



UNITED STATES
INTERNATIONAL
TRADE COMMISSION

IG

USITC Office of the Inspector General
**Semiannual
Report**

October 1, 2005 - March 31, 2006

April 2006



UNITED STATES INTERNATIONAL TRADE COMMISSION

WASHINGTON, DC 20436

April 28, 2006

MEMORANDUM

TO: The Chairman

FROM: Acting Inspector General

SUBJECT: OIG Semiannual Report for October 1, 2005 – March 31, 2006

I am pleased to submit the Office of Inspector General (OIG) Semiannual Report for the period October 1, 2005 through March 31, 2006. The Inspector General Act of 1978 (Public Law 95-452), as amended, requires the Inspector General to report semiannually to you and the Congress on the activities of the office during the six month periods ending March 31 and September 30. The Act also requires you to transmit the report to the appropriate Congressional committees within 30 days of receipt, together with any comments you may wish to make.

During this reporting period, we audited the Commission's FYs 2005 and 2004 financial statements and issued an unqualified opinion. We also issued a report containing recommended actions which should strengthen the Commission's internal controls, initiated two investigations and closed one investigation. For the closed investigation, we found the allegation to be unsubstantiated. Furthermore, the Acting IG and Counsel continued to engage in other activities to provide the Commission with expert review and management assistance.

Provided in this report are further details on the above activities as well as a brief discussion on top management challenges facing the Commission.

I appreciate the continued cooperation and support provided to the OIG.

A handwritten signature in cursive script that reads "Jean Smith".

Jean Smith
Acting Inspector General

COMMISSION’S TOP MANAGEMENT CHALLENGES	1
Management Challenge: Competitive Sourcing	1
Management Challenge: Improved Financial Performance	2
Management Challenge: Budget and Performance Integration	2
Management Challenge: Expanded Electronic Government.....	3
Management Challenge: Strategic Management of Human Capital.....	3
COMMISSION PROFILE	5
THE OFFICE OF INSPECTOR GENERAL.....	7
AUDITS	8
Reports Issued During this Period.....	8
Independent Audit of the U.S. International Trade Commission’s Financial Statements for Fiscal Years 2005 and 2004 and the Commission's Management Challenges	8
Management letter: Audit of the U.S. International Trade Commission’s Financial Statements for Fiscal Years 2005 and 2004.....	9
Audit Follow-Up.....	10
Evaluation of the U.S. International Trade Commission’s Fiscal Year 2005 Information Security Program and Practices, OIG-AR-04-05 (September 27, 2005).....	10
Evaluation of USITC’s Records Management, OIG-AR-05-00 (March 7, 2001).....	10
INVESTIGATIONS	11
Summary of Investigative Activity	11
OTHER ACTIVITIES.....	12
Regulatory Review.....	12
Government Accountability Office (GAO)	12
Management Assistance.....	13
Liaison Activities	13
REPORTING REQUIREMENTS INDEX	15
Table 1: AUDIT REPORTS WITH QUESTIONED COSTS.....	16
Table 2: AUDIT REPORTS WITH RECOMMENDATIONS THAT FUNDS BE PUT TO BETTER USE	17
GLOSSARY.....	18



COMMISSION'S TOP MANAGEMENT CHALLENGES

The “Top Management Challenges” facing the Commission as identified by the OIG—as well as recent OIG activities relating to each challenge—are discussed below. Through audits and inspections, the OIG has been helping the Commission to address these challenges.

We discuss the Commission’s management challenges within the framework of the President’s Management Agenda (PMA) that included five somewhat interrelated Government-wide initiatives: (1) Competitive Sourcing, (2) Improved Financial Performance, (3) Budget and Performance Integration, (4) Expanded Electronic Government, and (5) Strategic Management of Human Capital.

Because the Commission was not among the 24 PMA agencies and has not established PMA deliverables and time lines, neither the Commission nor the OIG has attempted to score its PMA progress. However, the Commission’s budget justifications, as well as its strategic planning documents, expressed the Commission’s commitment to the spirit of the five PMA initiatives. OIG work addressing the Commission’s adherence to that spirit is discussed below.

Management Challenge: Competitive Sourcing. To improve the performance and efficiency of activities that are commercial in nature, the PMA calls for departments and agencies to compare their commercial activities with those of the private sector and determine whether the private sector or government employees perform the activity. The intended outcome is better service at a lower price.

The Commission has competitively contracted for information technology services, certain editing and publishing services, mailroom and general labor services, cleaning and building maintenance services, and security services. Private sector contract employees comprise more than 10 percent of on-site personnel. In addition, other services are acquired on an as-needed basis, such as virtually all equipment maintenance services, application systems design and development, and certain audit and financial services. For example, the OIG contracts for financial and information technology audit services.

The Commission has stated that its permanent staff is devoted to core agency investigative functions and recurring support activities where the cost of outsourcing is less competitive. The Commission issued its 2005 comprehensive list of commercial activities



COMMISSION'S TOP MANAGEMENT CHALLENGES—Continued

consistent with the Federal Activities Inventory Reform (FAIR) Act. The Commission has said that it will continue to evaluate competitive alternatives and efficient service contracting options to maximize efficiency and minimize cost. During this period, OIG audits and inspections did not address competitive sourcing.

Management Challenge: Improved Financial Performance. This initiative is to improve the quality and timeliness of financial information so that it can be used to reduce waste, fraud, and abuse and manage federal programs more effectively. The key components of the Commission's FY 2006 budget were personnel (75 percent), support services (12 percent), and rent (10 percent). In compliance with the Accountability of Tax Dollars Act of 2002, the Commission produced financial statements, notes and a management discussion and analysis for FY 2005. During this period, the OIG's audit found no material weaknesses and resulted in an unqualified opinion on the statements.

Management Challenge: Budget and Performance Integration. The Office of Management and Budget (OMB) plans eventually to expand its examination of federal budget decisions to 100 percent of federal programs. Performance information will be used to (1) end or reform programs that either cannot demonstrate positive results or are clearly failing and (2) put resources in programs that can prove they are successful.

The Commission restructured its budget formulation and execution activities to permit the allocation of virtually all costs to one of the five operations set forth in the Strategic Plan. All indirect costs have been allocated to the Commission's five operations with the exception of the OIG activities. These are reported as unallocated indirect costs. The Commission also presents data using a budget object classification methodology. Budget integration efforts to date have allowed Commission managers to track changes in workload and compare them to changes in cost. In doing so, the Commission is able to determine whether resources are being allocated efficiently.

The performance goals and indicators in the Commission's Annual Performance Plan also provide measures by which the agency's activities can be assessed. The Commission's program performance results for FY 2005 was presented in the Performance and Accountability Report submitted to Congress. During this period, OIG audits and inspections did not address budget and performance integration.



COMMISSION'S TOP MANAGEMENT CHALLENGES—Continued

Management Challenge: Expanded Electronic Government. This initiative is designed to bring more services to the American citizen over the Internet, make government more efficient, and improve information technology (IT) management throughout the Executive Branch.

Every Commission business process—investigations, research, trade information services, trade policy support, and administration—depends on reliable and effective information systems and services. The information that the Commission processes and generates is a valuable asset that management must protect from loss, misuse, unauthorized access or modification. The Commission redesigned its website and made improvements to its Electronic Document Information System and the Interactive Tariff and Trade DataWeb systems.

While progress has been made in meeting certain e-government requirements, our evaluation under the Federal Information Security Management Act (FISMA) found the Commission made limited progress in strengthening its IT security program during FY 2005. While the security process is a continuous cycle of evaluating, improving, and monitoring controls of the major IT systems, the Commission had not completed many basic steps towards achieving security over its systems. The OIG identified weaknesses in these areas as early as 2001, but the Commission has been slow in fully implementing the recommendations. We made 23 recommendations for improvement with which the Commission concurred.

Management Challenge: Strategic Management of Human Capital. Facing substantial prospective retirements, agencies must hire and retain people with needed skills and hold them accountable for serving customers and stakeholders. OMB determined that 20 PMA agencies had plans in place to assess their workforce and to use every tool at their disposal to recruit and retain the workforce they need to fulfill their missions.

As previously noted, human capital is the Commission's largest resource, with salaries and personnel benefits representing approximately 75 percent of the budget. The Commission maintains an expert staff of professional international trade and nomenclature analysts, investigators, attorneys, economists, computer specialists and administrative support personnel. All employees are located at 500 E Street SW, Washington, DC 20436. At the end of FY 2005, the Commission employed a total of 361 permanent employees.

COMMISSION'S TOP MANAGEMENT CHALLENGES—*Continued*

During this period, the Commission made progress on a Human Capital Vision and Strategic Human Capital Plan, which outline the strategies that the Commission will use to address the significant human capital issues the Commission will face over the next 3 to 5 years. OIG audits and inspections did not address human capital management.

COMMISSION PROFILE

<http://www.usitc.gov>

The Commission is an independent, nonpartisan, quasi-judicial federal agency established by Congress to provide trade expertise to both the Legislative and Executive Branches of government. Its mission is to: administer U.S. trade remedy laws within its mandate in a fair and objective manner; provide the President, the U.S. Trade Representative (USTR) and the Congress with independent, quality analysis, information, and support on matters of tariffs and international trade and competitiveness; and maintain the Harmonized Tariff Schedule of the U.S. In so doing, the Commission serves the public by implementing U.S. law and contributing to the development of sound and informed U.S. trade policy. Major Commission activities include:

- **Import Injury Investigations**—The Commission makes determinations in a variety of import injury investigations, primarily antidumping and countervailing duty (AD/CVD) investigations concerning the effects of unfairly traded imports on a U.S. industry.
- **Intellectual Property-Based Investigations**—The Commission adjudicates complaints brought by domestic industries under section 337 of the Tariff Act of 1930 that allege infringement of U.S. intellectual property rights and other unfair methods of competition by imported goods.
- **Industry and Economic Analysis**—The Commission's industry and economic analysis program consists of probable economic effects investigations under section 131 of the Trade Act of 1974 or section 2104 of the Trade Act of 2002; analysis of trade and competitiveness issues under section 332 of the Tariff Act of 1930; and independent assessments on a wide range of emerging trade issues.
- **Trade Information Services**—The Commission's trade information services include such activities as legislative reports; maintenance of the Harmonized Tariff Schedule; Schedule XX; U.S. Schedule of Services Commitments under the General Agreement on Tariffs and Trade/World Trade Organization; preparation of U.S. submissions to the Integrated Database of the World Trade Organization; and certain other information gathering, processing, and dissemination activities.
- **Trade Policy Support**—The Commission supports the formulation of U.S. trade policy, providing objective input to both the Executive Branch and the Congress on the basis of the distinctive expertise of its staff.



COMMISSION PROFILE—Continued

The Commission consists of six Commissioners, appointed by the President and confirmed by the Senate, who serve one term of nine years, unless appointed to fill an unexpired term. No more than three Commissioners may be of the same political party. The Chairman and Vice Chairman are designated by the President and serve a 2-year statutory term. The Chairman is responsible, within statutory limits, for the administrative functions of the Commission.

The current Commissioners are Stephen Koplun, Jennifer A. Hillman, Deanna Tanner Okun, Charlotte R. Lane, Daniel R. Pearson, and Shara L. Aranoff. The current Chairman is Stephen Koplun and the current Vice Chairman is Deanna Tanner Okun.

In FY 2006, the Commission had an estimated \$65.3 million in available funds and a staffing plan for 392.5 permanent positions and 22 term/temporary positions. All employees are located in one building at 500 E Street, SW, Washington, DC.

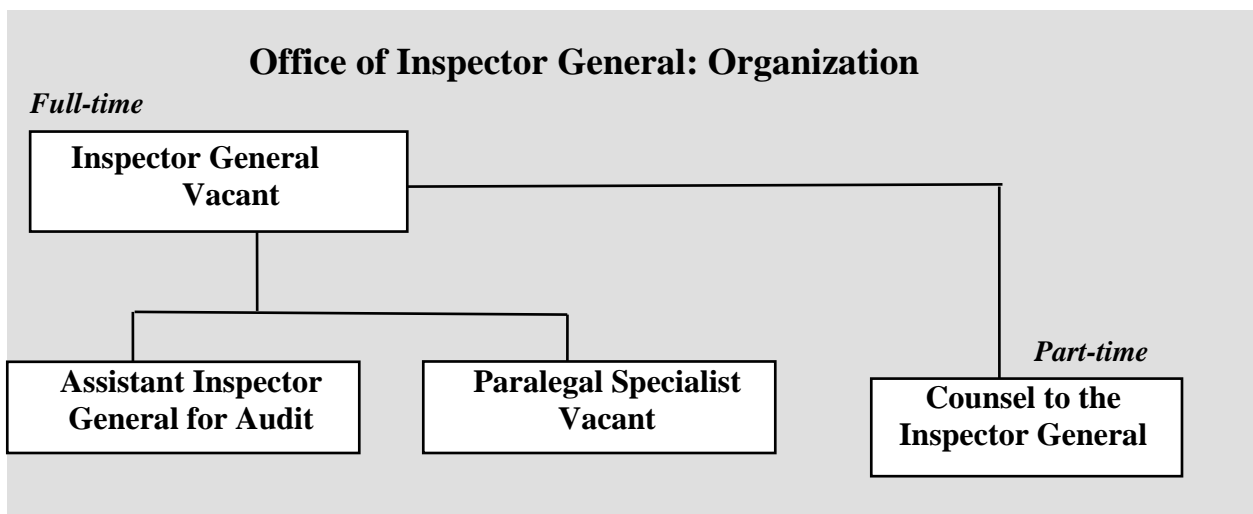
THE OFFICE OF INSPECTOR GENERAL

<http://www.usitc.gov/oig>

The Commission established the OIG pursuant to the 1988 amendments to the Inspector General Act. The Inspector General reports directly to the Chairman, and is responsible for directing and carrying out audits, investigations, and inspections relating to Commission programs and operations. The Inspector General also provides comments and recommendations on proposed legislation, regulations, and procedures as to their economy, efficiency and effectiveness.

As shown in the organizational chart, the OIG was allocated 3.5 staff years in FY 2006. This provided for three full-time positions (Inspector General, Assistant Inspector General for Audit, and Paralegal Specialist) and one part-time position (Counsel to the Inspector General). However, during this reporting period, two positions became vacant. The Inspector General retired October 31, 2005 and the Paralegal Specialist left the Commission. Once an Inspector General is selected, the remaining position may be filled. In the meantime, the Assistant Inspector General for Audit has been serving as the Acting Inspector General.

The OIG was allocated \$240,000 for OIG contracted audit and review services for FY 2006.





AUDITS

Reports Issued During this Period

We issued two audit reports during this period:

- Independent Audit of the U.S. International Trade Commission's Financial Statements for Fiscal Years 2005 and 2004 and the Commission's Management Challenges (OIG-AR-01-06, November 14, 2005)
- Management letter: Audit of the U.S. International Trade Commission's Financial Statements for Fiscal Years 2005 and 2004 (OIG-AR-02-06, March 31, 2006)

Independent Audit of the U.S. International Trade Commission's Financial Statements for Fiscal Years 2005 and 2004 and the Commission's Management Challenges

<http://www.usitc.gov/oig/OIG-AR-01-06.pdf>

We audited the Commission's FYs 2005 and 2004 financial statements and issued an unqualified opinion. We performed the audit in accordance with U.S. generally accepted government auditing standards, which included audit follow-up on recommendations we reported from our prior year's audit titled Management Letter: Audit of USITC's Financial Statement for the Year Ended Sept. 30, 2004 (OIG-AR-03-05, March 24, 2005), and applicable provisions of the Office of Management and Budget Bulletin 01-02, Audit Requirements for Federal Financial Statements.

The audit found that the financial statements fairly presented the Commission's financial position as of September 30, 2005, in all material respects, in conformity with accounting principles generally accepted in the United States of America. Additionally, the audit found no material weakness in the Commission's internal controls and compliance with laws and regulations.

As part of the audit, we also reported on the top management challenges facing the Commission as identified by the OIG—as well as recent OIG activities relating to each challenge. These five challenges—Competitive Sourcing; Improved Financial Performance;



AUDITS—Continued

Budget and Performance Integration; Expanded Electronic Government; and Strategic Management of Human Capital—are discussed on pages 1 to 4.

Management letter: Audit of the U.S. International Trade Commission’s Financial Statements for Fiscal Years 2005 and 2004

<http://www.usitc.gov/oig/OIG-AR-02-06.pdf>

In connection with our audit of the Commission’s financial statements for FYs 2005 and 2004, we issued a management letter that identified issues not required to be included in the financial statements report. We made five recommendations which, when implemented, should strengthen the Commission’s internal controls over its operations.

Specifically, the Commission should:

- Improve the oversight of property by ensuring an Administrative Notice is issued which provides guidance for controlling both fixed assets and accountable property. The guidance should clarify procedures and assign responsibilities for controlling all types of assets. The guidance should also address the responsibilities associated with the operation of the inventory database.
- Improve procedures over depositing funds by designating an alternate person to serve as back-up in the event the primary person responsible for depositing funds within the established time-frames is unavailable.
- Strengthen controls over purchase activity by requiring Cost Center Managers to verify their requested action was: (a) accurately entered into the Commission’s procurement records; and (b) timely obligated.
- Develop procedures to ensure proper tax reporting of employee awards.
- Develop policies and procedures to ensure compliance with the Federal Managers’ Financial Integrity Act of 1982.



Audit Follow-Up

Pending recommended actions remain open on two audits reported in the previous semiannual report:

Evaluation of the U.S. International Trade Commission's Fiscal Year 2005 Information Security Program and Practices, OIG-AR-04-05 (September 27, 2005)

<http://www.usitc.gov/oig/OIG-AR-04-05.pdf>

Our annual independent audit of the Commission's information security program and practices resulted in 23 recommendations, all of which were agreed to by management. The Commission completed action on over half of the 23 recommendations and intends to address the remaining recommendations by the end of August 2006.

Due to the sensitive content, we have limited distribution of this and prior information security annual reports.

Evaluation of USITC's Records Management, OIG-AR-05-00 (March 7, 2001)

<http://www.usitc.gov/oig/OIG-AR-05-00.pdf>

The Commission agreed with all 22 recommendations, implemented 21, but has yet to:

- Identify records scanned by EDIS so they can be disposed.

The Commission has been working with the National Archives and Records Administration on the standards for verifying scanned copies and steps needed to conform the electronic records schedule to the paper records schedule.



INVESTIGATIONS

The OIG investigates possible violations of laws, rules, and regulations, mismanagement, abuse of authority, and waste of funds. These investigations may result either from our own audit, inspection and other work or in response to allegations, complaints, and information received from employees, other government agencies, contractors, and other concerned individuals. The objective of this program is to ensure the integrity of the Commission and assure individuals fair, impartial, and independent investigations.

Summary of Investigative Activity

During this reporting period, two new cases were initiated and one case was closed. A summary of investigative activity is presented below.

Case Workload		Referrals Processed		Investigative Results	
Open (09/30/05)	1	Received from Hotline	0	Referrals for Prosecution	0
Initiated	2	Referred to OIG Audit & Inspection Division	0	Referrals Declined for Prosecution	0
Closed	1	Referred to Commission	0	Administrative Action	0
Open (03/31/06)	2	Referred to other Federal Agencies	0		
		Evaluated but no Investigation Initiated	0		



OTHER ACTIVITIES

Regulatory Review

The Inspector General Act, 5 U.S.C., Appendix, Section 4(a) (2), requires the OIG to review existing and proposed legislation and regulations and to make recommendations concerning the impact of such legislation or regulations on the economy and efficiency of programs and operations administered by the Commission.

The OIG evaluates the impact that new or revised procedures will have on the economy and efficiency of programs and operations. During this reporting period, the OIG reviewed and commented on a draft internal directive—Employee Medical Emergencies directive.

Government Accountability Office (GAO)

The Inspector General Act states that each Inspector General shall give particular regard to the activities of the Comptroller General of the United States with a view toward avoiding duplication and ensuring effective coordination and cooperation. During this period, the GAO issued four reports related to trade and none contained a recommendation for the Commission. The four reports are:

- International Trade: U.S. and India Data on Offshoring Show Significant Differences (GAO-06-116, October 27, 2005).
- China Trade: U.S. Exports, Investment, Affiliate Sales Rising, but Export Share Falling (GAO-06-162, December 9, 2005)
- U.S.-China Trade: Eliminating Nonmarket Economy Methodology Would Lower Antidumping Duties for Some Chinese Companies (GAO-06-231, January 10, 2006)
- U.S.-China Trade: The United States Has Not Restricted Imports under the China Safeguard (GAO-05-1056, September 29, 2005)

OTHER ACTIVITIES—Continued

Management Assistance

The Assistant Inspector General for Audit provided the Commission with comments and suggestions on the agency's privacy management responsibilities.

The OIG Counsel served as the OIG representative to the Commission's Records Management Revision Team. Counsel prepared for the OIG a new records disposition schedule, which has been submitted to the National Archives and Records Administration for acceptance. Also, Counsel served as the OIG representative to the Commission's 337 Rules Committee. The Commission is in the process of implementing revisions to the agency's rules of practice in 337 proceedings, which involve intellectual property infringement and other unfair acts.

Liaison Activities

The Acting Inspector General participated in activities sponsored by the Executive Council on Integrity and Efficiency (ECIE). Established by Executive Order 12805 on May 11, 1992, the ECIE is chaired by the Office of Management and Budget and, in addition to the Inspectors General, includes representatives from the Office of Personnel Management, the Office of Government Ethics, the Office of Special Counsel, and the Federal Bureau of Investigation. The ECIE's functions and responsibilities are to promote integrity and efficiency and to detect and prevent fraud, waste and abuse in federal programs.

The Acting Inspector General is an active member of the Federal Audit Executive Council and the Financial Statement Audit Network. The functions and responsibilities of these groups is to anticipate potential changes and share experiences related to auditing.

The OIG Counsel is a member of the Council of Counsels to the Inspectors General (CCIG). During this reporting period, she served as one of the Vice-President's of this organization. Her duties include recording the minutes of the monthly meetings and assisting with facility arrangements. The February CCIG meeting was held at the Commission.

The OIG Counsel is also a member of the Inter-agency Ethics Council, which is composed of Federal employees involved in ethics issues. The OIG Counsel provides a monthly report to the Council on federal court cases involving ethics issues.

Furthermore, as a member of the Association of Directors of Investigations, the OIG Counsel attended the Association of Directors of Investigations Conference in Virginia Beach, VA in March 2006. The conference featured sessions covering topics such as computer crimes, the financial crimes enforcement network, warnings and white collar crime.

In addition to her professional contributions to the federal OIG community, the OIG Counsel was a volunteer tutor for a third grade elementary school student. The Commission adopted Amidon Elementary School, a neighboring District of Columbia public school, for which Commission employees voluntarily tutor students in a variety of subjects.

REPORTING REQUIREMENTS INDEX

The Inspector General Act of 1978, as amended (1988), specifies reporting requirements for semiannual reports.

CITATION	REPORTING REQUIREMENTS	PAGE
Section 4(a)(2)	Recommendations concerning the impact of such legislation or regulations on the economy and efficiency in the administration of programs and operations administered or financed by the Commission	12
Section 5(a)(1)	Description of significant problems, abuses, and deficiencies relating to the administration of programs and operations	None
Section 5(a)(2)	Description of the recommendations for corrective action made with respect to significant problems, abuses, or deficiencies	None
Section 5(a)(3)	Identification of each significant recommendation described in previous semiannual reports on which corrective action has not been completed	10
Section 5(a)(4)	Summary of matters referred to prosecutive authorities and the prosecutions and convictions which have resulted	None
Section 5(a)(5)	Summary of each report made to the head of the establishment under which information or assistance was unreasonably refused	None
Section 5(a)(6)	Listing of each audit report	8-9
Section 5(a)(7)	Summary of each significant report	8-9
Section 5(a)(8)	Statistical tables showing Audit Reports–Questioned Costs	16
Section 5(a)(9)	Statistical tables showing Audit Reports–Funds Put to Better Use	17
Section 5(a)(10)	Summary of each audit report issued before the commencement of the reporting period for which no management decision has been made by the end of the reporting period	None
Section 5(a)(11)	Description and explanation of the reasons for any significant revised management decisions	None
Section 5(a)(12)	Information concerning any significant management decision with which the Inspector General is in disagreement	None

Table 1: AUDIT REPORTS WITH QUESTIONED COSTS

	Number of Reports	Dollar Value	
		Questioned Costs	Unsupported Costs
A. For which no management decision has been made by the commencement of the period	0	0	0
B. Which were issued during the reporting period	0	0	0
Subtotals (A + B)	0	0	0
C. For which a management decision was made during the reporting period			
(i) Dollar value of disallowed costs	0	0	0
(ii) Dollar value of costs not disallowed	0	0	0
D. For which no management decision has been made by the end of the reporting period	0	0	0
E. Reports for which no management decision was made within six months of issuance	0	0	0



Table 2: AUDIT REPORTS WITH RECOMMENDATIONS THAT FUNDS BE PUT TO BETTER USE

	Number of Reports	Dollar Value
A. For which no management decision has been made by the commencement of the period	0	0
B. Which were issued during the reporting period	0	0
Subtotals (A + B)	0	0
C. For which a management decision was made during the reporting period		
(i) Dollar value of recommendations that were agreed to by management	0	0
(ii) Dollar value of recommendations that were not agreed to by management	0	0
D. For which no management decision has been made by the end of the reporting period	0	0
E. Reports for which no management decision was made within six months of issuance	0	0

GLOSSARY

The following definitions apply to the terms used in this report.

- Questioned cost** means a cost that is questioned by the Office because of: (1) an alleged violation of a provision of a law, regulation, contract, grant, cooperative agreement, or other agreement or document governing the expenditure of funds; (2) a finding that, at the time of the audit, such cost is not supported by adequate documentation; or (3) a finding that the expenditure of funds for the intended purpose is unnecessary or unreasonable.
- Unsupported cost** means a cost that is questioned by the Office because the Office found that, at the time of the audit, such cost is not supported by adequate documentation.
- Disallowed cost** means a questioned cost that management, in a management decision, has sustained or agreed should not be charged to the Government.
- Recommendations that funds be put to better use** means a recommendation by the Office that funds could be used more efficiently if management of an establishment took actions to implement and complete the recommendation, including: (1) reduction in outlays; (2) deobligation of funds from programs or operations; (3) withdrawal of interest subsidy costs on loans or loan guarantees, insurance, or bonds; (4) costs not incurred by implementing recommended improvements related to the operations of the establishment, a contractor or grantee; (5) avoidance of unnecessary expenditures noted in preaward reviews of contract or grant agreements; or (6) any other savings which are specifically identified.