Office of
INSPECTOR GENERAL

Audit Report

Audit of the USITC Financial Statements for Fiscal Years 1996 and 1995

Report No. IG-02-97

March 1997

INSPECTOR GENERAL

UNITED STATES INTERNATIONAL TRADE COMMISSION

WASHINGTON, D.C. 20436

March 31,1997

TO: THE COMMISSION

I hereby submit an *Audit of the USITC Financial Statements for Fiscal Years 1996 and 1995, Report No. IG-02-97.* 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 our plan to evaluate the agency's financial systems 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 (FYs) ending September 30, 1996, and 1995, in presenting the financial condition and results of operations; a statement on the adequacy of internal controls; a statement on compliance.

The audit was conducted by Brown & Company in accordance with the Government Auditing Standards issued by the Comptroller General of the United States. The auditors expressed the following opinions in the auditor's report:

-- The statements of the financial position of the USITC as of September 30,1996, and 1995, present fairly, in all material respects, the financial position of the USITC as of September 30, 1996 and 1995, and the results of its operations and its cash flows for the years then ended in conformity with generally accepted accounting principles.

-- Test results disclosed no instances of noncompliance with laws and regulations applicable to the Commission that would have a material effect on the financial statements.

- No matters involving the internal control structure and its operation were considered to be material weaknesses, although certain matters are reported in the management letter.

The auditors noted certain areas where improvement is warranted in operating policies and procedures, which are set forth in the management letter transmitted as part of this report. The auditors recommended that:

- The fixed asset items subject to deletion from the accounting records and property management system be correctly identified;

- The copiers recorded as additions to fixed assets in the general ledger and property records be reconciled;

- Two copiers be recorded in the general ledger equipment account;

- Information on all new additions to fixed assets be provided to the Property Management Official (PMO) and an updated fixed asset report be prepared;

- The PMO conduct a physical inventory as soon as possible;

- The operating procedures handbook be revised to state that invoices received at FY year end be reviewed for the date of receipt of goods or services to determine the appropriate fiscal year in which to charge the invoice; and

- Cost center managers be notified that only those invoices that have an accurate, signed receiving report or a certification that the goods or services were received and were satisfactory will be paid.

We are particularly concerned that the annual inventory of accountable property, which is to be completed by February 15 according to Commission policy, was not conducted in FY 1996, and the FY 1997 inventory has not been initiated. Further, the PMO identified this area as a weakness in the FY 1996 internal control process. We identified recurring problems with accountable property beginning in 1991. A significant effort was made in FY 1995, that included reducing the property inventory list and conducting quarterly inventories which were monitored by our office, in order to ensure the property system was operating on a sound basis. However, the system apparently did not continue to operate efficiently after our last inspection in August 1995. We will work with the Office of Administration to reexamine the Commission policies and procedures on accountable property in order to have a system that reflects the Commission's needs and priorities.

An exit conference was held with the Director of the Office of Administration and staff from the Offices of Finance and Budget and Management Services on January 30, 1997, to discuss the findings and recommendations. The Director also submitted written comments on the draft report. He generally agreed with the findings and recommendations; he proposed an alternative action to one recommendation with which we agreed. His comments are presented in their entirety as an appendix to this report.

Jane E. Altenhofen
Jane E. Altenhofen
Inspector General

UNITED STATES
INTERNATIONAL TRADE COMMISSION

Financial Statements

September 30, 1996 and 1995

(With Independent Auditor's Report Thereon)

BROWN & COMPANY

UNITED STATES INTERNATIONAL TRADE COMMISSION

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BROWN & COMPANY

Independent Auditor's Report

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We have audited the accompanying statements of financial position of the United States International Trade Commission as of September 30, 1996 and 1995, 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 the Commission's 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 audits 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, 1996 and 1995, and the results of its operations and its cash flows for the years then ended in conformity with generally accepted accounting principles.

In accordance with *Government Auditing Standards,* we have also issued a report dated January 3, 1997, on our consideration of the United States International Trade Commission's internal control structure and a report dated January 3, 1997, on its compliance with laws and regulations.

Brown & Company

Arlington, Virginia
January 3, 1997

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UNITED STATES INTERNATIONAL TRADE COMMISSION
Statements of Financial Position
September 30, 1996 and 1995

Assets	1996	1995
Current assets:		
Funds with the U.S. Treasury (Note 2)	$ 7,907,954	$ 8,733,548
Receivables (Note 2)	0	11,774
Advance and prepayments (Note 2)	9,747	11,976
Total current assets	7,917,701	8,757,298
Furniture, Equipment and Leasehold Improvements:		
Furniture and equipment	5,679,089	4,893,135
Equipment under capital lease	275,945	275,945
Leasehold improvements	2,440,674	2,440,674
Total furniture, equipment and leasehold improvements (Notes 2 and 3)	8,395,708	7,609,754
Total Assets	$ 16,313,409	$ 16,367,052
Liabilities and Net Position		
Current Liabilities:		
Accounts payable	$ 1, 054,467	$ 365,278
Accrued payroll and benefits	1,321,542	1,202,000
Accrued unfunded annual leave (Notes 2 and 7)	2,074,059	2,305,742
Funds held in escrow (Notes 2 and 4)	82,101	82,101
Deposits payable (Note 2)	1,871	10,648
Obligations under capital lease (Note 6)	59,385	54,833
Total current liabilities	4,593,425	4,020,602
Long-term liabilities:		
Obligations under capital lease (Note 6)	64,323	123,716
Total Liabilities	4,657,748	4,144,318
Net Position: (Note 5)		
Unexpended appropriations	5,447,973	7,073,521
Invested capital	6,197,941	5,125,463
Cumulative results of operations	9,747	23,750
Total Net Position	11,655,661	12,222,734
Total Liabilities and Net Position	$ 16,313,409	$ 16,367,052

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

UNITED STATES INTERNATIONAL TRADE COMMISSION
Statements of Operations and Cumulative Results of Operations
For the Years Ended September 30, 1996 and 1995

	1996	1995
Appropriations expensed	$ 39,095,979	$ 43,020,225
Expenses		
Salaries	23,528,427	25,678,485
Personnel benefits	5,093,487	4,789,004
Travel expenses	276,735	395,467
Rental and communications services	7,288,592	8,683,806
Printing and reproductions	89,389	112,592
Supplies and materials	617,215	681,360
Equipment	372,865	246,878
Other services	1,843,272	2,417,603
Total expenses	39,109,982	43,005,195
Excess (deficiency) of appropriations expensed over expenses	(14,003)	15,030
Cumulative results of operations, beginning of year	23,750	8,720
Cumulative results of operations, end of year	$ 9,747	$ 23,750

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

UNITED STATES INTERNATIONAL TRADE COMMISSION
Statements of Cash Flows
For the Years ended September 30, 1996 and 1995

	1996	1995
Cash flows from operating activities:		
Appropriations received (Note 2)	$ 39,954,000	$ 42,375,000
Appropriations used	38,177,859	42,937,816
Appropriations returned to Treasury	1,317,152	590,377
Net cash provided (used) by operating activities	458,989	(1,153,193)
Cash flows from investing activities:		
Purchases of furniture and equipment	(1,229,750)	(77,129)
Net cash used by investing activities	(1,229,750)	(77,129)
Cash flows from financing activities:		
Amortization of lease principal	(54,833)	(50,638)
Net cash used for financing activities	(54,833)	(50,638)
Net decrease in funds with U.S. Treasury	(825,594)	(1,280,960)
Fund balances with U.S. Treasury, beginning of year	8,733,548	10,014,508
Fund balances with U.S. Treasury, end of year	$ 7,907,954	$ 8,733,548
Reconciliation of excess (deficiency) of appropriations expensed over expenses.		
Excess (deficiency) of appropriations expensed over expenses	$ (14,003)	$ 15,030
Adjustments:		
Unexpended appropriations	(1,625,548)	(1,278,837)
Net appropriations used in investing activities	1,229,750	77,129
Changes in:		
Receivables	11,774	(11,774)
Advances and prepayments	2,229	(3,256)
Accounts payable	689,189	(29,653)
Accrued payroll and benefits	119,542	(61,547)
Funds held in escrow	0	80,734
Deposits	(8,777)	8,343
Obligations under capital lease	54,833	50,638
Net cash provided (used) by operating activities	$ 458,989	$ (1,153,193)

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

UNITED STATES INTERNATIONAL TRADE COMMISSION
Statements of Reconciliation to Budget
For the Years Ended September 30, 1996 and 1995

	1996	1995
Relation of expenses to outlays		
Expenses	$ 39,109,982	$ 43,005,195
Adjustments to expenses		
Capital expenditures	1,229,750	77,129
Transactions excluded from budget reports	(118,138)	(86,063)
Changes in:		
Receivables	(11,774)	11,774
Advances and prepayments	(2,229)	3,256
Accounts payable	(689,189)	29,653
Accrued payroll and benefits	(119,542)	61,547
Obligations under capital lease	54,833	50,638
Net outlays, per budget report	$ 39,453,693	$ 43,153,129
Relation of obligations to outlays		
Obligations incurred	$ 38,648,459	$ 41,904,844
Fund balances with U.S. Treasury, beginning of year	8,728,048	10,014,508
Fund balances with U.S. Treasury, end of year	(7,902,454)	(8,728,048)
Adjustments to expired accounts	(20,360)	(38,175)
Net outlays, per budget report	$ 39,453,693	$ 43,153,129

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

UNITED STATES INTERNATIONAL TRADE COMMISSION
Notes to Financial Statements
September 30, 1996 and 1995

NOTE 1. Organization

Background and mission - The United States International Trade Commission (USITC) is an independent agency 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, each of whom serve two-year terms.

USITC conducts investigations and reports findings relating to imports and the effect of imports on industry, 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 analytical 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 no-year 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 to USITC $40,000,000 less a $46,000 rescission in fiscal year 1996 and $42,500,000, less a $125,000 rescission in fiscal year 1995, for general operations. Congress has appropriated $40,850,00 to USITC for fiscal year 1997.

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 obligated and unobligated fund balances are carried forward until goods or services are received and payment is made, or until such time as funds are deobligated.

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 are recorded at original cost. The costs of leasehold improvements performed by the General Services Administration (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 GSA.

Accrued unfunded annual leave - 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.

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 miscellaneous receipts held in trust for the U.S. Treasury or respondents.

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

Intergovernmental activities - USITC records and reports only those Government-wide financial matters for which it is responsible 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	
	1996	1995
Furniture and equipment	$ 5,679,089	$ 4,893,135
Equipment under capital lease	275,945	275,945
Leasehold improvements	2,440,674	2,440,674
	$ 8,395,708	$ 7,609,754

NOTE 4. Funds Held in Escrow

Funds held in escrow consist of bonds posted by respondents to USITC actions as a result of investigations on unfair importing practices into the United States. The bonds are being held in escrow pending the outcome of legal proceedings. No bonds were refunded to Treasury or respondents during fiscal years 1996 and 1995.

NOTE 5. Net Position

Unexpended appropriations include approximately $1,106,031 and $3,591,030 of unobligated balances as of September 30, 1996 and 1995, respectively. The amount returned to the U.S. Treasury in fiscal year 1996 was $1,317,152 representing unexpended funds from 1990. In fiscal year 1995, unexpended 1989 funds of $ 590,377 were returned to the U.S. Treasury.

NOTE 5. Net Position (continued)

The activity in the net position accounts for the fiscal years ended September 30, 1996 and 1995 was as follows:

	Unexpended Appropriations	Invested Capital	Cumulative Results of Operations	Total
October 1, 1994	$ 8,352,358	$ 5,206,006	$ 8,720	$ 13,567,084
Appropriations received	42,375,000			42,375,000
Appropriations used to fund purchase of furniture and equipment	(77,129)	77,129		
Appropriations used to fund operating expenses	(43,020,225)		43,020,225	
Appropriations expensed	84,532		(43,005,195)	(42,920,663)
Increase in unfunded leave and benefits		(120,584)		(120,584)
Amortization of lease principal	(50,638)	50,638		
FY 1989 unobligated balance withdrawn	(590,377)			(590,377)
Deletions of fixed assets		(87,726)		(87,726)
September 30, 1995	7,073,521	5,125,463	23,750	12,222,734
Appropriations received	39,954,000			39,954,000
Appropriations used to fund purchase of furniture and equipment	(1,229,750)	(1,229,750)		
Appropriations used to fund operating expenses	(39,095,979)		(39,095,979)	
Appropriations expensed	118,175		(39,109,982)	(38,991,807)
Decrease in unfunded leave and benefits		231,683		231,683
Amortization of lease principal	(54,833)	54,833		
FY 1990 unobligated balance withdrawn	(1,317,152)			(1,317,152)
FY 1995 adjustment to cumulative results of operation	(9)	9		
Deletions of fixed assets		(443,797)		(443,797)
September 30, 1996	$ 5,447,973	$ 6,197,941	$ 9,747	$ 11,655,661

NOTE 6. Leasing Arrangements

Operating Lease

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 a standard lease users charge. Lease expenses for office space during fiscal years 1996 and 1995 were approximately $6,702,228 and $7,491,024, respectively.

The estimated future rental payments, exclusive of escalation and other occupancy costs, as of September 30, 1996, are as follows:

September 30	Amount
1997	$ 6,486,520
	$ 6,486,520

The GSA lease expires in August 1997. USITC also has various other annual and month-to-month leases for certain equipment.

Capital Lease

USITC has entered into a lease agreement with the Xerox Corporation for docutech network publisher and accessories for the Publishing Division. The agreement is a lease to ownership plan (LTOP) and provides for transfer of equipment title and ownership to USITC at the end of the 60-month lease period without any additional payment.

NOTE 6. Leasing Arrangements (continued)

Capital Lease Obligation - Future payments due are as follows:

	1996	1995
Fiscal year 1996	$ 0	$ 67,144
Fiscal year 1997	67,144	67,144
Fiscal year 1998	67,136	67,135
Total future lease payments	134,280	201,423
Less: imputed interest	10,572	22,874
Total obligations under capital lease	123,708	178,549
Less: current obligations	59,385	54,833
Long-term obligations	$ 64,323	$ 123,716

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

NOTE 7. Employee Benefit Programs (continued)

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 $2,304,807 and $2,177,881 for the years ended September 30, 1996 and 1995, respectively.

Accrued leave - USITC's employees are entitled to accrue annual leave and accumulate 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. Under certain circumstances, Senior Executive Service personnel and employees affected by exigencies of the public business may accrue more than 240 hours of annual leave. There is no maximum limit on sick time which may be accumulated; 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 by employees. Amounts paid by USITC for health care were approximately $ 835,178 and $ 987,332 for the years ended September 30, 1996 and 1995, respectively.

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, 1996 and 1995 reflected as part of unexpended appropriations in the accompanying financial statements, amounted to approximately $2,036,374 and $2,183,589, respectively.

Unpaid compensatory time - Government-wide regulations, labor law, and USITC policy provides for the accumulation of compensatory time for employees for overtime hours worked. USITC Directive No. 4304.2, dated March 25, 1994, prescribes the use of compensatory time, and the policy that employees who are voluntarily separated from service must take earned compensatory time prior to separation or lose any unused compensatory time. The liability relating to unpaid compensatory time is not considered by management to be material and has not been reported in the financial statements.

NOTE 8. Commitments and Contingencies (continued)

Legal - USITC is a party in various pending or threatened litigation, claims and assessments that each individually represent a potential loss exposure in excess of $25,000. The Commission is contesting all of the claims, which primarily involve former employee discrimination complaints relative to the January 1996 reduction-in-force. While the ultimate result of these legal proceedings cannot be predicted, management identified no material liabilities or gain or loss contingencies that are required to be accrued or disclosed.

CERTIFIED PUBLIC ACCOUNTANTS
AND MANAGEMENT CONSULTANTS

BROWN & COMPANY

Independent Auditor's Report On Compliance

The Commissioners
United States International Trade Commission

We have audited the financial statements of the United States International Trade Commission as of and for the years ended September 30, 1996 and 1995, and have issued our report thereon dated January 3, 1997.

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 audits to obtain reasonable assurance about whether the financial statements are free of material misstatement.

Compliance with laws and regulations applicable to the United States International Trade Commission is the responsibility of the Commission's management. As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the Commission's compliance with certain provisions of applicable laws and regulations. However, our objective was not to provide an opinion on overall compliance with such provisions. Accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of noncompliance that are required to be reported herein under *Government Auditing Standards.*

This report is intended for the information of the Commissioners and management of the United States International Trade Commission. This restriction is not intended to limit the distribution of this report, which is a matter of public record.

Brown & Company

Arlington, Virginia
January 3, 1997

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CERTIFIED PUBLIC ACCOUNTANTS
AND MANAGEMENT CONSULTANTS

BROWN & COMPANY

Independent Auditor's Report on Internal Control

The Commissioners
United States International Trade Commission

We have audited the financial statements of the United States International trade Commission as of and for the years ended September 30, 1996 and 1995, and have issued our report thereon dated January 3, 1997.

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 audits to obtain reasonable assurance about whether the financial statements are free of material misstatement.

The management of the United States International Trade Commission 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.

In planning and performing our audits of the financial statements of the United States International Trade Commission for the years ended September 30, 1996 and 1995, we obtained an understanding of the internal control structure. With respect to the internal control structure, we obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation, and we assessed control risk in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control structure. Accordingly, we do not express such an opinion.

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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 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 material weaknesses as defined above.

However, we noted certain matters involving the internal control structure and its operation that we have communicated to the management of the United States International Trade Commission in a letter dated January 3, 1997.

This report is intended for the information and use of the Commissioners and the management of the United States International Trade Commission. This restriction is not intended to limit the distribution of this report, which is a matter of public record.

Brown & Company

Arlington, Virginia
January 3, 1997

UNITED STATES
INTERNATIONAL TRADE COMMISSION

MANAGEMENT LETTER

September 30, 1996

BROWN & COMPANY

CERTIFIED PUBLIC ACCOUNTANTS
AND MANAGEMENT CONSULTANTS

BROWN & COMPANY

The Commissioners
United States International Trade Commission
Washington, D.C.

We have audited the financial statements of the United States International Trade Commission (USITC) for the years ended September 30, 1996 and 1995, and have issued our report thereon dated January 3, 1997.

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 audits 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 the USITC for the years ended September 30, 1996 and 1995, we noted certain areas where we believe improvement is warranted in operating policies and procedures. The noted conditions are summarized as follows:

A. FIXED ASSETS

Deletions to Fixed Assets

The Office of Finance and Budget (OFB) prepares a schedule of deletions to fixed assets that shows information relating to acquisition cost of items, sales credits and discounts, and amounts of trade-ins. The information on this schedule is supported by copies of purchase orders, vendors' invoices and detailed fixed asset listings from the Office of Management Services (OMS) showing and identifying items traded-in for new purchases. Our examination of documents supporting the deletions as recorded in the Equipment account for fiscal year 1996, disclosed the following exceptions:

1. The accounting records showed 7 Xerox copiers, model no. 5028, as traded in for new purchases. However, our review disclosed that only 5 items were traded in as of September 30, 1996. Consequently, the fixed asset account was understated by $10,880.

2. The accounting records showed 6 Canon copiers, model no. 4050, as traded in for new purchases. However, our review of documents supporting the deletions revealed that actually 7 copiers were traded in as of September 30, 1996. Consequently, the Equipment account in the general ledger was overstated by $7,527.

3. The accounting records showed 2 Canon copiers, model no. 6650, as traded in for new purchases. Our review of documents supporting deletions recorded in the fixed asset

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accounts disclosed that only 1 copier was traded in as of September 30, 1996, resulting in the understatement of the Equipment account by $11,844.

The differences noted above were adjusted in the financial statements for the year ended September 30, 1996. USITC Directive No. 3550.2, dated May 3, 1995, on property management, states that the USITC is to establish and maintain a property management system of accounting and reporting that provides for the effective control of Government-owned accountable property.

We recommend that the Directors of the OFB and the OMS properly identify those fixed asset items which should be deleted from the accounting records and the property management system.

Additions to Fixed Assets

The OFB prepares a schedule of additions to fixed assets which provides documentary and financial information to support the journal entries in the Federal Financial System (FFS) fixed asset accounts for new purchases. We performed tests of the additions through examination of supporting documentation, review of appropriate entries in the detailed records, and physical inspection of selected major items. The results of our tests disclosed the following conditions:

1. The accounting records showed that 8 Xerox copiers, model no. 5034, were purchased and the total cost added to the Equipment account. However, we counted 10 new Xerox copiers of the same model during our physical inspection. The difference reflects an understatement of fixed assets by $15,510 as of September 30, 1996.

2. The Equipment account in the FFS general ledger was not adjusted for the difference noted above because the 2 Xerox copiers that make up the difference are not readily identifiable as to their serial numbers. Out of the 10 Xerox copiers actually inspected and verified against the OMS' Copier Volume & Cost Record, OPS Form 128, only 3 items have serial numbers that agree with the information on the supporting documents used by OFB to support its journal entries for additions to fixed assets.

Again, we reiterate the USITC policy on property management as stated in Directive No. 3550.2 dated May 3, 1995, "It is the policy of the USITC to establish and maintain a property management system of accounting and reporting that provides for the effective control of Government-owned accountable property."

We recommend that the Director of Administration direct the OFB and OMS to reconcile the serial numbers on Xerox copiers that were recorded as additions to fixed assets in the FFS general ledger and those recorded in the OMS Copier Volume & Cost Record, OPS Form 128.

In addition, we recommend that the Chief of the Finance Division record in the FFS Equipment account the cost of the 2 copiers noted during our physical inspection after the related serial numbers have been determined.

Response: **Agree**

The Directors of OFB and OMS will have their staffs reconcile the property management records with the accounting records to ensure that the end of year records are accurate. To minimize the potential for future problems, the Director of Administration will direct OMS and OFB to reconcile their records annually by July 31. This will move most of the reconciliation process outside the end of fiscal year processing period when other priorities often arise and the large volume of work contributes to the potential for delay or mistake in the record-keeping process. The Director of Administration will also direct OFB and OMS to reconcile serial numbers on copiers that are added to the fixed asset list in their respective records.

Target Completion Date: April 15, 1997

Other Conditions Noted During the Fixed Assets Review

1. For FY 1996, we noted that the OMS has not prepared an updated annual Fixed Asset Report (FAR) that is maintained for financial accounting purposes and annually reconciled to the OFB's accounting records. We were informed by OMS that the FAR was not produced because the information on the new additions to fixed assets acquired during FY 1996 to be provided by OFB was not available for posting in the Property Management System (PMS).

2. Based on our inquiries and review of fixed asset accounts, we determined that the annual inventory of accountable property for FY 1996 that should have been performed after the first quarter of FY 1996 was not done. OMS personnel explained that system problems with the PMS prevented generation of updated listings of accountable property for use by Accountable Officers (AO) in taking the inventory. We also noted that there was no physical count of fixed assets made during first the quarter of FY 1997.

   However, based on our review of the USITC's Office of Inspector General's proposed Inspection Report No. 2-96, we noted that a physical inventory of USITC accountable property was conducted in August 1995.

The USITC Directive No. 3550.2 dated May 3, 1995, provides for the maintenance of the Fixed Asset Report (FAR) for financial accounting purposes and annual reconciliations with OFB's accounting records. The Directive also provides for the physical count of accountable property that is actually on hand and comparison of the counts with the FAR and other applicable property records. The physical inventory of accountable property is to be conducted at least once annually during the first quarter of the fiscal year.

We recommend that the Chief of the Finance Division provide information on all new additions to fixed assets to the OMS, and that the OMS prepare an updated FAR.

We also recommend that the Director of the OMS conduct a physical inventory for FY 1997 as soon as possible.

Response: **Agree**

The Chief of the Finance Division will provide the necessary information by April 15, 1997. The Director of OMS has prepared a revised Property Management Directive that will hopefully ease the burden of property tracking without compromising the Commission's control over property. The new directive must be reviewed within Administration, as well as by the General Counsel and the Inspector General, before it is circulated to the Commission. We hope to have it before the Commission by May 1, 1997. A physical inventory will be completed as soon as possible, once the new directive is in place.

Target Completion Date: May 30, 1997

B. MISSTATEMENT OF ACCOUNTS PAYABLE AT FISCAL YEAR END
(Repeat Condition)

The Finance Division expenses all invoices received prior to closing the general ledger for the fiscal year and recognizes the invoiced amounts as accounts payable. However, our review of 35 invoices and the related receiving reports and shipping dates for fiscal years 1996 and 1995 disclosed that the goods and services for 4 invoices were received after the fiscal year end and, therefore, should not have been expensed or recognized as liabilities. This practice resulted in an overstatement of accounts payable in the amount of $30,714 for fiscal year 1996 and none for fiscal year 1995.

We reviewed 18 invoices and the related receiving reports and shipping dates for transactions recorded during the two (2) months after September 30, 1996 and 1995. Our review disclosed that the goods or services for 4 invoices were received before the end of the fiscal years, and consequently, should have been expensed and recognized as liabilities. Failure to record these transactions resulted in the understatement of accounts payable in the amount of $28,442 and $19,341 for fiscal years 1996 and 1995, respectively.

The Revised Standard Operating Procedures, Section VIII-1, states that "all unpaid invoices received prior to fiscal year end or 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,** are recorded as accounts payable."

We recommend that the Director of the OFB amend Section VIII-1, C, of the Revised Standard Operating Procedures handbook to require that the Chief of Finance examine invoices received subsequent to the fiscal year end for the date of receipt of goods or services to determine the appropriate fiscal year in which to charge the expense.

Response: **Agree in Part/Disagree in Part**

While any inaccuracies in end of fiscal year processing are regrettable and should be minimized, especially when repeated, we note that a large volume of invoices are typically processed in the end of fiscal year rush and human error is inevitable. In the past, we attempted to eliminate this error by instructing the accounting technicians to verify the date of receipt for all invoices received at fiscal year end. We believe that verifications of the date of receipt is a duty and responsibility of the accounting technicians and should not become part of the Finance Division Chief's duties and responsibilities.

Requiring the Finance Division Chief to examine any invoices received after the end of the fiscal year but before the accounting records are closed, places an extra burden on the Finance Chief during a very busy close-out period. While we understand the concern of the auditor's that this kind of human error continues to occur, we note that eliminating human error entirely may not be possible. Rather than having the Chief of the Finance Division perform additional clerical duties, we suggest issuing instructions to the accounting technicians that would require them to circle the date of receipt on all invoices processed after the end of the fiscal year. This would ensure that they actually viewed the date of receipt and would make them accountable for something within their area of responsibility, rather than delegating it back up the chain of command. If this fails to minimize errors, then it may be appropriate to have the Division Chief recheck all their end-of-year work.

Target Completion Date: April 15, 1997

C. UNDOCUMENTED RECEIPT OF GOODS AND SERVICES AND/OR PAYMENTS OF INVOICES PRIOR TO RECEIPTS OF GOODS OR SERVICES

(Repeat Condition)

During our tests of disbursements, we noted that out of 78 selected invoices reviewed, 2 invoices did not have the information as to when the goods or services were actually received or rendered, and 2 invoices showed dates of receipt that had occurred subsequent to the dates when the invoices were noted as paid. The Finance Division relies on Cost Center Managers or their designees to provide information relative to if and when the goods or services were received. The date of receipt is necessary for Finance to make an accurate determination as to the proper fiscal year in which to record the transactions. Certification provides assurance that goods and services were provided in accordance with purchase orders, contracts, or other executed agreements.

Section III-4 of the Revised Standard Operating Procedures, requires that the Finance Division receive either a certification by an authorized USITC representative indicating when the goods and services were received or an actual receiving report which is signed by an authorized USITC representative before processing an invoice for payment.

We recommend that the Director of the OFB notify all Cost Center Managers that the Finance Division will pay only those invoices for which they have an accurate, signed receiving report or a certification that the goods or services were received and were satisfactory.

Response: Agree

The Director of OFB will send out the suggested notice.

Target Completion Date: April 15, 1997

D. IMPROPER MINIMUM ANNUAL LEAVE CHARGE

During our tests of payroll and personnel benefits for a sample of 50 USITC employees for fiscal years 1996 and 1995, we noted one instance where an employee's used year-to-date annual leave hours had an increment of a fraction of an hour. This condition was made possible because USITC's time and attendance system accepts annual leave usage for less than one hour increments.

Subsequent to the exit conference, the Chief of the Finance Division sent an electronic mail memorandum to all timekeepers as a reminder to USITC Directive No. 2201.1, dated September 18, 1992, Chapter VI, Recording of Leave and Absences, that states: "Only whole hour increments of annual leave are to be recorded on the T&A record."

Response: Agree

The Chief of the Finance Division sent an electronic memorandum to all agency timekeepers reminding them of the Commission policy.

Target Completion Date: Done

We appreciate the cooperation and courtesies extended to us by USITC personnel during our audit, and we trust the comments and suggestions contained herein will be received in the spirit with which they are offered. If we can be of assistance in implementing any of the recommendations, please do not hesitate to contact us.

This report is intended for the information of the management of the United States International Trade Commission and the Office of the Inspector General. This restriction is not intended to limit the distribution of this report, which is a matter of public record.

Brown & Company

Arlington, Virginia
January 3, 1997

ADMINISTRATION'S RESPONSE TO THE DRAFT AUDIT REPORT OF THE USITC FINANCIAL STATEMENTS FOR FISCAL YEARS 1995 AND 1996

A. FIXED ASSETS:

1. Deletions/Additions to Fixed Assets

FINDING/SUGGESTION

The Office of Finance & Budget (OFB) prepares a schedule of deletions to fixed assets that shows information relating to acquisition cost of items, sales credits and discounts, and amounts of trade-ins. The information on this schedule is supported by copies of purchase orders, vendors' invoices and detailed fixed asset listing from the Office of Management Services (OMS) showing and identifying items traded-in for new purchases. Similarly, OFB prepares a schedule of additions to fixed asset which provides documentary and financial information to support journal entries in the Federal Financial System fixed asset account for new purchases. The auditors examination of the records disclosed that the OFB accounting records needed to be reconciled with OMS' copier records.

The auditors recommend that the Directors of OFB and OMS properly identify those fixed asset items which should be deleted from the accounting records and the property management system. They also recommend that the Director of Administration direct the OFB and OMS to reconcile the serial numbers on Xerox copiers that were recorded as additions to fixed assets in the FFS general ledger and those recorded in the OMS Copier Volume & Cost Record, OPS Form 128. In addition, they recommend that the Chief of the Finance Division record in the FFS Equipment account the cost of the 2 copiers noted during our physical inspection after the related serial numbers have been determined.

RESPONSE: AGREE

The Directors of OFB and OMS will have their staffs reconcile the property management records with the accounting records to ensure that the end of year records are accurate. To minimize the potential for future problems, the Director of Administration will direct OMS and OFB to reconcile their records annually by July 31. This will move most of the reconciliation process outside the end of fiscal year processing period when other priorities often arise and the large volume of work contributes to the potential for delay or mistake in the record-keeping process. The Director of Administration will also direct OFB and OMS to reconcile serial numbers on copiers that are added to the fixed asset list in their respective records.

TARGET COMPLETION DATE: April 15, 1997

2. Other Conditions

FINDING/SUGGESTION

The auditors found that OMS has not prepared an updated FY 1996 annual Fixed Asset Report (FAR) that is maintained for financial accounting purposes and annually reconciled to OFB's accounting records because the information on additions to fixed assets was not yet available to OMS. The auditors also determined that the annual inventory of accountable property for FY 1996 was not done because of system problems that prevented a generation of updated listings of accountable property for use in taking inventory.

The auditors recommend that the Chief of the Finance Division provide the information on all new addition to fixed assets to the OMS, and that OMS prepare and updated FAR. They also recommend that the Director of OMS conduct a physical inventory for FY 1997 as soon as possible.

RESPONSE: AGREE

The Chief of the Finance Division will provide the necessary information by April 15, 1997. The Director of OMS has prepared a revised Property Management Directive that will hopefully ease the burden of property tracking without compromising the Commission's control over property. The new directive must be reviewed within Administration, as well as by the General Counsel and the Inspector General, before it is circulated to the Commission. We hope to have it before the Commission by May 1, 1997. A physical inventory will be completed as soon as possible, once the new directive is in place

TARGET COMPLETION DATE: May 30, 1997

B. MISSTATEMENT OF ACCOUNTS PAYABLE AT FISCAL YEAR END

FINDING/SUGGESTION

The Finance Division expenses all invoices received prior to closing the general ledger for the fiscal year and recognizes the invoices amounts as accounts payable. The auditors' review of 35 FY 1995 and 18 FY 1996 invoices and related receiving and shipping reports disclosed that 4 invoices were received after the fiscal year end, but were charged to the prior year, while 4 invoices were received before the fiscal year end, but were charged to the subsequent year. As a result, the accounts payable for FY 1995 and FY 1996 had to be adjusted. The Revised Standard Operating Procedures, Section VIII-1, states that "all unpaid invoices received prior to the fiscal year end or 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, are recorded as accounts payable."

The auditors recommend that the Director of the OFB amend Section VIII-1, C, of the Revised Standard Operating Procedures handbook to require that the Chief of Finance examine invoices received subsequent to the fiscal year end for the date of receipt of goods or services to determine the appropriate fiscal year in which to charge the expense.

RESPONSE: AGREE IN PART/DISAGREE IN PART

While any inaccuracies in end of fiscal year processing are regrettable and should be minimized, especially when repeated, we note that a large volume of invoices are typically processed in the end of the fiscal year rush and human error is inevitable. In the past, we attempted to eliminate this error by instructing the accounting technicians to verify the date of receipt for all invoices received at fiscal year end. We believe that verification of the date of receipt is a duty and responsibility of the accounting technicians and should not become part of the Finance Division Chief's duties and responsibilities.

Requiring the Finance Division Chief to examine any invoices received after the end of the fiscal year but before the accounting records are closed, places en extra burden on the Finance Chief during a very busy close-out period. While we understand the concern of the auditors' that this kind of human error continues to occur, we note that eliminating human error entirely may not be possible. Rather than having the Chief of the Finance Division perform additional clerical duties, we suggest issuing instructions to the accounting technicians that would require them to circle the date of receipt on all invoices processed after the end of the fiscal year. This would ensure that they actually viewed the date of receipt and would make them accountable for something within their area of responsibility, rather than delegating it back up the chain of command. If this fails to minimize errors, then it may be appropriate to have the Division Chief recheck all their end-of-year work.

TARGET COMPLETION DATE: April 15, 1997

C. UNDOCUMENTED RECEIPT OF GOODS AND SERVICES AND/OR PAYMENTS OF INVOICES PRIOR TO RECEIPTS OF GOODS OR SERVICES

FINDING/SUGGESTION

The auditors selected 78 invoices in their review of Cost Center Manager practices regarding receipt of goods and services. The auditors determined that 2 of the invoices did not have information as to when the goods or services were actually received, while 2 others showed dates of receipt that were after the invoices were noted as paid. The date of receipt is required of CCMs so that the Finance Division can make an accurate determination as to the proper fiscal year to record the transactions. Certification by the CCM also provides assurance that the goods or services were properly provided to the Commission prior to payment. Section III-4 of the Revised Standard Operating Procedures requires that the Finance Division receive either a certification by an authorized Commission representative indicating when the goods or services were received or an actual receiving report signed by an authorized Commission representative prior to processing an invoice for payment.

The auditors recommend that the Director of OFB notify all CCMs that the Finance Division will pay only those invoices for which they have received an accurate, signed receiving report or a certification that the goods or services were received and were satisfactory.

RESPONSE: AGREE

The Director of OFB will send out the suggested notice.

TARGET COMPLETION DATE: April 15, 1997

D. IMPROPER MINIMUM ANNUAL LEAVE CHARGE

FINDING/SUGGESTION

The auditor's tests of payroll and personnel benefits disclosed one instance where an employee's used year-to-date annual leave hours had an increment of a fraction of an hour. The Commission's time and attendance system accepts annual leave usage for less than hour increments. However, the Commission's Directive 2201.1, Chapter VI, states "Only whole hour increments of annual leave are to be recorded on the T&A record." The auditors suggested that timekeepers be reminded of Commission policy regarding annual leave in whole hour increments.

RESPONSE: AGREE

The Chief of the Finance Division sent an electronic memorandum to all agency timekeepers reminding them of the Commission policy.

TARGET COMPLETION DATE: DONE