



UNITED STATES
INTERNATIONAL
TRADE COMMISSION

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

October 1, 2007 - March 31, 2008

April 2008



UNITED STATES INTERNATIONAL TRADE COMMISSION

WASHINGTON, DC 20436

April 29, 2008

TO: THE COMMISSION AND THE UNITED STATES CONGRESS

I hereby submit the Office of Inspector General Semiannual Report for the period October 1, 2007 through March 31, 2008. This report summarizes the activities and accomplishments of the Office of Inspector General and is submitted in accordance with the Inspector General Act of 1978 (Public Law 95-452), as amended. Section 5 of this Act requires that the Chairman transmit this report to the appropriate committees or subcommittees of Congress within 30 days of receipt.

During this reporting period, three audits of the Commission's programs and operations were issued. The audits were: *Evaluation of the U.S. International Trade Commission's Fiscal Year 2007 Information Security Program and Practices Audit Report*; *Independent Auditor's Report of the U.S. International Trade Commission's Financial Statements for Fiscal Years 2007 and 2006 and the Commission's Management Challenges*; and *Management Letter for the Fiscal Year 2007 Audit of the U.S. International Trade Commission's Financial Statements*. As a result, OIG has made several recommendations and suggestions to the Commission for program improvement.

The Office of Inspector General will continue working constructively with the Commission to further our common goal of assuring the effectiveness, efficiency and integrity of Commission programs and operations.



Judith C. Gwynn
Acting Inspector General

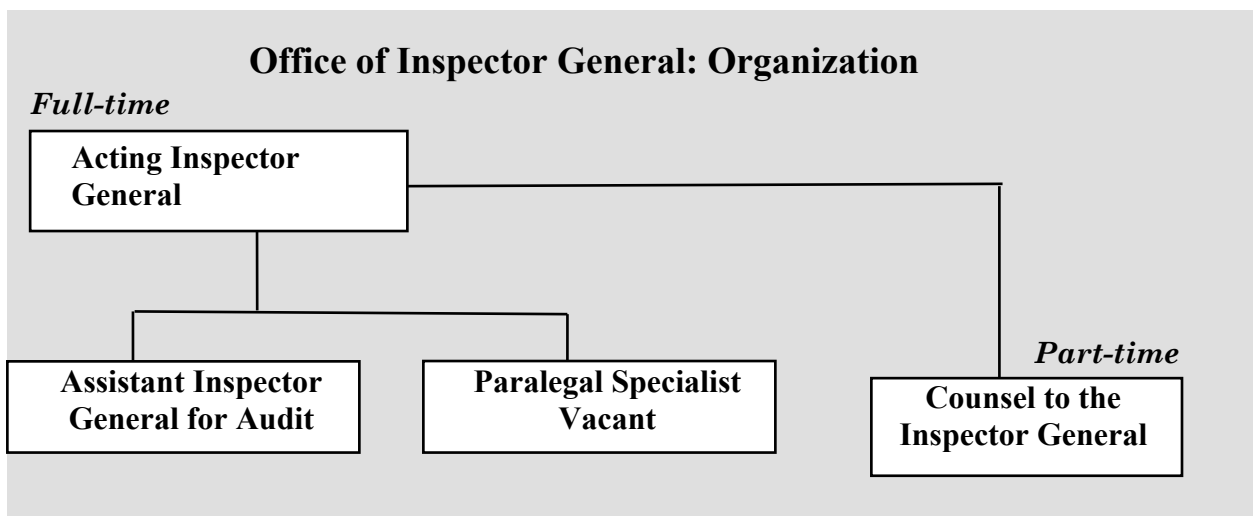
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THE OFFICE OF INSPECTOR GENERAL

The Commission established the Office of Inspector General (OIG) pursuant to the 1988 amendments to the *Inspector General Act* (IG Act). The OIG is headed by an Inspector General (IG), who reports directly to the Chairman and Congress. As set forth in the IG Act, as amended, the IG has the authority and responsibility to conduct objective and independent audits, reviews and investigations of the agency's programs and operations. Specifically, the IG is responsible for promoting economy, efficiency, and effectiveness within the Commission; preventing and detecting fraud, waste, abuse, and mismanagement in the Commission's programs and operations; providing comments and recommendations on proposed legislation, regulations, and procedures affecting the Commission; and keeping the Chairman and the Congress fully and currently informed of problems in agency programs and operations.

The OIG organization consists of four staff positions: an Assistant Inspector General for Audit; a Counsel; and a Paralegal Specialist. Judith Gwynn was appointed as Acting Inspector General in January 2008.



OIG Points of Contact

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COMMISSION'S TOP MANAGEMENT CHALLENGES

The “Top Management Challenges” facing the Commission as identified by the Acting Inspector General are discussed below. This assessment is based on information from OIG audit and inspection work, a general knowledge of the Commission’s programs and activities, and input from management on what challenges the agency is facing and the efforts the agency has taken to address the challenges.

Management Challenge: Information Technology Security

Based on findings from the FY 2007 Federal Information Security Management Act (FISMA) audits, the Commission needs to continue to strengthen its Information Technology (IT) security program. During the past year, the Commission made substantial progress towards this challenge by completing three major IT security projects: building a National Security Information network; establishing a Public Key Infrastructure connection with the Government Printing Office for the transmittal of sensitive information; and creating an incident response policy that addresses loss of personally identifiable information.

While the above efforts are commendable, ten recommendations from the prior year’s FISMA audit remain open, and the 2007 audit found new weaknesses relating to: the administration of Plans of Action and Milestones; annual security controls testing and evaluating; security awareness training for new employees and contractors; and implementation of minimum security controls required by NIST Special Publication 800-53, Recommended Security Controls for Federal Information Systems.

Management Challenge: Financial Management

During this reporting period, the OIG audited the Commission’s 2007 and 2006 financial statements. Based on the findings, the OIG issued an unqualified opinion along with recommendations to strengthen internal controls over procurement, property and cash.

However, during FY 2008 and possibly FY 2009 the Commission faces an extremely tight budget situation stemming from several events: a 38 percent increase in costs in the FY 2008 real estate lease agreement with the General Services Agency; the effects of a FY 2007 full year continuing resolution at FY 2006 levels; increases in recurring costs such as pay and benefits; and the necessary delay of large expenditures until FY 2008. The combined

effect has made FY 2008 a uniquely challenging year for the Commission in terms of managing its financial resources.

In addition, the Commission faces the task of migrating to an entirely new financial system in FY 2008. This change over, while providing a more responsive and reliable financial system, will increase the risk of lost or inaccurate data caused by the transition, will require re-training of accounting, procurement, and budget staff as well as cost center managers and senior staff, and mandates close oversight during verification testing to ensure full compliance federal financial management standards. This is the largest and most costly financial management project the Commission has ever undertaken.

Management Challenge: Strategic Management of Human Capital

The Commission's ability to successfully execute activities in support of its mission depends on a highly skilled and experienced workforce. However, the Commission continues to be challenged by an extremely high vacancy rate. Currently the Commission has a vacancy rate of at least 14 percent. Workload has been steadily increasing in the areas of intellectual property-based import investigation and import injury investigations, putting further strain on Commission staff.

The Commission has a Strategic Human Capital Management Plan that is an essential component for strategic planning. In FY 2007, the Commission established a new performance management system, which it considers to be the first step in implementing a pay for performance system. The Commission initiated a pilot program of the system with two offices, and is still refining the requirements and rules. In order to counter the staff shortage, the Commission offers many recruitment and retention programs such as: re-location expenses; retention bonuses; reimbursement of student loans; professional development and training; telecommuting; and commuter subsidies.

COMMISSION PROFILE

<http://www.usitc.gov>

The Commission is an independent, quasi-judicial federal agency with broad investigative responsibilities on matters of trade. 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 under 19 U.S.C. Section 1337 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.
- **Tariff and Trade Information Services** —The Commission's trade information services include such activities as legislative reports; maintenance of the Harmonized Tariff Schedule; maintenance of the online Data Web and Tariff and Trade Database; 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.

The six Commissioners are appointed by the President and confirmed by the Senate. They each serve one nine-year term, 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 Chairman is Daniel R. Pearson and the Vice Chairman is Shara L. Aranoff. The other Commissioners are Deanna Tanner Okun, Charlotte R. Lane, Irving A. Williamson, and Dean A. Pinkert.

For FY 2008, Congress approved funding for the Commission of \$68,400,000. The FY 2008 staffing plan is for 406 permanent positions and 17 term/temporary positions for a total of 423 positions. All employees are located at 500 E Street, SW, Washington, DC.

AUDITS

Reports Issued During This Period

The OIG issued three audit reports during this period:

Evaluation of the U.S. International Trade Commission's Fiscal Year 2007 Information Security Program and Practices Audit Report (OIG-AR-04-07, October 1, 2007)
<http://www.usitc.gov/oig/AuditReportOIG-AR-04-07.pdf>

An Independent Public Accountant (IPA), working under OIG supervision, conducted the annual independent audit of the Commission's information security program and practices to determine if the Commission: (1) met FISMA criteria; and (2) implemented appropriate actions to correct weaknesses identified in prior-year FISMA audit reports

The OIG found the Commission made some progress in strengthening its IT security program during the 2007 fiscal year. The Commission fully implemented 2 of the 12 prior-year recommendations, leaving 10 with further action required. In addition to the ten open prior-year recommendations, the audit identified four new weaknesses.

The OIG made seven new recommendations to improve the Commission's IT security. Of the seven recommendations, management did not agree with two recommendations concerning annual testing and implementation of National Institute of Standards and Technology (NIST) 800-53 required controls. Management stated all systems were assessed for fiscal year 2007, and all major applications are certified and have updated system security plans and risk assessments. However, the OIG was not provided with evidence of annual testing, and risk assessments and system security plans did not contain all NIST 800-53 required controls. Additionally, while management agreed with the remaining recommendations, planned corrective actions were not provided to implement three recommendations pertaining to the administration of the Plans of Action and Milestone (POA&Ms) and the recommendation pertaining to security awareness training to new employees and contractors.

Management stated that despite some areas of disagreement, the Commission agrees that a better job could be done of generating documentation to support compliance with FISMA requirements, and maintenance and reporting of the Commission's POA&Ms for all

major applications. Due to the sensitive nature of the information contained in this report, distribution is limited.

Independent Auditor's Report of the U.S. International Trade Commission's Financial Statements for Fiscal Years 2007 and 2006 and the Commission's Management Challenges (November 14, 2007)

http://www.usitc.gov/ext_relations/about_itc/USITC_PAR_2007.pdf

An IPA, working under OIG supervision, performed an audit of the Commission's fiscal years 2007 and 2006 financial statements. The IPA found no internal control deficiencies and no reportable noncompliance with laws and regulations. As part of the audit, the OIG reported on the top management challenges facing the Commission, as well as recent OIG activities relating to each challenge.

Management Letter for the Fiscal Year 2007 Audit of the U.S. International Trade Commission's Financial Statements (OIG-AR-01-08, January 29, 2008

<http://www.usitc.gov/oig/documents/OIG-AR-01-08.pdf>

In connection with the independent audit of the Commission's fiscal years 2007 and 2006 financial statements, the IPA issued a management letter that identified issues not required to be included in the financial statement audit report. To improve financial management, the Commission needs to: strengthen controls over cash receipts and fixed assets; develop and document procedures for the reconciliation of obligations; establish current policies and procedures in certain areas in the Offices of Finance and Human Resources; keep current on financial statement reporting requirements; and continue its efforts to fully satisfy the requirements of the Federal Manager's Financial Integrity Act and Office of Management and Budget (OMB) Circular A-123, Management's Responsibility for Internal Control. The OIG made seven recommendations that will assist the Commission in correcting these deficiencies. The Commission agreed with the findings and presented actions which address the recommendations.



On-Going Audits

During this reporting period, the OIG is in the process of completing the following audit:

U.S. International Trade Commission's Use of Premium Class Travel Accommodations

The overall objective of this review is to evaluate the Commission's use of premium class travel accommodations. The specific objectives are to determine whether the Commission: (1) established and communicated travel requirements and procedures relating to premium class travel to all employees, including approving officials and financial managers; and (2) has sufficient internal controls in place to adequately control premium class travel expenditures. The results of this review will be reported in the October 2008 OIG semiannual report.

Audit Follow-Up

Pending recommended actions remain open on one audit reported in the previous semiannual report:

Evaluation of the U.S. International Trade Commission's Fiscal Year 2006 Network Security Controls (OIG-AR-03-07, June 5, 2007)

The OIG conducted an audit to determine whether the Commission implemented corrective actions in regards to technical security issues identified in *Evaluation of the U.S. International Trade Commission's Fiscal Year 2005 Information Security Program and Practices* (OIG-AR-04-05, September 27, 2005). The audit resulted in four recommendations, all of which were agreed to by management. Of the four recommendations, the Commission completed action on three and one remains open.

Due to the sensitive content of this audit, report distribution was limited.

INSPECTIONS

No inspections were performed during this reporting period.

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

At the beginning of this reporting period, one case was open. During the period, the case was closed, so no cases remain open. A summary of investigative activity is presented below.

Case Workload		Referrals Processed		Investigative Results	
Open (10/01/07)	1	Received from Hotline	0	Referrals for Prosecution	0
Initiated	0	Referred to OIG Audit & Inspection Division	0	Referrals Declined for Prosecution	0
Closed	1	Referred to Commission	1	Administrative Action	0
Open (03/31/08)	0	Referred to other Federal Agencies	0		
		Evaluated but No Investigation Initiated	0		

OTHER ACTIVITIES

Congressional Response

On January 31, 2008, the OIG responded to a letter from Representative Henry A. Waxman, Chairman of the Committee on Oversight and Government Reform. The Congressman requested a summary of recommendations made by the OIG that have not yet been implemented by agency officials. The response presented 29 outstanding recommendations, along with a summary of the commensurate audit reports and findings.

Legislative Review

Inspector General Act Amendments

During this reporting period, the OIG monitored and reviewed H.R. 928, S. 1723, and S. 2324, which contain amendments to the *Inspector General Act*.

Directives Review

The OIG reviewed and commented on a draft directive and a draft administrative notice during this reporting period. The draft directive was *1340.1 Information Security*, which will address the policy, scope, and responsibilities of the Commission in the management and administration of personnel, information, and physical security programs. The draft administrative notice, *1305 Physical Security at the U.S. International Trade Commission*, prescribes the procedures necessary for the physical security of the Commission building.

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 six reports related to Commission activities. None of the reports contained a recommendation for the Commission. The reports are:

- **International Trade: An Overview of Use of U.S. Trade Preference Programs by Beneficiaries and U.S. Administrative Reviews** (GAO-07-1209, September 27, 2007)

-
- **Intellectual Property: Risk and Enforcement Challenges** (GAO-08-177T, October 18, 2007)
 - **International Trade: An Analysis of Free Trade Agreements and Congressional and Private Sector Consultations under Trade Promotion Authority** (GAO-08-59, November 7, 2007)
 - **Economic Sanctions: Agencies Face Competing Priorities in Enforcing the U.S. Embargo on Cuba** (GAO-08-80, November 30, 2007)
 - **International Trade: U.S. Trade Preference Programs Provide Important Benefits, but a More Integrated Approach Would Better Ensure Programs Meet Shared Goals** (GAO-08-443, March 7, 2008)
 - **Intellectual Property: Federal Enforcement Has Generally Increased, but Assessing Performance Could Strengthen Law Enforcement Efforts** (GAO-08-157, March 11, 2008)

Other

OIG Hotline Posters

During this reporting period, the OIG was required to create and display OIG hotline posters (72 *Federal Register* 65873, November 23, 2007). The OIG hotline posters are displayed on each floor where Commission employees work and in areas where Commission contractors work. The new poster is at the end of this report.

Review of Proposed Amendments to 337 Rules of Practice

The OIG Counsel reviewed and commented on proposed amendments to the Commission's 337 Rules of Practice (19 *Code of Federal Regulations* Parts 201 and 210).

Liaison Activities

The Acting Inspector General participates in activities sponsored by the Executive Council on Integrity and Efficiency. Established by Executive Order 12805 on May 11, 1992 the Council is chaired by the Office of Management and Budget and, in addition to 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 Council functions and responsibilities are to promote integrity and efficiency and to detect and prevent fraud, waste and abuse in federal programs.

The Assistant Inspector General for Audit is an active member of the Federal Audit Executive Council and the Financial Statement Audit Network. The functions and responsibilities of these groups are 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. This group is composed of attorneys from Federal Inspectors General offices and meets monthly to discuss topics of interest to the Inspector General community.

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

Furthermore, the OIG Counsel is a member of the Association of Directors of Investigations. This organization consists of Assistant Inspectors General for Investigations from Federal Inspectors General Offices, who meet quarterly to discuss new laws and other developments that affect investigations.

In addition to her professional contributions to the federal OIG community, the OIG Counsel is 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	None
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	9
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	7
Section 5(a)(7)	Summary of each significant report	7
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	0	0	0
(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	0	0
(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 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 because 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 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.

**If you suspect fraud, waste,
abuse, or other misconduct**



**at the
U.S. International
Trade Commission,
contact the
Office of**



Inspector General Hotline.

The purpose of the Hotline is to receive complaints of fraud, waste, and abuse in ITC programs and operations, including mismanagement or violations of law, rules, or regulations by ITC employees or program participants. Complaints may be received from ITC employees, participants in ITC programs, or the general public.

The Inspector General Act of 1978, as amended, and other laws provide for the protection of persons making Hotline complaints, include assuring confidentiality and prohibiting reprisals.

You May Request Confidentiality

1. E-MAIL TO:

OIGHotline@usitc.gov

2. TELEPHONE AND FAX NUMBERS:

Office Phone Line... (202) 205-2210

Ethics Line..... (800) 500-0333

OIG Fax Line..... (202) 205-1859

3. MAILING ADDRESS:

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