Audits

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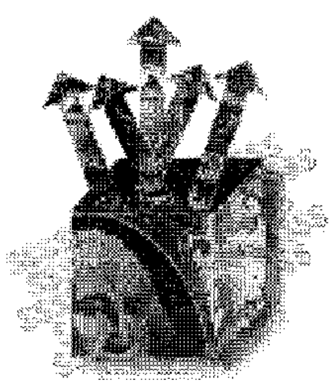
Office of Inspector General
United States
International Trade Commission

Review of the Commission's Budget Development and Allocation Processes With A Comparison to Five Selected Other Federal Agencies

February 29, 2000



AUDIT REPORT

OIG-AR-02-00

INSPECTOR GENERAL

UNITED STATES INTERNATIONAL TRADE COMMISSION

WASHINGTON, D.C. 20436

February 29, 2000

TO: THE COMMISSION

I hereby submit Audit Report No. OIG-AR-02-00, *Review of the Commission's Budget Development and Allocation Processes With a Comparison to Five Selected Other Federal Agencies*.

The objective of this review was to compare the USITC budget development and allocation processes with those of similar federal agencies and to identify areas for improving USITC processes.

We engaged Leon Snead & Company, P.C. to assist in conducting this review.

We found that the past budget development processes and practices appear to have served the USITC well in providing adequate funding. However, we found the loss of the entire staff of the Budget Division illustrates the need to prepare written budget policies and procedures. Additionally, we found that the accounting system has not met management's needs for information as to the costs of programs and projects, nor has the accounting data been accessible by managers in a manner which would encourage the use of the information. The accounting system is capable of meeting this requirement, but managers must work with the accounting staff to define and communicate their needs. Once changes are made to accumulate the desired data, management use of the data should be encouraged by making the data readily accessible.

Based on these findings, we recommended that the Director of Administration (1) prepare written budget policies and procedures to ensure continuity in the event of personnel changes, (2) obtain input from Cost Center Managers regarding their cost accounting needs and modify accounting procedures accordingly to meet the managers' needs for timely, useful and complete accounting information and (3) the Director, Office of Information Services, assist the Director, Office of Administration, in accessing the financial data in FFS and providing the financial data to the Commission's financial managers and Cost Center Managers in a database format that is timely, flexible, user-friendly, and responsive to the needs identified in the analysis.

The Director of Administration in his response to the draft report agreed with our findings and recommendations and requested that we incorporate a specific wording change to our third recommendation. The Chairman, as the Audit Follow-up Official for the Commission, concurred with the Director of Administration's response. Their response is incorporated as an Appendix to this report.

We incorporated the wording change for the third recommendation and find that the Director of Administration's proposed schedule to implement the recommendations is reasonable.

Dev Jagadesan
Acting Inspector General

Audit Report No. OIG-AR-02-00

Review of the Commission's Budget Development and Allocation Processes With A Comparison to Five Selected Other Federal Agencies

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Office of Inspector General
U.S. International Trade Commission

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I. BACKGROUND

The United States International Trade Commission (USITC) is an independent agency of the U.S. Government. The USITC receives a single no-year appropriation from Congress. Although the USITC submits a budget for inclusion in the President's budget, the USITC budget is not subject to executive branch review.

The USITC appropriation for fiscal year (FY) 1999 was $44.5 million, and a FY 1998 carryover of $1.2 million was added, for a total of $45.7 million. However, by agreement with Congress, the carryover from the prior year is not to be used without prior Congressional approval.

Personnel compensation and benefits comprise the majority of the USITC budget. The FY 1999 budget provided for 425 work-years, which represented over 74 percent of the budget. Rental paid to the General Services Administration is the other major item in the budget, and for FY 1999 accounted for 12 percent of the budget. Thus, only 14 percent of the budget is available for items other than personnel and rental costs.

II. OBJECTIVE

The objective of this review was to compare the USITC budget development and allocation processes with those of similar federal agencies and to identify areas for improving USITC processes.

III. METHODOLOGY AND SCOPE

We engaged Leon Snead & Company, P.C. to assist in conducting this review.

We conducted our review from May 27, 1999 through October 28, 1999 in the Washington, D.C. metropolitan area at USITC and five other selected federal agencies. We developed a detailed survey instrument covering the budget development and budget allocation processes. We used the survey instrument at USITC and each of the five federal agencies in order to ensure consistency in the data collected.

At USITC, we interviewed the Director, Office of Finance and Budget (OFB); the Director, Office of Administration; the Director, Office of Operations; the General Counsel; and a Cost Center Manager (CCM). We also obtained and reviewed copies of pertinent documents.

We made arrangements to obtain comparative data from the five other federal agencies. We visited each of the five agencies, interviewed senior officials with responsibility for budget development and allocation, and obtained copies of relevant documents. We compared their processes with those of USITC. Some of the five agencies requested that we not identify them. Therefore, we have not identified the other agencies in our report.

We conducted our review in accordance with Generally Accepted Government Auditing Standards and under the authority of the Inspector General Act of 1978, as amended.

IV. THE USITC BUDGET DEVELOPMENT AND ALLOCATION PROCESSES

The flow chart in Figure 1 on page 3 provides a summary depiction of the current USITC budget development and allocation processes. The following sections provide a time-line of events that the Commission currently follows in implementing these processes.

A. BUDGET DEVELOPMENT

Based on procedures used in the development of the FY 2001 budget, the USITC uses the following budget development process:

May The budget process begins with the OFB issuing a memo to the Cost Center Managers (CCMs) requesting their proposed budget for the budget year.

June CCMs provide their responses to OFB.

August OFB provides a recommended budget to the Budget Committee, with copies to the CCMs and to the Commission.

The Budget Committee meets with the CCMs to discuss the proposals.

CCMs provide their rebuttals to the Budget Committee.

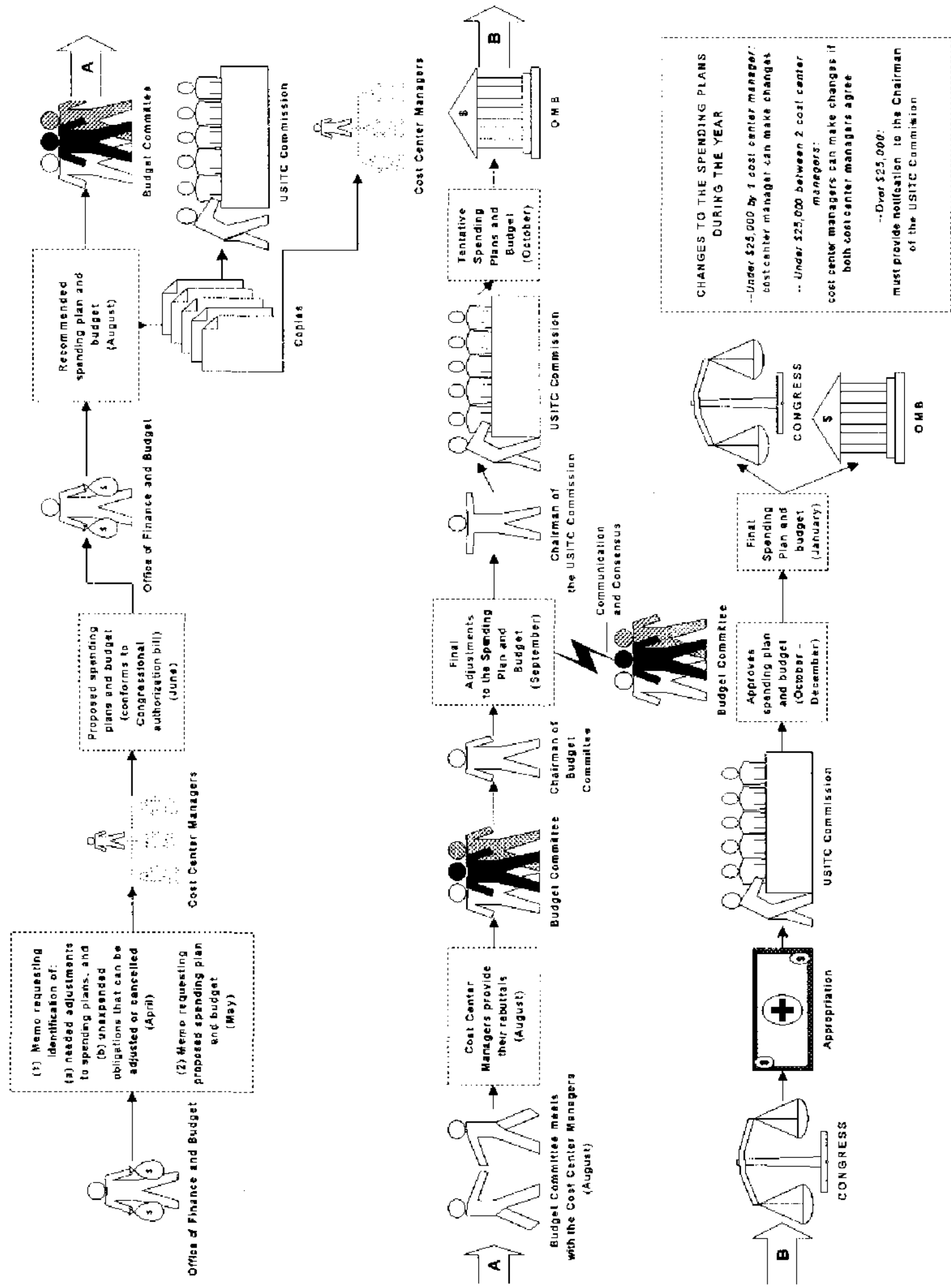
September The Chairman of the Budget Committee makes final adjustments to the budget, obtains the approval of other members of the Budget Committee, and presents a recommended budget to the Chairman of the Commission.

October The tentative budget is provided to the Office of Management and Budget (OMB) for inclusion in the President's budget. OMB does not review the USITC budget.

October - December After Congress passes the appropriation, and the amount of the unobligated balance carried forward from the prior year is known, the Chairman of the Commission submits the proposed budget for the coming year and the proposed spending plan for the current year for approval by the Commission. As the appropriation generally is not passed until after the beginning of the fiscal year, this generally occurs early in December.

January Final numbers are provided to OMB and submitted to Congress.

Figure 1 - USITC Budget Development and Allocation Processes



B. ALLOCATION OF FUNDS

The process of determining the amounts to be allocated to the CCMs as their spending plan for the coming fiscal year runs concurrent with the development of the budget. The steps in this process are as follows:

May OFB requests that CCMs submit their proposed spending plans for the coming fiscal year. The spending plan is expected to conform to the Congressional authorization bill, if one has been enacted; if not, the proposed spending plan is to conform to the budget which was submitted in the previous January.

June CCMs provide their responses to OFB.

August OFB provides a recommended spending plan to the Budget Committee, with copies to the CCMs and to the Commission.

The Budget Committee meets with the CCMs to discuss the OFB proposal and to obtain any rebuttals from the CCMs.

September The Chairman of the Budget Committee makes final adjustments to the spending plan; obtains approval from the members of the Budget Committee, and presents a recommended spending plan to the Chairman of the Commission.

October - December After Congress passes the appropriation, OFB requests CCMs to submit their proposed apportionment of the appropriation by quarters. Using the input from the CCMs, OFB prepares the apportionment to allocate funds to each quarter of the fiscal year.

If the Commission has not approved a spending plan for the current fiscal year, OFB makes tentative allocations of funds to the CCMs based on the spending plan recommended by the Budget Committee. Each CCM's allocation is subdivided by Object Classification Code (OCC). After a plan is approved by the Commission, OFB makes any adjustments necessary to the allocations previously made.

C. MODIFICATIONS TO THE SPENDING PLAN

During the year, CCMs may make changes not exceeding $25,000 between the OCCs within their spending plans. Similarly, changes between CCMs which do not exceed $25,000 may be made provided both CCMs agree. The Chairman of the Commission is notified of all changes in excess of $25,000.

In April, the OFB requests that CCMs review their plans for the remainder of the current fiscal year to identify needed adjustments to the spending plan. They also are asked to review unexpended obligations to identify any which can be adjusted or canceled in order to make funds available to satisfy unfunded requirements.

V. AGENCY COMPARISONS

A. AGENCY PROFILES

As indicated in Table 1, the agencies included in the study have a variety of types of appropriations. One receives a no-year appropriation like that of USITC, three have annual appropriations, and one has five separate appropriation accounts which are a mixture of annual and no-year.

TABLE 1 - COMPARISON OF AGENCY PROFILES

	AGENCY					
	USITC	A	B	C	D	E
Type of Appropriation	No-Year	Annual	No-Year	Annual	Annual	Annual & No-Year [1]
FY99 Appropriation (millions)	$46	$37	$117 [2]	$61	$47	$232 [3]
Personnel Cost (millions)	$33	$23	$87	$46	$35	$101
Rent (millions)	$5	$3	$11	$8	$3	$32
Percent for Personnel & Rent	82.6%	70.3%	83.8%	88.5%	80.8%	57.3% [4]
No. of Personnel (FTE) [5]	425	347	979	580	480	1917
Budget Office Staffing	2	2	4	3.8	4	9
Subject to OMB Review	No	No	Yes	Yes	No	Yes

[1] Agency E has five appropriation accounts. Only two are for the operating expenses of the agency. One of those is an annual appropriation covering normal operating costs. The other, a no-year appropriation is for repairs and restoration of agency facilities. The remaining funds account for grants, gifts and trusts.

[2] For FY 1999, agency B received an appropriation from Congress in the amount of $10.2 million. The balance of its funding was from fees. Commencing with FY 2000, the entire funding will be from fees

[3] The amount shown is only for the appropriation which covers operating expenses. $29 million of this appropriation is for redemption of debt and interest payments incident to facilities constructed for the agency.

[4] If the debt redemption and interest payments were excluded from the appropriation, the personnel and rent would represent 65.5 % of the appropriation.

[5] For consistency, the FTEs shown are from the FY 1999 data in the FY 2000 budget submissions, and are not the actual number of personnel employed.

Three of the agencies visited are comparable to USITC in both the amount of their appropriations and in the number of personnel employed. The other two are significantly larger than USITC. One of the larger agencies has five appropriation accounts, only two of which cover costs comparable to those funded by the USITC appropriation.

USITC and all the other agencies spend the majority of their funds for personnel costs, which along with rent, the other major item of expense, accounts for from about 57 % to about 88 % of the total operating appropriations.

B. BUDGET DEVELOPMENT

Table 2 shows comparisons between USITC and the other agencies for selected aspects of the budget development process. There are more similarities in the processes for developing the budget than there are differences.

TABLE 2 - COMPARISON OF AGENCY BUDGET PROCESSES

	AGENCY					
	USITC	A	B	C	D	E
Budget Committee [1]	Yes	Yes	Yes	Yes[2]	Yes	Yes
Program Managers represented on Budget Committee	Yes	No	No	Yes	No	No
Budget Officer a member of Budget Committee	Yes	No	Yes	Yes	Yes	No
Budget approved by majority of Commission or Head of Agency	Yes	Yes	Yes	Yes	Yes	Yes
Budget Submission includes Performance Plan	No	Yes	Yes	Yes	Yes	No
Budget linked to Performance Plan	No	Yes	Yes	Yes	Yes	No
CCMs develop staffing needs	Yes	Yes	Yes	Yes	Yes	Yes
Budget Office prices personnel costs	Yes	Yes	Yes	Yes	Yes	Yes
Budget Office produces first draft of budget	Yes	Yes	No	No	No	No

[1] Although some agencies have no formally established budget committee, all have some group of individuals who essentially perform that function.

[2] Although this agency does not have a budget committee as such, the budget is developed collectively by about fifty people representing the various divisions and offices. The budget office participates in the development process and then puts the budget into the proper format for presentation for approval.

The single greatest difference is the incorporation of the strategic and performance plans with the budget. Only USITC and one of the five other agencies had not accomplished this at the time of submission of the FY 2000 budget. This change appears to be having far reaching effects in the agencies who have wedded the two processes. Accounting and financial management processes are placing more emphasis on the programs, goals and objectives, and less on the management of obligations and available balances. USITC incorporated the strategic plan in the budget for FY 2000, and will begin to incorporate performance plans and objectives in the budget for FY 2001.

While final approval of budgets and performance plans in all cases is at the Commission or agency head level, the involvement of that level in the actual development of the budget varies considerably among the agencies. This appears to be attributable mostly to the personal preferences of the individuals involved and varies with changes in the Commission Chairman, or even individual Commissioners and agency heads.

All agencies included in the study use some form of "budget committee" to review budget proposals before they are submitted for final approval. USITC and one of the other five agencies include program management representation on those committees.

In all cases, the CCMs develop staffing plans, but the budget offices convert the staffing plans into the dollars in the budget for personnel compensation.

All budget offices start the budget development process by providing general budgetary guidance. At the USITC and one other agency, the budget office prepares a first draft budget for CCMs to use as a starting point.

For the FY 2001 budget, USITC started with a proposed budget from the OFB, but abandoned that in favor of one developed by the Budget Committee in conjunction with the CCMs. The same was done in developing the FY 2000 expenditure plan proposed for approval by the Chairman. The proposed expenditure plan would allocate to CCMs the full amount of the funded personnel ceiling.

"The USITC does not have current directives which describe the budget policies and procedures."

In the past, the USITC staffing plan has withheld a portion of the personnel ceiling and allocated it later in the year. That practice appears to have been partly responsible for the fact that the actual number of employees has been substantially lower than the number of funded positions. This has contributed to the increasing amount of unobligated funds carried forward from one FY to another. So far as we could determine, the other agencies reviewed do not follow such a practice.

For the FY 2000 plan, the USITC budget committee proposed to allocate the full personnel ceiling at the beginning of the year. They estimated that this practice would reduce the lapse rate which has been over seven percent by about fifty percent. At the same time, funds allocated to the CCM which centrally administers the personnel funds would be reduced by five percent to allow for the lapse rate from delays in filling positions. This action would make more funds available for non-personnel costs at the beginning of the year rather than at mid-year review and should result in more effective use of funds. The Commission approved this proposal on December 20, 1999.

In developing the FY 2001 budget and the FY 2000 expenditure plan, the USITC budget committee appears to have taken greater efforts than in the past to explain the decisions to CCMs. This practice should help to alleviate criticisms expressed by some CCMs that they did not understand how the budget numbers are developed.

Neither USITC nor any of the other agencies have current directives which describe the budget policies and procedures. The importance of having written policies and procedures is illustrated by the present situation in the USITC Budget Division, where, as of November 5, 1999 both budget positions were vacant, and the OFB Director has been absent for an extended period.

C. ALLOCATION OF FUNDS

Table 3 shows comparisons between USITC and the other five agencies in selected aspects of the allocation and administration of appropriated funds.

TABLE 3 - COMPARISON OF AGENCY ALLOCATION PROCESSES

	AGENCY					
	USITC	A	B	C	D	E
Quarterly [1]	Yes	Yes	Yes	Yes	Yes	Yes
Allocation Subject to Anti-Deficiency Act	No	No	No	No	Yes	No
Allocated by Object Class	Yes	Yes	Yes	Yes	No	No
CCM's Reprogramming authority [2]	$25K	None	$100K	None - Budget Office $50K	None - Budget Office minor	None
Funds for personnel held centrally	Yes	Yes [3]	No	Yes	Yes	No
Allocate personnel ceiling	Yes	Yes	Yes	Yes	Yes	Yes
Commitment Accounting	No	No	No	Yes	No	No
Pre-certification of fund availability	No	All payments	Contracts	No	Contracts	Only at year end
Approval required to fill personnel vacancies	Yes	No	No	No	No	Yes
CCM's access to accounting data	Some	Yes	Yes	No	No	No

[1] All agencies include more than one-fourth of the appropriation in the apportionment for the first quarter to allow for greater costs incurred in that quarter.

[2] No reprogramming authority is indicated for CCMs in agencies D and E. However, since these agencies do not allocate funds by object class, no reprogramming is needed except between CCMs. Both agencies have Congressionally imposed limits on travel, so no reprogramming is allowed to that account. Reprogramming from travel is permitted.

[3] Funds for personnel costs are held by the budget office. Other funds are administered by the Office of Administration. Program managers receive "work year" allocations and are expected to place their emphasis on managing the work years in accordance with the performance plan.

All agencies in the study apportion appropriations on a quarterly basis with the first quarter receiving more funds than each of the other three.

Only the two largest agencies in the study allocate personnel compensation funds to individual CCMs. The size of these organizations coupled with the fact that they have multiple field offices would make it difficult to manage the personnel accounts on a centralized basis as the other four agencies do. In most instances, the funds for rent are centrally held. Other items for which funds generally are not dispersed include telephone, Automatic Data Processing (ADP), and postage.

At USITC and other agencies where personnel compensation funds are held centrally, CCMs are assigned personnel ceilings. At USITC, approval of the Chairman is required before a vacancy can be filled, even though the position is within the assigned personnel ceiling. In addition, CCMs may not use a vacancy to create another position within the allocated ceiling without approval of the Chairman. These requirements can contribute to delays in filling vacancies. While there is no evidence this has been the case at USITC, it has caused significant delays in the only other agency included in the study which uses a similar procedure. The necessity for prior approval to fill vacancies should be reexamined once the effects of other changes being made to the budget process can be evaluated.

"One agency using the same Department of Interior (DOI) accounting system has elected to download the database daily into one of its computers, and then make the data available to managers in a more "user-friendly" environment which does not restrict them to the standard reports available from the DOI system."

USITC and two of the other agencies included in this study allocate funds to CCMs by object class. The two agencies which do not allocate by object class believe that the resulting flexibility eliminates the necessity for extensive reprogrammings within the funds allocated to CCMs. USITC recently delegated to CCMs authority to reprogram up to $25,000 both within and between cost center funds. The Chairman of the Commission must be notified of reprogrammings in excess of $25,000. These reprogrammings still require the OFB to change the allocations recorded in the official accounting records. Once the effects of the delegation of the reprogramming authority can be evaluated, consideration should be given to discontinuing the allocation of funds by object class, thus eliminating the requirement for the numerous adjustments to the official accounting records.

USITC and all other agencies authorize CCMs to access the official accounting database. However, at USITC, few managers actually have been given access. It was necessary for managers to be trained on how to use the system before they were given access, and few managers have taken the training. Those who have access make little use of it because they have found the procedures cumbersome and the available data of little use. One agency using the same Department of Interior (DOI) accounting system has elected to download the database daily into one of its computers, and then make the data available to managers in a more "user-friendly" environment which does not restrict them to the standard reports available from the DOI system.

Another factor in the lack of interest by USITC CCMs in using the accounting system is that the data displayed is limited to fund status, status of obligations and costs by object class. While this information is useful, managers also want to be able to determine the cost of programs and projects. Although cost estimates are developed in the process of obtaining approvals to start projects, the accounting system does not provide project cost data. Consequently, the manager cannot determine the variance between estimated and actual project costs.

However, commencing with FY 2000, USITC is changing procedures to better identify the costs incurred by programs and performance objectives and goals.

VI. CONCLUSIONS AND RECOMMENDATIONS

The past budget development processes and practices appear to have served the USITC well in providing adequate funding. However, they have not been linked to management's strategic and performance plans. Changes instituted with the development of the FY 2001 budget should resolve those issues, and we have no specific recommendations for changing the actions being taken. However, the loss of the entire staff of the Budget Division illustrates the need to prepare written budget policies and procedures.

The accounting system has not met management's needs for information as to the costs of programs and projects, nor has the accounting data been accessible by managers in a manner which would encourage the use of the information. The accounting system is capable of meeting this requirement, but managers must work with the accounting staff to define and communicate their needs. Once changes are made to accumulate the desired data, management use of the data should be encouraged by making the data readily accessible.

Based on these conclusions, we recommend the following:

1. The Director of Administration prepare written budget policies and procedures to ensure continuity in the event of personnel changes.
2. The Director of Administration obtain input from CCMs regarding their cost accounting needs and modify accounting procedures accordingly to meet the managers' needs for timely, useful and complete accounting information.
3. The Director, Office of Information Services, assist the Director, Office of Administration, in accessing the financial data in FFS and providing financial data to the Commission's financial managers and CCMs in a database format that is timely, flexible, user-friendly, and responsive to the needs identified in the analysis completed for Recommendation 2 (above).

VII. MANAGEMENT RESPONSE

Management agreed to all recommendations. Planned actions, which are set forth in the appendix to this report, will achieve the objectives of the recommendations.

APPENDIX

UNITED STATES INTERNATIONAL TRADE COMMISSION

WASHINGTON, DC 20436

February 16, 2000 AD-X-015

MEMORANDUM

TO: Acting Inspector General

FROM: Stephen A. McLaughlin, Director
Office of Administration

SUBJECT: Response to Draft Report: Audit of the Commission's Budget Development and Allocation Process and A Comparison to Five Selected Other Federal Agencies

This memorandum is the Office of Administration's response to the Draft Report: Audit of the Commission's Budget Development and Allocation Process and A Comparison to Five Selected Other Federal Agencies. I have reviewed the draft audit report and am in general agreement with the findings and recommendations.

The Inspector General recommends that the Director, Office of Administration:

1. Prepare written budget polices and procedures to ensure continuity in the event of personnel changes.

Response: Agree

AD proposes: The Office of Administration will develop written policies and standard operating procedures to ensure consistency, continuity, and compliance with OMB Circular A-11, "Preparing and Submitting Budget Estimates," and other Federal guidance and direction related to budget formulation, review, execution, and reconciliation. To achieve this end, AD expects to modify the existing financial services contract with Bradson Corporation to include developing written policies and standard operating procedures.

Action for this recommendation should be completed by June 1, 2000.

2. Obtain input from Cost Center Managers (CCMs) regarding their cost accounting needs and modify accounting procedures accordingly to meet the manager's needs for timely, useful and complete accounting information

Response: Agree

AD proposes: The Office of Administration will obtain input from CCMs regarding their cost accounting needs and modify accounting procedures to meet their needs. However, because CCMs' needs may change significantly in the future due to the Commission's migration toward a cost accounting approach, the assessment of current needs should be considered tactical. Any changes to existing reports or additional reports generated through the Federal Financial System (FFS) will be targeted to meet the requirements of the Chief Financial Officers Act of 1990 (section 902(a)(3)A - D), Statement of Federal Financial Accounting Standard No. 4 (Managerial Cost Accounting Concepts and Standards for the Federal government), and Office of Management and Budget requirements. These standards and bulletins require agencies to develop and maintain accounting systems which report cost information and provide a systematic measurement of performance. AD expects to modify the existing financial services contract with Bradson Corporation to include developing written policies and standard operating procedures. The process will include:

- obtaining input from CCMs to determine their cost accounting needs;
- reviewing the Strategic and Performance Plans, and budget justification and financial statement reporting requirements to ensure compatibility;
- determining internal and FFS system capabilities;
- developing options and determining funding limitations;
- modifying accounting procedures and implementing system changes, if required; and
- training ITC staff on procedural changes and use of cost data.

Action on this recommendation should be completed by July 1, 2000.

3. Establish procedures to download accounting data from the Department of Interior accounting system into a database at USITC and make the data available to managers.

Response: Agree with clarification

AD/OIS propose: The Office of Administration will develop a cost accounting method based upon the needs of the CCMs and other Commission reporting requirements. The outcome of the needs/systems analysis described in Recommendation 2 will determine the timing and method used to meet the actions required by this recommendation. However, until the needs/systems analysis stage is completed, the method of accessing FFS data and providing that information to CCMs will remain undetermined. While the recommendation in the Draft Report specifically states "establish procedures to download data", we suggest the following alternative language:

> The Director, Office of Information Services, assist the Director, Office of Administration, in accessing the financial data in FFS and providing it to Commission financial managers and CCMs in a database format that is timely, flexible, user-friendly, and responsive to the needs identified in the analysis completed for Recommendation 2 (above).

Action on this recommendation should be completed by September 1, 2000. Our current expectation is that the level of effort required to implement a tactical improvement in accounting data available to CCMs and agency managers will be fairly small. However, if the estimated life cycle cost of this project exceeds $50,000, the project will be subject to IT investment review and prioritization against alternative uses of resources available in this fiscal year. Therefore, depending on the specifics of the needs assessment and project proposal, an IRM/SC or Budget Committee decision could defer funding for project execution to next year. The key to avoiding this outcome will be to limit the scope of this project to a minimum set of immediate data needs.

In addition, prior to the release of this report, the Offices of Administration and Information Services had initiated a project to download labor cost reports (work hours and dollars) and convert them into a more user-friendly format for CCMs as well as budget formulation and execution purposes. That project is expected to be completed by April 1, 2000.

Approve: X   Disapprove: _______

LMB /HB   2/22/00

Chairman, Lynn M. Bragg   Date

cc: The Commission
Office of Information Services