NTIS' costs may increase or revenues decrease faster than accounted for in our forecast for various reasons. If this occurs, losses could increase significantly beyond those in our forecast and absorb all of NTIS' \$2.63 million in retained earnings earlier than fiscal year 2003.

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## Financial Reversal Could Affect Forecast

Three events not included in our forecast could, if they occur, lead to financial reversals that could threaten NTIS' self-sufficiency before fiscal year 2003.<sup>7</sup>

First, the 5-year decline in NTIS' revenues from selling reports might accelerate, as larger segments of the public gain access to the Web and as more agencies make their research reports available for free over the Web. For example, Congress recently appropriated \$250,000 for the Department of Transportation to give the public free on-line Web access to more than 400,000 research reports.

In addition, Congress appropriates about \$25 million annually to GPO for its free dissemination of agency and congressional reports to the nation's 1,400 depository libraries. Other agencies, including us, disseminate free copies of their reports over the Web. A search of NTIS' report database revealed a December 1997 report of ours that NTIS is selling for \$27 (\$12 for microfiche), plus the \$5 per order handling fee. That same report is

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<sup>7</sup> Commerce officials told us that if NTIS suffers a rapid financial decline, resources available in retained earnings might not be sufficient to cover all of the costs, such as those associated with a reduction-in-force, that would be required to close operations.

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available for free from our Web page, or the public can order one paper copy for free. Other examples of agency Web pages offering free copies of research reports are discussed below.

- The public can visit the Environmental Protection Agency's (EPA) Web site to order one free paper copy of each publication listed until supplies are exhausted, then customers can order them for a fee from NTIS or the Educational Resources Information Center. One particular 1989 EPA document could not be found in the EPA database; however, it was available from NTIS for \$28.50 (or \$15 on microfiche), plus a \$5 handling fee per order. This is also an example of how NTIS provides the public with permanent public access to research reports that may not be available on agencies' Web pages.
- The public can visit the Department of Agriculture's Economic Research Service Web site, which gives the public free access to electronic copies of selected reports, but it notes that reports issued before 1989 may not be available.

Second, as previously discussed, NTIS' costs may increase faster than accounted for in our forecast. NTIS officials told us that (1) the recent reductions in NTIS' staff and office/warehouse expenses have nearly exhausted their options for lowering costs; (2) actions taken to reduce costs may harm the agency's future capacity to service its existing customers and keep up with technology (possibly reducing revenue); and (3) higher than average cost increases are possible in payroll, rent, and other items in future years. As an example of how costs may increase faster than our projections, which used data through fiscal year 1999, NTIS officials told us that their fiscal year 2001 projected savings in rent from consolidating buildings will not be realized for various reasons and that it is possible rent will actually increase over previous years' costs. If so, NTIS may run out of operating funds sooner than forecast unless additional sources of revenue or other cost reductions are found.

Third, the fees that federal agencies pay NTIS for various services—FedWorld and production and brokerage services—may begin to decline rapidly if agencies decide to obtain those services elsewhere, possibly because of the Secretary's announced plan to close NTIS. In fiscal year 1999, these fees of \$12.4 million represented more than one-third of NTIS' total revenues of \$33.3 million. IRS alone paid NTIS \$3.5 million (or 11 percent of NTIS' total revenues) to host its Web page and for other services.

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The loss of a major customer like IRS could adversely affect NTIS' financial condition. Therefore, we contacted the top nine agency customers of NTIS for FedWorld and production and brokerage services for fiscal year 1999—all of whom paid at least \$140,000 or more in fees. The agencies were generally very satisfied with NTIS' services and prices and did not want to see NTIS close. Of the nine, one agency told us it was actively looking for an alternative to NTIS—and that was due to the prices that NTIS charges the public for its products. All of the agencies had heard of the proposed closure of NTIS, and a few were making contingency plans in case NTIS does close. For example, on May 18, 2000, the IRS Commissioner sent a letter to Commerce requesting assurance that NTIS would continue to provide IRS with services through fiscal year 2001. As of May 25, 2000, the Secretary had not responded.

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### Annual Financial and Operational Reports Could Help Congress Make Policy and Funding Decisions

Given NTIS' uncertain financial future, Congress could benefit from detailed information on NTIS' operations that would highlight potential problem areas and plans for the future. Commerce is currently required by Section 3704b(f)(3) of Title 15 of the U.S. Code to provide this type of information to Congress annually. The required reports to Congress are to contain a summary of NTIS operations for the year, including financial details and staff levels by major activities; a detailed operating plan; details of modernization progress and long-term plans; and the results of the most recent annual audit by independent auditors. According to NTIS officials, however, those annual reports have not been prepared since fiscal year 1995.

NTIS officials told us that they stopped providing this annual report because they believed the information was being given to Congress in other formats, specifically the annual financial statement audits. However, according to Commerce's Office of the Inspector General, these audits – which contain only some of the required information — are not routinely provided to Congress. Also, even though Commerce provides some information about NTIS' operations in the reports required by the Government Performance and Results Act, the information is not detailed enough to assist policymakers considering the future of NTIS. For example, in its first Annual Program Performance Report for fiscal year 1999, Commerce stated that the goal for NTIS was to “collect, preserve, and disseminate government scientific, technical, and business-related information.” The measures for performance were “number of items in archive,” which it met; and “documents reproduced from electronic media,” which it exceeded.

## Policymakers May Want to Debate Whether a Central Repository Is Still Needed and How It Should Be Funded

Although NTIS may be able to remain solvent for a few years, our analyses suggest that solvency beyond fiscal year 2003 remains in doubt. Consequently, NTIS would have to significantly increase revenues beyond what we project or make even more cost reductions in order to survive without appropriations. Also, according to NTIS' Deputy Director, without appropriations, NTIS will not be able to adequately invest in technology and other improvements necessary to serve its customers and safeguard its collection. Thus, at some point in the not too distant future, it may not be possible for NTIS to continue serving as a self-sufficient permanent repository and principal disseminator for agency reports.

The precarious nature of NTIS' financial condition means that policymakers may soon want to consider whether and, if so, how NTIS' statutory mission should continue to be carried out and funded. Among the questions to be considered are:

- Should the policy of permanently retaining and disseminating federal research results be continued?
- If that policy is continued, should permanent retention be the responsibility of a single entity or the individual agencies?
- Should NTIS continue to serve as a disseminator of federal research; if so, should it continue to do so on a self-sustaining basis?

After the Secretary's proposal to close NTIS was announced, NCLIS began a study to evaluate the pros and cons of various other agencies performing the NTIS repository function. On March 16, 2000, NCLIS released a preliminary assessment outlining eight alternatives and recommended that Congress appropriate funds to NTIS to continue operations while NCLIS completes its study—expected to take 18 months. It should be noted that the Library of Congress, GPO, and the National Archives and Records Administration – potential alternatives to NTIS that NCLIS is considering as permanent repositories—all indicated that additional appropriations would be required for them to take over NTIS' mission. The results of NCLIS' study may be useful if Congress decides that a permanent repository for reports is still needed.

The circumstances leading to NTIS' current situation are part of a broader set of circumstances that have affected all aspects of how the federal government collects, stores, and disseminates information. Technological advances, such as the Internet, are dramatically affecting all of these processes. Therefore, Congress is likely to have a range of options – those recommended by NCLIS and possibly others – to consider in addressing

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whether NTIS' mission should be abolished, altered, or otherwise carried out more effectively.

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## NTIS' World News Connection Operates Within its Statutory Mission but Has a Cost Advantage Over Private Sector Firms

WNC's sale of foreign news to the public falls within NTIS' statutory mission. NTIS has certain cost and tax advantages over private sector firms that provide similar services, which may have a detrimental impact on those firms.

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## WNC Is Within NTIS' Mission

Under statutory authority enacted in 1950,<sup>8</sup> NTIS is directed to collect scientific, technical, and engineering information from both domestic and foreign sources and make it available to industry and business, to state and local governments, to other federal agencies, and to the general public. The statute does not define scientific, technical, and engineering information. However, in 1954, in response to a request from the Secretary of Commerce as to whether certain studies qualified as such information, we endorsed the Secretary's position that the statute included "all types of information which have a more or less direct bearing on business and industry generally."<sup>9</sup> The Secretary specifically described such information as including "economic information, market information, and related information so long as it is reasonably specific and bears some direct relationship to the organization and operation of industrial or business enterprise." Our decision stated that there was nothing in the legislative history requiring a contrary interpretation and pronounced the Secretary's interpretation to be reasonable.

In 1992 Congress enacted a statute providing that the head of each executive agency or department is to transfer to NTIS unclassified scientific, technical, and engineering information that results from federally funded research and development activities. The statute directed the Secretary of Commerce to issue regulations outlining procedures for the transfer of such information to NTIS. Under the authority of that provision the Secretary issued regulations that define scientific, technical, and engineering as basic and applied research that results from the efforts of scientists and engineers in any medium and information that bears on

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<sup>8</sup> 15 U.S.C. 1152.

<sup>9</sup> 34 Comp. Gen. 58 (1954).

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business and industry generally, such as economic information, market information, and related information.<sup>10</sup> Commerce further clarified this definition of technical information by stating that the term “can embrace matters beyond the restricted field of applied science and mechanical arts,” but must be “limited to information which has a direct relationship to business, industry or technology.”<sup>11</sup>

NTIS stated that the type of information required by business has significantly changed since 1950 when NTIS’ legislation was enacted. NTIS stated that there is an accelerating pace of technological change, rapid emergence and disappearance of new products and industries, a global outlook in terms of potential exports and location of industrial facilities, and a need to make rapid decisions. NTIS stated that given these circumstances, information such as that in WNC that can reasonably affect decisions on how to allocate research and development resources, how and where to organize and locate production facilities, and how to identify market opportunities has the direct bearing described in our opinion. We have no basis to question NTIS’ position.

For over 20 years, NTIS sold FBIS Daily Reports to the public in printed form. With the advent of new technologies and demands by the public, by the end of 1996 FBIS decided to provide its products only in electronic form and NTIS offered them to the public through WNC. A private sector firm that says it competes with WNC told us its sales revenue initially declined an estimated \$500,000 to \$600,000 when WNC began selling its foreign news in electronic format. Prior to WNC being in electronic format, that firm had provided an electronic index of the printed FBIS Daily Reports as a product for its customers. WNC’s searchable electronic database negated the need for such an index. In addition to electronically disseminating the news to the public, NTIS assumed the responsibility of ensuring compliance with copyright provisions.

According to NTIS officials, WNC was not a product developed to generate additional revenues—instead, WNC only replaced the hard copy version previously sold by NTIS when FBIS changed the format. Furthermore, with regard to NTIS’ dissemination of WNC in electronic format, in 1988 the National Technical Information Act specifically directed NTIS to

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<sup>10</sup> 15 C.F.R. 1180.2.

<sup>11</sup> This regulation was discussed and endorsed as an appropriate interpretation of the statute in Wade v. Department of Commerce, Civil Action No. 96-0717, (D.D.C. March 26, 1998). The Court found that the IRS Electronic Filer Mail List that NTIS sells to the public has a direct relationship to business because it contains information on people who are in the business of filing tax documents electronically.

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“implement new methods or media for the dissemination of scientific, technical, and engineering information.” In 1992, legislation was enacted to amend the 1988 act by inserting “including producing and disseminating information products in electronic format.”

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## WNC Has a Cost Advantage Over Private Sector Firms

NTIS officials said that WNC’s prices do not include any of the CIA’s costs to acquire or translate the news. This gives WNC a cost advantage over private news services that must pay to acquire and translate the news. Specifically, it permits WNC’s sales prices to be lower than its competitors’ prices. Differences in the products that WNC and competing news services offer (e.g., subscription provisions, such as number of authorized users and search capabilities) preclude any meaningful direct price comparisons. NTIS also has certain tax advantages as a federal entity with regard to WNC. This WNC cost advantage allows NTIS to set its prices at a level that may have a detrimental impact on private sector firms offering, or considering offering, similar electronic news services.

Our answers to the other specific questions in Senate Report 106-76 follow:

- Does WNC’s pricing structure of news products include a complete accounting of costs?

WNC’s prices do not include the costs of collecting and translating the information, which are borne by the CIA. NTIS receives the daily data file from FBIS and must delete from it those items for which it has no copyright agreements. NTIS then converts the file to WNC format and indexes it for searching. Finally, NTIS prepares and E-mails specific profiles of regions of the world to those who ordered them.

The NTIS price for a report on the results of a research project does not include an amount to recover the cost of the research. Likewise, NTIS does not attempt to recover the FBIS cost to produce WNC through its subscription price. FBIS collects the foreign news to fulfill its own mission and provides it to NTIS at no cost. NTIS does set its prices to recover its dissemination costs, royalty costs to foreign news organizations for use of their copyrighted material, and a share of NTIS’ overall operating costs.



- To what extent does NTIS pay federal, state, and local taxes on its news products?

NTIS, like other federal agencies, does not pay any federal, state, or local taxes on its news products.<sup>12</sup>

- Does NTIS pay translation costs for information provided by FBIS?

No. Although some foreign news media are published in English, many others are not and need to be translated. According to NTIS officials, FBIS' translation of sources is being done for internal purposes, not for WNC's benefit. For this reason, FBIS provides the translated news to WNC at no charge.

- Does NTIS have to pay employer's Social Security contributions for its employees?

Like other federal agencies, NTIS is required by law<sup>13</sup> to make Social Security contributions for employees hired since January 1, 1984, who are covered under the Federal Employees Retirement System and for those employees who transferred from the Civil Service Retirement System to the Federal Employees Retirement System. NTIS is also required to make retirement contributions for those employees covered by the Civil Service Retirement System and for those participating in the Thrift Savings Plan. In fiscal year 1999, NTIS' reported pension cost for WNC employees was \$48,649.

- Are the subscription prices for NTIS products fairly priced relative to similar products offered by the private sector?

As previously discussed, NTIS officials said that WNC's prices do not include any of the CIA's estimated costs to acquire or translate the news. Although this practice is consistent with NTIS' enabling legislation, it gives WNC a cost advantage over private news services that pay to acquire and translate foreign news.

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<sup>12</sup> The doctrine of sovereign immunity and the Supremacy Clause of the Constitution (Art. VI, cl. 2) combine to prohibit the states from taxing the federal government or its activities. McCulloch v. Maryland, 17 U.S. (4 Wheat.) 316 (1819).

<sup>13</sup> 42 U.S.C. 410.

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## Conclusions

Although NTIS is solvent under its current statutory framework, it is doubtful whether NTIS can remain self-sufficient. If NTIS is no longer able to fund its operations out of sales of products and other services, it would have to curtail operations unless it received additional appropriations.

The doubt about NTIS' ability to remain solvent suggests that Congress should consider whether and how NTIS' statutory mission should be carried out in the future. The increasing use made of the Internet by federal agencies to disseminate information and reports is a recent development that is integrally related to NTIS' mission and ability to remain self-sufficient. The annual reports that the Secretary of Commerce is required to submit under section 3704b(f)(3) of Title 15 of the U.S. Code could provide useful information to Congress on NTIS' evolving financial status and any detailed operating plans that NTIS develops to remain solvent. Costcutting initiatives have made the short-term projections encouraging, but NTIS' financial condition should be closely monitored to determine if it has sufficient revenues to continue operating in the longer term.

WNC's operations are within NTIS' statutory mission. However, because NTIS does not pay to acquire or translate foreign news used by WNC and does not pay taxes on revenues generated by WNC, WNC has a cost advantage over private sector firms.

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## Matter for Congressional Consideration

While NTIS is still solvent, we believe Congress should reassess whether NTIS should continue to serve as a disseminator of federal research and, if so, whether it should be required to do so on a self-sustaining basis.

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## Recommendation

In order to keep the appropriate committees of Congress fully informed about NTIS' activities and comply with current law, we recommend that the Secretary of Commerce submit the annual reports in accordance with Section 3704b(f)(3) of Title 15 of the U.S. Code.

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## Agency Comments and Our Evaluation

On June 8, 2000, we provided the Secretary of Commerce with a draft of this report for comment. We received Commerce's comments in a letter dated June 20, 2000, which is reprinted in appendix II.

In commenting on our report, the Deputy Secretary of Commerce said that Commerce agrees that (1) Congress should review NTIS' mission in the age of the Internet, (2) NTIS' insolvency may occur in the near future, and

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(3) WNC is within NTIS' statutory mission. The Deputy Secretary also stated that NTIS, as currently structured, is not viable.

The Deputy Secretary disagreed, however, with an implication in the draft report that WNC had harmed a competitor because of NTIS' advantage of paying neither taxes nor translation costs. The Deputy Secretary noted that the competitor's product—an index to the printed reports—was not comparable to WNC and became obsolete because WNC is a searchable electronic database. We moved the reference to a competitor losing revenue to another section of the report so as not to imply that any revenue loss was due to an NTIS cost advantage. We also revised the report language to better reflect that the need for the competitor's index was negated after WNC was changed to electronic form.

The Deputy Secretary agreed with our recommendation that Congress would benefit from annual submission of detailed information on NTIS' operations. Although he said that the report referred to in our recommendation and a separately required independent financial audit are duplicative, he also said that Commerce would work with the Inspector General to ensure that Congress receives a single report containing all relevant information. We believe this action would fulfill the intent of our recommendation.

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We are sending copies of this report to the Honorable William M. Daley, Secretary of Commerce; and Mr. Ronald Lawson, Director of NTIS. We will make copies available to others upon request.

Major contributors are acknowledged in appendix III. If you have any questions, please contact me or Alan Stapleton on (202) 512-8676.



Michael Brostek  
Associate Director, Federal Management  
and Workforce Issues

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**Report Addressees:**

The Honorable John McCain, Chairman  
The Honorable Ernest F. Hollings, Ranking Minority Member  
Committee on Commerce, Science, and Transportation  
United States Senate

The Honorable Judd Gregg, Chairman  
The Honorable Ernest F. Hollings, Ranking Minority Member  
Subcommittee on Commerce, Justice, State,  
the Judiciary, and Related Agencies  
Committee on Appropriations  
United States Senate

The Honorable F. James Sensenbrenner, Jr., Chairman  
The Honorable Ralph M. Hall, Ranking Minority Member  
Committee on Science  
House of Representatives

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## Abbreviations

CIA	Central Intelligence Agency
EPA	Environmental Protection Agency
FBIS	Foreign Broadcast Information Service
GPO	Government Printing Office
IRS	Internal Revenue Service
NCLIS	National Commission on Libraries and Information Science
NTIS	National Technical Information Service
WNC	World News Connection



# GAO Analysis of NTIS' Financial Position

In our analysis of the National Technical Information Service's (NTIS) financial position, we used a simple trend forecasting method that uses data about past history to predict the future. If trends for the future do not follow what occurred in the past, then our future predictions for NTIS will be inaccurate.

For our simple trend analysis, we entered cost and revenue data from fiscal years 1991 through 1999 for NTIS' three business lines combined (Clearinghouse, FedWorld, and Production/Brokerage Services). We excluded data for the midpoint of our series, 1995, from our forecasting method because the method required an even number of data points. These data show a general trend over the 9-year period towards both higher costs and revenues until fiscal year 1999, when costs and revenues declined significantly. We did not include Cyberfile costs and revenues in 1996, a one-time project that was conducted for the Internal Revenue Service. We also did not include cost or revenue data for the first half of fiscal year 2000 because of concerns that such data could vary significantly in the second half of the year.

The following table shows our simple trend forecasts for NTIS' financial position for the period 2001 through 2004 for (1) revenue, applying the annual trend to the 1999 value and forward; (2) cost, applying the annual trend to the 1999 value and forward; and (3) net (profit or loss). The numbers may not add up due to rounding.

Table I.1: Simple Revenue, Cost, and Net Profit or Loss Trend Forecasts, 2001-2004

Dollars in millions				
Year	2001	2002	2003	2004
Revenue	\$34.4	\$34.9	\$35.5	\$36.0
Cost	34.6	35.5	36.4	37.4
Net	-0.2	-0.6	-1.0	-1.4

Source: GAO analysis of NTIS' financial data.



# Comments from the Department of Commerce



**THE DEPUTY SECRETARY OF COMMERCE**  
Washington, D.C. 20230

JUN 20 2000

Mr. Michael Brostek  
Associate Director, Federal Management  
and Workforce Issues  
U.S. General Accounting Office  
Washington, D.C. 20548

Dear Mr. Brostek:

Thank you for the opportunity to review the General Accounting Office's draft report on the National Technical Information Service's financial situation. We are in complete agreement that the Congress should review its mission in the age of the Internet. We also agree with your assessment that insolvency may occur in the near future. As you point out, NTIS would not be solvent today had the Department of Commerce not assisted it by reassigning a substantial number of its employees to other positions within the Department.

We agree with GAO that NTIS, as currently structured, is not viable. For this reason, we have proposed legislation that would transfer NTIS archival functions to the Library of Congress and terminate non-core activities.

Your observations are helpful and we appreciate them. You will find several more detailed comments and observations offered in the enclosure.

Sincerely yours,

A handwritten signature in cursive script that reads "Robert L. Mallett".

Robert L. Mallett

Enclosure

Enclosure

Comments on Draft GAO Report:  
"Information Policy: NTIS' Financial Position Provides  
an Opportunity to Reassess its Mission."

1. We are very pleased that GAO shares our view that World News Connection (WNC) is within NTIS' statutory mission (page 12). However, the report implies that WNC harmed a competitor because NTIS enjoys a competitive advantage in that it pays neither taxes nor translation costs (page 14).

As the report correctly notes, World News Connection (WNC) is the electronic successor to the daily news reports that had been produced in print format by the Foreign Broadcast Information Service (FBIS). The company in question did not produce a competitive product. Rather, it produced an index to these printed reports that one could buy either in paper or as a CD-ROM. The need for this index disappeared when FBIS made the decision to produce the reports it needed for government use in electronic format only. That is because a search engine can easily be embedded into an electronically-disseminated database to aid the user. A separate manually-produced index is no longer needed. A decision by NTIS and FBIS not to make the daily reports available to the public electronically would have denied the public continued access to an information product it had received for many years but would in no way have preserved a market for this company's paper-based index. In short, the demise of this index has nothing to do with the introduction of WNC or whether NTIS pays taxes or translation costs. It was solely the result of FBIS' decision to eliminate the printed format on which the index was based.

2. GAO correctly indicates that the Congress would benefit from annual submission of detailed information on NTIS' operations.

NTIS continues to believe that the statutorily-mandated annual report and independent audit are essentially duplicative. However, we should not have assumed that the latter, which is prepared under an Inspector General contract, was being made available to the appropriate Committees. NTIS believes that it should work with the Inspector General to ensure that Congress receives a single report containing all relevant information.

# GAO Contacts and Staff Acknowledgments

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## GAO Contacts

Michael Brostek (202) 512-8676

Alan M. Stapleton (202) 512-8676

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## Acknowledgments

In addition to those named above, Alan N. Belkin, Jessica A. Botsford, Michael W. Jarvis, Larry J. Modlin, Bonita L. Mueller, Sidney H. Schwartz, and Warren Smith made key contributions to this report.

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