Office of
INSPECTOR GENERAL

Audit Report

Audit of the USITC Financial Statements for Fiscal Years 1992 and 1991

Report No. IG-02-93

June 1993

Date Issued

INSPECTOR GENERAL

UNITED STATES INTERNATIONAL TRADE COMMISSION

WASHINGTON, D.C. 20436

June 10, 1993

AUDIT OF THE USITC FINANCIAL STATEMENTS FOR FISCAL YEARS 1992 AND 1991

The Budget and Accounting Procedures Act of 1950 states that agencies must establish and maintain systems of accounting and reporting that provide for: complete disclosure of the agency's financial results; adequate financial information for agency management and for formulation and execution of the budget; and effective control over revenue, expenditure, funds, property, and other assets.

In accordance with a Federal requirement that a detailed evaluation of agency financial systems shall be conducted on a cyclical basis, an audit of the USITC financial statements was conducted. The objectives of this audit were to issue an opinion as to the fairness of the USITC financial statements for the fiscal years ending September 30, 1992, and 1991, in presenting the financial condition and results of operations; a statement on the adequacy of internal controls; and a statement on compliance.

The audit was conducted by Urbach Kahn & Werlin PC in accordance with the Government Auditing Standards issued by the Comptroller General of the United States. The auditors expressed the following opinions:

-- The statements of financial position of the USITC as of September 30, 1992, and 1991, and the related statements of operations and cumulative results of operations, cash flows, and reconciliation to budget for the years then ended, present fairly, in all material respects, the financial position of the USITC as of September 30, 1992, and 1991, and the results of its operations, cash flows, and reconciliation to budget for the years then ended, in conformity with generally accepted accounting principles (page 1).

-- No matters involving the internal control structure and its operation were considered to be material weaknesses, although certain suggestions involving the internal control structure and its operation are reported in a letter to USITC management (pages 2 and 16).

-- For the items tested, USITC complied in all material respects with the provisions of applicable laws and regulations that could have a material effect on the financial statements. For the items not tested, nothing came to their attention that caused the auditors to believe that USITC had not complied, in all material respects, with such provisions (page 4).

As a result of their review, the auditors suggested that the appropriate officials in the Office of Administration:

-- implement enhanced controls to ensure that duplicate payment schedule numbers are not assigned;

-- adjust the accounts payable balance to properly cut off at year end;

-- review all purchase requisitions to verify all required signatures are present;

-- apportion all appropriations in accordance with the Antideficiency Act;

-- maintain a cash receipts log;

-- implement controls to ensure that all journal vouchers posted are in balance for budgetary and proprietary accounts; and

-- amend the policy for compensatory time to adequately reflect the policy for separated employees.

The Director of Administration concurred with the findings and suggestions. A summary of the Director's comments is presented after each finding on pages 17 through 21 of the report. The Director's comments are presented in their entirety as an appendix to the report.

Jane E. Altenhofer

Jane E. Altenhofer

Attachments

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INDEPENDENT AUDITOR'S REPORT

The Commissioners
United States International Trade Commission

Office of Inspector General
United States International Trade Commission

We have audited the accompanying statements of financial position of the United States International Trade Commission (USITC) as of September 30, 1992 and 1991, and the related statements of operations and cumulative results of operations, cash flows, and reconciliation to budget for the years then ended. These financial statements are the responsibility of USITC management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the United States International Trade Commission as of September 30, 1992 and 1991, and the results of its operations, its cash flows, and reconciliation to budget for the years then ended in conformity with generally accepted accounting principles.

Urbach Kahn & Werlin PC

Washington, DC
April 2, 1993

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CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT ON THE INTERNAL CONTROL STRUCTURE

The Commissioners
United States International Trade Commission

Office of Inspector General
United States International Trade Commission

We have audited the financial statements of the United States International Trade Commission (USITC) as of and for the years ended September 30, 1992 and 1991, and have issued our report thereon dated April 2, 1993.

We conducted our audits in accordance with generally accepted auditing standards and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

In planning and performing our audits of the financial statements of USITC for the years ended September 30, 1992 and 1991, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements, not to provide assurance on the internal control structure.

The management of USITC is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles. Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

For purposes of this report, we have classified the significant internal control structure policies and procedures in the following categories:

- Treasury/cash,
- Purchasing, liabilities and disbursements,
- Property and equipment,
- Payroll, and
- Financial reporting.

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INDEPENDENT AUDITOR'S REPORT ON THE INTERNAL CONTROL STRUCTURE, CONTINUED

For each of the internal control structure categories previously listed, we obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation. We also assessed control risk.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be material weaknesses under standards established by the American Institute of Certified Public Accountants. A material weakness is a condition in which the design or operation of one or more of the specific internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities (in amounts that would be material in relation to the financial statements being audited) may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control structure and its operations that we consider to be a material weaknesses as defined above.

We did, however, provide written management suggestions relative to the internal control structure and its operation that we have included in pages 16-21 of this report.

This report is intended for the information of the Office of Inspector General, and the Commissioners and management of USITC. This restriction is not intended to limit the distribution of this report, which is a matter of public record.

Urbach Kahn & Werlin PC

Washington, DC
April 2, 1993

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH LAWS AND REGULATIONS

The Commissioners
United States International Trade Commission

Office of Inspector General
United States International Trade Commission

We have audited the financial statements of the United States International Trade Commission (USITC) as of and for the years ended September 30, 1992 and 1991, and have issued our report thereon dated April 2, 1993.

We conducted our audits in accordance with generally accepted auditing standards and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

Compliance with laws and regulations applicable to USITC is the responsibility of USITC's management. As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of USITC's compliance with the following laws and regulations:

- Budget and Accounting Procedure Act
- Antideficiency Act
- Federal Managers Financial Integrity Act
- Prompt Payment Act
- Compensation & Benefits Act
- Tariff Act of 1930
- Trade Act of 1974
- Trade Agreements of 1979
- Agricultural Adjustments Act
- Section 1911 of the Financial Institution Regulatory and Interest Rate Control Act of 1978
- 12 U.S.C. 635a-2
- Trade and Tariff Act of 1984
- Omnibus Trade and Competitiveness Act of 1988

However, the objective of our audits was not to provide an opinion on overall compliance with such provisions. Accordingly, we do not express such an opinion.

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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH LAWS AND REGULATIONS, CONTINUED

The results of our tests indicate that, with respect to the items tested, USITC complied, in all material respects, with the provisions referred to in the preceding paragraph. With respect to items not tested, nothing came to our attention that caused us to believe that USITC had not complied, in all material respects, with those provisions.

This report is intended for the information of the Office of Inspector General and the Commissioners and management of USITC. This restriction is not intended to limit the distribution of this report, which is a matter of public record.

Urbach Kahn & Werlin PC

Washington, DC
April 2, 1993

UNITED STATES INTERNATIONAL TRADE COMMISSION

STATEMENTS OF FINANCIAL POSITION

September 30, 1992 and 1991

ASSETS

	1992	1991
CURRENT ASSETS		
Fund balances with U.S. Treasury (Note 2)	$ 8,017,511	$ 6,779,959
Receivables (Note 2)	27,682	-
Advances and prepayments (Note 2)	35,965	19,175
Total current assets	8,081,158	6,799,134
FURNITURE, EQUIPMENT, AND LEASEHOLD IMPROVEMENTS (Notes 2, 3 and 5)	5,813,372	9,542,508
	$13,894,530	$16,341,642

LIABILITIES AND U.S. GOVERNMENT EQUITY

	1992	1991
LIABILITIES		
Accounts payable	$ 598,258	$ 315,309
Accrued payroll and benefits	904,994	1,618,298
Accrued unfunded annual leave and benefits (Notes 2 and 7)	2,229,807	2,091,539
Funds held in escrow (Notes 2 and 4)	265,000	-
Deposits (Note 2)	33,529	1,191
Total liabilities	4,031,588	4,026,337
COMMITMENTS AND CONTINGENCIES		
U.S. GOVERNMENT EQUITY (Note 5)		
Unexpended appropriations	6,215,730	4,845,161
Invested capital	3,583,565	7,450,969
Cumulative results of operations	63,647	19,175
Total U.S. Government equity	9,862,942	12,315,305
	$13,894,530	$16,341,642

See notes to financial statements.

UNITED STATES INTERNATIONAL TRADE COMMISSION

STATEMENTS OF OPERATIONS AND CUMULATIVE RESULTS OF OPERATIONS
Years Ended September 30, 1992 and 1991

	1992	1991
APPROPRIATIONS EXPENSED	$ 40,603,379	$ 38,085,321
EXPENSES		
Salaries	23,734,220	21,582,785
Personnel benefits	4,460,158	4,141,539
Travel expenses	554,979	501,960
Rental and communications services	8,204,998	7,390,839
Other services	2,167,799	2,534,087
Printing and reproduction	202,530	212,801
Supplies and materials	784,493	803,005
Equipment	449,730	927,737
Total expenses	40,558,907	38,094,753
Excess of appropriations expensed over expenses (expenses over appropriations expensed)	44,472	(9,432)
Cumulative results of operations, beginning of year	19,175	28,607
Cumulative results of operations, end of year	$ 63,647	$ 19,175

See notes to financial statements.

UNITED STATES INTERNATIONAL TRADE COMMISSION

STATEMENTS OF CASH FLOWS
Years Ended September 30, 1992 and 1991

	1992	1991
CASH FLOWS FROM OPERATING ACTIVITIES		
Appropriations received	$ 42,434,000	$ 40,299,000
Appropriations refunded by Treasury	-	1,307,166
Appropriations used	(40,634,025)	(37,826,860)
Net cash provided by operating activities	1,799,975	3,779,306
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of furniture, equipment, and leasehold improvements	(562,423)	(448,431)
Net cash used by investing activities	(562,423)	(448,431)
Net increase in obligated funds with U.S. Treasury	1,237,552	3,330,875
Fund balances with U.S. Treasury, beginning of year	6,779,959	3,449,084
Fund balances with U.S. Treasury, end of year	$ 8,017,511	$ 6,779,959
RECONCILIATION OF EXCESS OF APPROPRIATIONS EXPENSED OVER EXPENSES (EXPENSES OVER APPROPRIATIONS EXPENSED) TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Excess of appropriations expensed over expenses (expenses over appropriations expensed)	$ 44,472	$ (9,432)
Adjustments to reconcile excess of appropriations expensed over expenses to net cash provided by operating activities		
Unexpended appropriations	1,370,569	3,446,832
Net appropriations used in investing activities	562,423	448,431
Changes in:		
Receivables	(27,682)	28,607
Advances and prepayments	(16,790)	(19,175)
Accounts payable	282,949	(274,694)
Accrued payroll and benefits	(713,304)	157,546
Funds held in escrow	265,000	-
Deposits	32,338	1,191
Net cash provided by operating activities	$ 1,799,975	$ 3,779,306

See notes to financial statements.

UNITED STATES INTERNATIONAL TRADE COMMISSION

STATEMENTS OF RECONCILIATION TO BUDGET

Years Ended September 30, 1992 and 1991

	1992	1991
RELATION OF EXPENSES TO OUTLAYS		
Expenses	$40,558,907	$38,094,753
Adjustments to expenses		
Capital expenditures	562,423	448,431
Transaction excluded from budget reports	(99,305)	(371,928)
Changes in:		
Receivables	27,682	(28,607)
Advances and prepayments	16,790	19,175
Accounts payable	(282,949)	274,694
Accrued payroll and benefits	713,304	(157,546)
Net outlays, per budget report	$41,496,852	$38,278,972
RELATION OF OBLIGATIONS TO OUTLAYS		
Obligations incurred	$43,584,468	$40,523,449
Appropriations refunded by Treasury	-	1,307,166
Fund balances with U.S. Treasury, beginning of year	6,779,959	3,449,084
Fund balances with U.S. Treasury, end of year	(8,017,511)	(6,779,959)
Adjustments to expired accounts	(850,064)	(220,768)
Net outlays, per budget report	$41,496,852	$38,278,972

See notes to financial statements.

NOTES TO FINANCIAL STATEMENTS
September 30, 1992 and 1991

NOTE 1. ORGANIZATION

Background and mission - The United States International Trade Commission (USITC) is an independent agency of the executive branch of the U.S. Government created by an act of Congress. USITC is headed by six commissioners, appointed by the President and confirmed by the U.S. Senate for nine-year terms. The President designates the chairman and vice chairman, both of whom each serve two-year terms.

USITC conducts investigations and reports findings relating to imports and the effect of imports on industry, the effect of foreign subsidies on the sale of imports, unfair import practices and the effect of agricultural imports on programs of the U.S. Department of Agriculture. USITC advises the President on the probable economic effect of proposed trade agreements with foreign countries. USITC also conducts comprehensive studies and provides reports on issues relating to international trade and economic policy matters on behalf of both the Congress and President.

Financing sources - USITC receives annual funding for operations from appropriations. Appropriations are recognized as revenue and "expensed" when related operating expenses are incurred. Differences between appropriations received and expensed are included in unexpended appropriations.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The following is a summary of significant accounting policies:

Basis of accounting - USITC's financial statements are presented on the accrual basis of accounting and in accordance with Title 2, *GAO Policy and Procedures Manual for Guidance of Federal Agencies*, which is substantially equivalent to generally accepted accounting principles. USITC's fiscal year is October 1 to September 30.

Appropriations - Congress appropriated $42,434,000 and $40,299,000 to USITC for general operations for fiscal years 1992 and 1991, respectively. Congress has appropriated $44,852,000 to USITC for fiscal year 1993.

Fund balances with the U.S. Treasury - Fund balances with the U.S. Treasury represent appropriated funds in the custody of the U.S. Treasury and are available for payment of USITC obligations. USITC's fund balances are carried forward until goods or services are received and payment is made, or until such time as funds are deobligated.

Receivables - Receivables consist of a monetary penalty (see Note 8), appropriations, and certain miscellaneous public receivables.

Advances and prepayments - Advances and prepayments consist of employee travel advances and certain miscellaneous prepayments.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Furniture, equipment and leasehold improvements - As more fully disclosed under Note 3, furniture and equipment additions are recorded at cost with a corresponding entry to invested capital. Furniture and equipment which have been transferred to USITC from other Federal agencies is recorded at original cost. The costs of leasehold improvements performed by GSA, but financed by USITC, are capitalized. Assets are carried at original cost until USITC disposes of them. It is the policy of USITC not to depreciate assets because they are construed to be non-revenue producing in nature.

Leases - As more fully disclosed in Note 6, USITC leases its office and storage facilities under agreements with the General Services Administration (GSA).

Accrued unfunded annual leave and benefits - Annual leave is accrued as it is earned, although it is not funded until it is utilized by employees. Sick, compensatory and certain other types of leave are not accrued and are expensed when utilized by the employee. Unfunded benefits (a liability account) represent the accrual for unfunded workers' compensation liability.

Funds held in escrow - As more fully disclosed under Note 4, funds held in escrow consist of bonds held in escrow as the result of an investigation.

Deposits - Deposits consist of a monetary penalty payable to the U.S. Treasury (see Note 8) and certain miscellaneous deposits.

Invested capital - Invested capital represents U.S. Government appropriations invested in furniture, equipment, and leasehold improvements, net of the accrued unfunded annual leave and benefits.

Intergovernmental activities - USITC records and reports only those Government-wide financial matters for which it is responsible for and identifies only those financial matters with the department or agency that USITC has been granted budget authority and resources to manage.

NOTE 3. FURNITURE, EQUIPMENT AND LEASEHOLD IMPROVEMENTS

Furniture, equipment and leasehold improvements are recorded at cost and consist of the following:

	September 30	
	1992	1991
Furniture and equipment	$ 3,372,698	$ 7,101,834
Leasehold improvements	2,440,674	2,440,674
	$ 5,813,372	$ 9,542,508

NOTES TO FINANCIAL STATEMENTS
September 30, 1992 and 1991

NOTE 4. FUNDS HELD IN ESCROW

Funds held in escrow (a liability account) consist of bonds posted by respondents to USITC action as a result of an investigation on unfair importing practices into the United States. The bonds are being held in escrow pending the outcome of legal proceedings. Subsequent to year end, $225,000 of these bonds were refunded to the respondents.

NOTE 5. U.S. GOVERNMENT EQUITY

The activity in the U.S. Government equity accounts for the fiscal years ended September 30, 1992 and 1991 was as follows:

	Unexpended Appropriations	Invested Capital	Cumulative Results of Operations	Total
U.S. Government Equity, October 1, 1990	$ 1,398,329	$ 7,158,712	$ 28,607	$ 8,585,648
Appropriations received	40,299,000	-	-	40,299,000
Appropriations refunded by Treasury	1,307,166	-	-	1,307,166
Appropriations used to fund purchase of furniture, equipment and leasehold improvements	(448,431)	448,431	-	-
Appropriations used to fund operating expenses	(38,085,321)	-	38,085,321	-
Appropriations expensed	374,418	-	(38,094,753)	(37,720,335)
Increase in unfunded leave and benefits	-	(156,174)	-	(156,174)
U.S. Government Equity, September 30, 1991	4,845,161	7,450,969	19,175	12,315,305
Appropriations received	42,434,000	-	-	42,434,000
Appropriations used to fund purchase of furniture, equipment and leasehold improvements	(562,423)	562,423	-	-
Appropriations used to fund operating expenses	(40,603,379)	-	40,603,379	-
Appropriations expensed	102,371	-	(40,558,907)	(40,456,536)
Increase in unfunded leave and benefits	-	(138,268)	-	(138,268)
Adjustment to write-off furniture and equipment *(A)*	-	(4,291,559)	-	(4,291,559)
U.S. Government Equity, September 30, 1992	$ 6,215,730	$ 3,583,565	$ 63,647	$ 9,862,942

(A) USITC implemented a capitalization policy for furniture and equipment during the 1992 fiscal year to require all property and equipment with an initial acquisition cost of $5,000 or more and an estimated service life of two years or greater to be capitalized. As a result, USITC wrote-off all furniture and equipment on hand which did not meet the capitalization criteria. The effect of this adjustment was a decrease in the furniture, equipment and leasehold improvements account, with a corresponding decrease in the invested capital account, both in the amount of $4,291,559. This adjustment had no impact upon USITC's results of operations.

NOTES TO FINANCIAL STATEMENTS
September 30, 1992 and 1991

NOTE 5. U.S. GOVERNMENT EQUITY, CONTINUED

Unexpended appropriations include approximately $4,018,000 and $2,769,000 of unobligated balances as of September 30, 1992 and 1991, respectively. There were no appropriations returned in fiscal year 1992 or 1991.

NOTE 6. LEASING ARRANGEMENTS

All USITC office space is leased through GSA under a cancelable ten-year operating lease agreement. The lease provides for amended base annual rental payments which are increased annually in accordance with operating cost and real estate tax escalation clauses. In addition, annual agreements are negotiated for other occupancy costs and services.

GSA charges USITC for the cost of the lease plus a contribution to the Federal Buildings Fund. Lease expense for office space during fiscal years 1992 and 1991 was approximately $7,043,000 and $6,387,000, respectively.

The estimated future minimum rental payments, exclusive of escalation and other occupancy costs, as of September 30, 1992, is as follows:

September 30	Amount
1993	$ 5,060,000
1994	5,060,000
1995	5,060,000
1996	5,060,000
1997	5,060,000
Thereafter	2,952,000
	$ 28,252,000

Escalations paid were approximately $1,983,000 and $1,327,000 for the years ended September 30, 1992 and 1991, respectively. The GSA lease expires in April 1998.

USITC also has various other annual and month-to-month leases for certain equipment and storage space.

NOTE 7. EMPLOYEE BENEFIT PROGRAMS

Retirement - Substantially all of USITC's employees are covered under either the Civil Service Retirement System (CSRS) or the Federal Employees Retirement System (FERS). For employees covered under CSRS (those employees hired prior to January 1, 1984), USITC withholds approximately 7 percent of each employee's salary and contributes a matching amount to the fund. CSRS covered employees do not have FICA withholdings and, thus, are not fully eligible to receive Social Security benefits. For employees covered under FERS (generally those employees hired on or after January 1, 1984), USITC withholds, in addition to FICA withholdings, approximately 0.8 percent of employee gross earnings, and matches such withholdings with a 7 percent contribution.

Under FERS, employees also receive retirement benefits from Social Security and, if applicable, benefits from a defined contribution plan (thrift). Under the thrift plan, an employee may contribute (tax deferred) up to 10 percent of salary to an investment fund. USITC then matches this amount up to 5 percent. Those employees which elected to remain under CSRS after January 1, 1984 continue to receive benefits in place, and may also contribute (tax deferred) up to 5 percent of their salary to the thrift plan, but with no matching amount contributed by USITC.

CSRS and FERS are multi-employer plans. Although USITC funds a portion of pension benefits relating to its employees, and provides for the necessary payroll withholdings, it does not maintain or report information with respect to the assets of the plans, nor does it report actuarial data with respect to accumulated plan benefits or the unfunded pension liability relative to its employees. The reporting of such amounts is the responsibility of the U.S. Office of Personnel Management.

USITC's contribution to both plans was approximately $2,240,000 and $2,022,000 for the years ended September 30, 1992 and 1991, respectively.

Accrued leave - USITC's employees are entitled to accrue annual leave (vacation and personal time) and sick time based on their years of service. Annual leave may be accrued up to 240 hours per employee, for substantially all employees, and is payable based on the employee's annual salary upon separation. There is no maximum limit on sick time which may be accrued, however, any unused sick time is not paid to employees upon separation.

Health benefits and life insurance - USITC, through the federal government, offers health and life insurance plans, under which premium costs for health care are shared between USITC and the employees. The substantial portion of life insurance premiums are paid for by employees. Amounts paid by USITC for health care were approximately $1,209,000 and $1,092,000 for the years ended September 30, 1992 and 1991, respectively.

NOTES TO FINANCIAL STATEMENTS
September 30, 1992 and 1991

NOTE 8. COMMITMENTS AND CONTINGENCIES

Committed obligations - USITC is committed under certain obligations incurred for goods or services ordered but not yet received. Aggregate orders not received at September 30, 1992, and 1991, reflected as unexpended appropriations in the accompanying financial statements, amounted to approximately $2,198,000 and $2,076,000, respectively.

Unpaid compensatory time - USITC policy provides for the accumulation of compensatory time for employees for overtime hours worked. The policy presently does not address USITC's liability payable to an employee for compensatory time upon separation. Legal counsel recently determined that certain separated employees will be entitled to reimbursement for their compensatory time at the time of their departure. In this regard, the liability relating to this matter is not considered by management to be material and has not been reflected in the financial statements.

Monetary penalty receivable - During fiscal year 1992, USITC was awarded a claim against a Canadian firm for patent infringement violations on goods imported into the United States. A monetary penalty was assessed at $100,000 of which $87,500 was outstanding as of September 30, 1992 ($25,000 of which was subsequently received). The Canadian firm has since filed for bankruptcy protection under Canadian law. The remaining $62,500 has not been recorded as a receivable, as collection of any future monies against this claim is uncertain.

Legal - USITC is a party in various administrative proceedings, legal actions, and claims brought by or against it. In the opinion of USITC management and legal counsel, the ultimate resolution of these proceedings, actions and claims will not materially affect the financial position or the operating results of USITC.

Certain legal matters to which USITC may be a named party are administered by USITC and, in some instances, litigated by other Federal agencies, and amounts to be paid under any decision, settlement or award pertaining thereto are generally funded by those agencies. In most cases, tort claims, including personal injury claims, are administered, approved and resolved by the U.S. Department of Justice, and any amounts, for awards in excess of $2,500, necessary for resolution are obtained from a special fund maintained by the U.S. Treasury. Legal issues brought by employees of USITC, are administered by the U.S. Department of Labor. The cost of administering, litigating, and resolving these legal matters, including payment of any damages, are not allocated to other Federal agencies.

UK &W Urbach Kahn & Werlin PC
CERTIFIED PUBLIC ACCOUNTANTS

The Commissioners
United States International Trade Commission

Office of Inspector General
United States International Trade Commission

As part of our audits of the financial statements of the United States International Trade Commission (USITC) for the years ended September 30, 1992 and 1991, we considered USITC's internal control structure in order to determine our auditing procedures and for the purpose of expressing our opinion on the financial statements, not to provide assurance on the internal control structure.

During the course of our audits, certain matters came to our attention which we believe warrant management's attention. These matters, which were considered by us during our audit and do not modify the opinion expressed in our auditor's report dated April 2, 1993, along with our related suggestions, are described in this report.

This report is intended solely for the use of the Office of Inspector General (OIG) and the Commissioners and management of USITC. This restriction is not intended to limit the distribution of this report which, upon acceptance by the OIG, is a matter of public record.

Urbach Kahn & Werlin PC

Washington, DC
April 2, 1993

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1. ***THE OFFICE OF FINANCE AND BUDGET SHOULD CONSIDER IMPLEMENTING ENHANCED CONTROLS TO ENSURE THAT DUPLICATE PAYMENT SCHEDULE NUMBERS ARE NOT ASSIGNED TO PURCHASES OF GOODS AND SERVICES.***

Finding/Suggestion

USITC disburses payments to vendors utilizing the *SF-1166 "Voucher & Schedule of Payments"*. USITC accounting clerks assign sequential numbers to the SF-1166's based on the funding year of the payment and are required to record the numbers assigned on a log sheet. The SF-1166's payment information also is entered into the dBase log system by the accounting clerks. We noted, however, that the dBase log system allows duplicate SF-1166 numbers to be assigned. We also noted that the log sheet utilized to track the last SF-1166 number assigned was not always updated by the accounting clerks and, thus, resulted in duplicate numbers assigned within the same funding year.

We suggest that Director of the Office of Finance and Budget implement the following procedures to reduce the likelihood of duplicated numbers:

- issue memoranda to the accounting staff directing the use of the log sheet to track the payment schedule numbers,
- periodically review the log sheet to verify completeness, and
- consider modification of the vendor payment system to prevent the assignment of duplicate numbers.

Management's Response

"The Office of Finance and Budget will revise the operating procedures of the vendor payment system to assure that all payment schedule numbers are sequential and recorded in the dBase log prior to preparation of the SF-1155's. The Finance Division Chief will instruct the accounting technicians on the revised procedures, and review the dBase log on a monthly basis to verify compliance with those procedures.

2. ***THE OFFICE OF FINANCE AND BUDGET SHOULD ADJUST THE ACCOUNTS PAYABLE BALANCE TO PROPERLY CUT OFF AT YEAR END.***

Finding/Suggestion

USITC's accrual basis financial statements are prepared at year end. In this regard, the Office of Finance and Budget records certain liabilities, such as accrued payroll and accrued unfunded annual leave, at year end. The Office of Finance and Budget does not, however, record accounts payable for invoices received subsequent to the fiscal year end which relate to services rendered or goods received prior to the fiscal year end. As a result, we noted a number of invoices received in October and November, following the respective year ends, for goods and services rendered prior to year end, which were not included in year end accounts payable.

We suggest that the Office of Finance and Budget establish procedures at the end of each fiscal year to identify and record, as accounts payable, invoices subsequently received which relate to the fiscal year.

Management's Response

"The Office of Finance and Budget will revise the operating procedures to provide for all invoices received subsequent to the fiscal year end, until the day the accounting records are closed, which relate to services rendered or goods received prior to the fiscal year end, to be recorded as accounts payable. The Finance Division Chief will instruct the accounting technicians on the revised procedures."

3. THE PROCUREMENT DIVISION SHOULD REVIEW ALL PURCHASE REQUISITIONS TO VERIFY ALL REQUIRED SIGNATURES ARE PRESENT.

Finding/Suggestion

USITC policies and procedures require the Director of Management Service's signature on surplus property certifications to evidence that surplus property was checked before the requisition was sent to the Procurement Office for procurement action. There were a number of occasions where the surplus certification was not signed by the Director of Management Services. There also were circumstances where the Director of Management Services was the initiator and/or approver of the transaction and also the surplus certifier.

In order to enhance controls, we suggest the following:

- procurements which are initiated, approved and certified by the Director of Management Services should be reviewed and approved by the Director of Administration before they are processed to procurement, and
- the Procurement Division should review the forms for completeness and appropriate approvals before the purchase is processed.

Management's Response

"The appropriate Desktop Procedures will be changed to instruct appropriate OMS staff to forward to the Director, Office of Administration for his review and approval all procurements (requisitions) which are initiated, approved and certified by the Director, Office of Management Services.

The Chief, Procurement Division will ensure that all forms are reviewed for completeness and appropriate approvals before the purchase is processed."

4. USITC SHOULD APPORTION ALL APPROPRIATIONS IN ACCORDANCE WITH THE ANTI-DEFICIENCY ACT.

Finding/Suggestion

The Anti-Deficiency Act requires that all appropriations be apportioned no later than 30 days before the beginning of the fiscal year or 30 days after the date that appropriations are enacted into law. The Budget Division (within the Office of Finance and Budget) utilizes the Treasury warrant to apportion the appropriation received, rather than the date that the budget was enacted. As a result, the date of the Treasury warrant does not always coincide with the date that the appropriation was enacted into law. The appropriation for the year ended September 30, 1991 was enacted into law on November 5, 1990, but was not apportioned by USITC until January 2, 1991.

We suggest that the USITC apportion all appropriations in accordance with the Anti-deficiency Act to be in accordance with Federal laws, although this may require apportionment before USITC approval of the budget.

Management's Response

"The Director, Office of Finance and Budget will establish necessary procedures to assure that all apportionments are accomplished in accordance with appropriate laws and regulations."

5. THE OFFICE OF FINANCE AND BUDGET SHOULD MAINTAIN A CASH RECEIPTS LOG.

Finding/Suggestion

The Office of Finance and Budget receives numerous non-revenue cash receipts (many of which are subsequently transferred to the U.S. Treasury) which include: return of travel advances, Freedom of Information Act fees, library usage fees, health insurance reimbursements, travel agency reimbursements, and other fees and refunds. These receipts approximate $4,000 per month. At the time the Office of Finance and Budget receives cash and checks they are stored in a safe and, subsequently, USITC deposits the funds with the U.S. Treasury. It is not until the time that checks are removed from the safe (for deposit), that they are recorded in a deposit log. USITC did not maintain a cash receipts log to record receipts at the time they were received.

We suggest that the Office of Finance and Budget maintain a cash receipts log for all cash receipts. This log should be maintained by an individual that does not have responsibility over deposits to ensure an adequate segregation of duties. Further, the cash receipts log should be reconciled to the deposit log and deposit slips on a monthly basis.

Management's Response

"A cash receipt log has been established in the Office of Finance and Budget and operating procedures are being revised. The Office of Finance and Budget's secretary will maintain the cash receipts log for all checks and cash that are received. The Finance Division Chief will reconcile the cash receipts log to the deposit log and deposit slips monthly. The Finance Division Chief will instruct the accounting technicians on the revised procedures."

6. ***THE OFFICE OF FINANCE AND BUDGET SHOULD IMPLEMENT CONTROLS TO ENSURE THAT ALL JOURNAL VOUCHERS POSTED ARE IN BALANCE FOR BUDGETARY AND PROPRIETARY ACCOUNTS.***

Finding/Suggestion

The general ledger maintained by the Office of Finance and Budget includes both budgetary and proprietary accounts. Budgetary accounts record all budgetary transactions (apportionment and allotment of appropriations, undelivered orders). Proprietary accounts record actual transactions, as reflected in the financial statement balances. Budgetary and proprietary accounts balance independently of each other. Journal entries are posted to general ledger accounts via monthly transaction code entries and journal vouchers. The fiscal year 1991 general ledger contained a journal voucher entry which debited a budgetary account and credited a proprietary account, resulting in individual trial balances for the proprietary and budgetary accounts which did not balance.

We suggest that the Office of Finance and Budget review budgetary and proprietary trial balances on a monthly basis to be sure that they balance. We further suggest that the Office of Finance and Budget maintain a written policy authorizing one individual to be responsible for the posting of all journal vouchers to the general ledger.

Management's Response

"The Office of Finance and Budget will revise the operating procedures to indicate that only the Finance Division Chief and the Operating Accountant are authorized to record journal vouchers in the accounting system. In addition, to assure accuracy, journal vouchers will be approved by the Director, Office of Finance and Budget prior to posting in the accounting system. The Finance Division Chief and the Director, Office of Finance and Budget shall review the trial balance on a monthly basis to assure that all budgetary and proprietary accounts are in balance independently of each other.

The Office of Finance and Budget has informed the Department of Interior, Bureau of Reclamation of the audit finding that the current system will accept a debit/credit transaction between a budgetary and a proprietary account without warning the user of a possible imbalance."

7. ***USITC SHOULD AMEND THE POLICY FOR COMPENSATORY TIME TO ADEQUATELY REFLECT THE POLICY FOR SEPARATED EMPLOYEES.***

Finding/Suggestion

USITC provides compensatory time to employees for overtime hours worked. The current policy for compensatory time does not adequately address the extent of liability, if any, USITC has for payment of unused compensatory time to employees upon separation of employment with USITC.

We suggest that USITC amend the policy for compensatory time to address the issue of payment of unused compensatory time to separated employees.

Management's Response

"The Director, Office of Administration will recommend amendments to the overtime and compensatory time directive (4304.1) for consideration by the Commission. However, it is recommended that such changes be deferred until after the upcoming payroll/personnel review is conducted since other matters related to overtime and compensatory time may have to be addressed as a part of that audit. The payroll personnel review is scheduled to start on or about June 1, 1993, with a final report on or about August 20, 1993."

A. *THE OFFICE OF MANAGEMENT SERVICES SHOULD EXCLUDE FROM THE FIXED ASSET LISTINGS (FURNISHED TO THE OFFICE OF FINANCE AND BUDGET) ALL ITEMS VALUED AT LESS THAN $5,000 (UNLESS PROPERTY IS INCLUDED IN ACCORDANCE WITH GAO TITLE 2, SECTION P40.08 PERTAINING TO GROUPED ASSETS).*

Current status

During fiscal year 1992, USITC's OIG performed a property management audit. The audit resulted in several findings in the area of property management. In response to the OIG's findings, the Office of Management Services removed all property from the property management system which did not meet the Title 2 capitalization criteria. Thus, this finding is considered resolved.

B. *THE MASTER PROPERTY LISTING SHOULD BE RECONCILED WITH THE FIXED ASSET LISTING.*

Current status

The Office of Management Services now reports all property on the master property listing in a format which reconciles with the fixed asset listing. Thus, this finding is considered resolved.

Appendix

AD-Q-417

UNITED STATES INTERNATIONAL TRADE COMMISSION

WASHINGTON, DC 20436

May 24, 1993

MEMORANDUM

TO: Inspector General

FROM: Director, Office of Administration

SUBJECT: Draft Report, "Audit of the USITC Financial Statements for Fiscal Years 1992 and 1991"

As requested by your memorandum dated April 23, 1993, (IG-Q-024), submitted herewith is the Office of Administration's response to the subject draft audit report issued April 1993. In accordance with Section 11 of the USITC Directive 1701, the Commissioners have had an opportunity to comment on the response and the Chairman has approved it (see attached memorandum). *

The Office of Administration agrees with all the audit suggestions. The attached response includes the actions to be taken and the target completion dates.

Please call me at 205-3131 or Bill Stuchbery at 205-3135 if you have any questions.

ATTACHMENTS

cc: Director, Office of Finance and Budget
Director, Office of Management Services

* Note: Memorandum not included in audit report.

ADMINISTRATION'S RESPONSE TO THE DRAFT AUDIT REPORT OF THE USITC FINANCIAL STATEMENTS FOR FISCAL YEARS 1992 AND 1991

1. **THE OFFICE OF FINANCE AND BUDGET SHOULD CONSIDER IMPLEMENTING ENHANCED CONTROLS TO ENSURE THAT DUPLICATE PAYMENT SCHEDULE NUMBERS ARE NOT ASSIGNED TO PURCHASES OF GOODS AND SERVICES.**

Finding/Suggestion

USITC disburses payments to vendors utilizing the SF-1166 "Voucher & Schedule of Payments". USITC accounting clerks assign sequential numbers to the SF-1166's based on the funding year of the payment and are required to record the numbers assigned on a log sheet. The SF-1166's payment information also is entered into the dBase log system by the accounting clerks. We noted, however, that the dBase log system allows duplicate SF-1166 numbers to be assigned. We also noted that the log sheet utilized to track the last SF-1166 number assigned was not always updated by the accounting clerks and, thus, resulted in duplicate numbers assigned within the same funding year.

We suggest that Director of the Office of Finance and Budget implement the following procedures to reduce the likelihood of duplicated numbers:

- issue memoranda to the accounting staff directing the use of the log sheet to track the payment schedule numbers,
- periodically review the log sheet to verify completeness, and
- consider modification of the vendor payment system to prevent the assignment of duplicate numbers.

RESPONSE: **AGREE**.

The Office of Finance and Budget will revise the operating procedures of the vendor payment system to assure that all payment schedule numbers are sequential and recorded in the dBase log prior to preparation of the SF-1166's. The Finance Division Chief will instruct the accounting technicians on the revised procedures, and review the dBase log on a monthly basis to verify compliance with those procedures.

TARGET COMPLETION DATE: June 30, 1993

2. **THE OFFICE OF FINANCE AND BUDGET SHOULD ADJUST THE ACCOUNTS PAYABLE BALANCE TO PROPERTY CUT OFF AT YEAR END.**

Finding/Suggestion

USITC's accrual basis financial statements are prepared at year end. In this regard, the Office of Finance and Budget records certain liabilities, such as accrued payroll and accrued unfunded annual leave, at year end. The Office of Finance and Budget does not, however, record accounts payable for invoices received subsequent to the fiscal year end which relate to services rendered or goods received prior to the fiscal year end. As a result, we noted a number of invoices received in October and November, following the respective year ends, for goods and services rendered prior to year end, which were not included in year end accounts payable.

We suggest that the Office of Finance and Budget establish procedures at the end of each fiscal year to identify and record, as accounts payable, invoices subsequently received which relate to the fiscal year.

RESPONSE: **AGREE**.

The Office of Finance and Budget will revise the operating procedures to provide for all invoices received subsequent to the fiscal year end, until the day the accounting records are closed, which relate to services rendered or goods received prior to the fiscal year end, to be recorded as accounts payable. The Finance Division Chief will instruct the accounting technicians on the revised procedures.

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3. **THE PROCUREMENT DIVISION SHOULD REVIEW ALL PURCHASE REQUISITIONS TO VERIFY ALL REQUIRED SIGNATURES ARE PRESENT.**

Finding/Suggestion

USITC policies and procedures require the Director of Management Service's signature on surplus property certifications to evidence that surplus property was checked before the requisition was sent to the Procurement Office for procurement action. There were a number of occasions where the surplus certification was not signed by the Director of Management Services. There also were circumstances where the Director of Management Services was the initiator and/or approver of the transaction and also the surplus certifier.

In order to enhance controls, we suggest the following:

- o procurements which are initiated, approved and certified by the Director of Management Services should be reviewed and approved by the Director of
Administration before they are processed to procurement, and

- o the Procurement Division should review the forms for completeness and appropriate approvals before the purchase is processed.

RESPONSE: AGREE.

The appropriate Desktop Procedures will be changed to instruct appropriate OMS staff to forward to the Director, Office of Administration for his review and approval all procurements (requisitions) which are initiated, approved and certified by the Director, Office of Management Services.

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We suggest that the USITC apportion all appropriations in accordance with the Antideficiency Act to be in accordance with Federal laws, although this may require apportionment before USITC approval of the budget.

RESPONSE: AGREE.

The Director, Office of Finance and Budget will establish necessary procedures to assure that all apportionments are accomplished in accordance with appropriate laws and regulations.

TARGET COMPLETION DATE: June 30, 1993

5. **THE OFFICE OF FINANCE AND BUDGET SHOULD MAINTAIN A CASH RECEIPTS LOG**

Finding/Suggestion

The Office of Finance and Budget receives numerous non-revenue cash receipts (many of which are subsequently transferred to the U.S. Treasury) which include: return of travel advances, Freedom of Information Act fees, library usage fees, health insurance reimbursements, travel agency reimbursements, and other fees and refunds. These receipts approximate $4,000 per month. At the time the Office of Finance and Budget receives cash and checks they are stored in a safe and, subsequently, USITC deposits the funds with the U.S. Treasury. It is not until the time that checks are removed from the safe (for deposit), that they are recorded in a deposit log. USITC did not maintain a cash receipts log to record receipts at the time they were received.

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RESPONSE: AGREE.

A cash receipt log has been established in the Office of Finance and Budget and operating procedures are being revised. The Office of Finance and Budget's secretary will maintain the cash receipts log for all checks and cash that are received. The Finance Division Chief will reconcile the cash receipts log to the deposit log and deposit slips monthly. The Finance Division Chief will instruct the accounting technicians on the revised procedures.

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Finding/Suggestion

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We suggest that the Office of Finance and Budget review budgetary and proprietary trial balances on a monthly basis to be sure that they balance. We further suggest that the Office of Finance and Budget maintain a written policy authorizing one individual to be responsible for the posting of all journal vouchers to the general ledger.

RESPONSE: **AGREE**.

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The Office of Finance and Budget has informed the Department of Interior, Bureau of Reclamation of the audit finding that the current system will accept a debit/credit transaction between a budgetary and a proprietary account without warning the user of a possible imbalance.

TARGET COMPLETION DATE: June 30, 1993

7. USITC SHOULD AMEND THE POLICY FOR COMPENSATORY TIME TO ADEQUATELY REFLECT THE POLICY FOR SEPARATED EMPLOYEES

Find/Suggestion

USITC provides compensatory time to employees for overtime

hours worked. The current policy for compensatory time does
(Note: revised page to AD-Q-391, 5/6/93)

not adequately address the extent of liability, if any, USITC has for payment of unused compensatory time to employees upon separation of employment with USITC.

We suggest that USITC amend the policy for compensatory time to address the issue of payment of unused compensatory time to separated employees.

RESPONSE: AGREE.

The Director, Office of Administration will recommend amendments to the overtime and compensatory time directive (4304.1) for consideration by the Commission. However, it is recommended that such changes be deferred until after the upcoming payroll/personnel review is conducted since other matters related to overtime and compensatory time may have to be addressed as a part of that audit. The payroll/personnel review is scheduled to start on or about June 1, 1993, with a final report on or about August 20, 1993.

TARGET COMPLETION DATE: September 30, 1993