Office of
INSPECTOR GENERAL

Audit Report

Audit of the USITC Financial Statements for Fiscal Years 1994 and 1993

Report No. IG-01-95

July 1995
Date Issued

INSPECTOR GENERAL

UNITED STATES INTERNATIONAL TRADE COMMISSION

WASHINGTON, D.C. 20436

July 21, 1995

AUDIT OF THE USITC FINANCIAL STATEMENTS FOR FISCAL YEARS 1994 AND 1993

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

In accordance with a Federal requirement that a detailed evaluation of agency financial systems shall be conducted on a cyclical basis, an audit of the USITC financial statements was conducted. The objectives of this audit were to issue an opinion as to the fairness of the USITC financial statements for the fiscal years ending September 30, 1994 and 1993, in presenting the financial condition and results of operations; a statement on the adequacy of internal controls; and a statement on compliance.

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

-- The statements of financial position of the USITC as of September 30, 1994 and 1993, present fairly, in all material respects, the financial position of the USITC as of September 30, 1994 and 1993, and the results of its operations and its cash flows for the years then ended in conformity with generally accepted accounting principles.

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

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

As a result of their review, the auditors recommended that the Chief of the Finance Division:

-- Capitalize all fixed assets in accordance with guidelines set forth in Title 2 under "Acquisition Cost of Assets";

-- Establish a policy to examine invoices received at fiscal year end for the date of receipt of goods or services to determine the appropriate fiscal year in which to charge the invoice; and

-- Notify Cost Center Managers that they or their designees must sign and forward all receiving reports to the Finance Division upon receipt of goods, and that Finance personnel will pay only those invoices that have a signed receiving report or a certification that the goods or services were received and were satisfactory.

The auditors also recommended that the Property Management Officer follow USITC guidelines in order to keep an accurate and updated listing of all assigned property.

The Director of the Office of Administration concurred with the findings and recommendations. A summary of the Director's comments is presented after each finding on pages 17, 18 and 19 of the report. The Director's comments are presented in their entirety as an attachment to the report.

Jane E. Altenhofen

Jane E. Altenhofen
Inspector General

UNITED STATES
INTERNATIONAL TRADE COMMISSION

Financial Statements

September 30, 1994 and 1993

(With Independent Auditor's Report Thereon)

BROWN & COMPANY

UNITED STATES INTERNATIONAL TRADE COMMISSION

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BROWN & COMPANY

Independent Auditor's Report

The Commissioners
United States International Trade Commission

We have audited the accompanying statements of financial position of the United States International Trade Commission as of September 30, 1994 and 1993, 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, 1994 and 1993, and the results of its operations and its cash flows for the years then ended in conformity with generally accepted accounting principles.

Brown & Company

Arlington, Va.
April 7, 1995

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UNITED STATES INTERNATIONAL TRADE COMMISSION
Statements of Financial Position
September 30, 1994 and 1993

Assets	1994	1993
Current assets:		
Funds with the U.S. Treasury (Note 2)	$ 10,014,508	$ 9,776,470
Advances and prepayments (Note 2)	8,720	13,840
Total current assets	10,023,228	9,790,310
Furniture, Equipment and Leasehold Improvements:		
Furniture and equipment	4,903,732	4,691,972
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)	7,620,351	7,408,591
Total Assets	$ 17,643,579	$ 17,198,901
Liabilities and Net Position		
Current Liabilities:		
Accounts payable	$ 394,931	$ 1,076,011
Accrued payroll and benefits	1,263,547	1,027,373
Accrued unfunded annual leave (Notes 2 and 7)	2,185,158	2,122,532
Funds held in escrow (Notes 2 and 4)	1,367	136,685
Deposits payable (Note 2)	2,305	3,014
Obligations under capital lease (Note 6)	50,638	46,758
Total current liabilities	3,897,946	4,412,373
Long-term liabilities:		
Obligations under capital lease (Note 6)	178,549	229,187
Total Liabilities	4,076,495	4,641,560
Net Position: (Note 5)		
Unexpended appropriations	8,352,358	7,533,387
Invested capital	5,206,006	5,010,114
Cumulative results of operations	8,720	13,840
Total Net Position	13,567,084	12,557,341
Total Liabilities and Net Position	$ 17,643,579	$ 17,198,901

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, 1994 and 1993

	1994	1993
Appropriation Expensed	$ 42,541,057	$ 41,855,718
Expenses		
Salaries	25,216,494	24,766,082
Personnel benefits	4,853,645	4,725,444
Travel expenses	421,535	581,543
Rental and communications services	8,609,319	8,609,170
Printing and reproductions	145,742	160,456
Supplies and materials	687,401	795,067
Equipment	206,754	295,341
Other services	2,405,287	1,972,422
Total expenses	42,546,177	41,905,525
Excess of expenses over appropriations expensed	(5,120)	(49,807)
Cumulative results of operations, beginning of year	13,840	63,647
Cumulative results of operations, end of year	$ 8,720	$ 13,840

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, 1994 and 1993

	1994	1993
Cash flows from operating activities:		
Appropriations received	$ 43,500,000	$ 44,852,000
Appropriations used	43,003,444	41,773,767
Net cash provided by operating activities	496,556	3,078,233
Cash flows from investing activities:		
Purchases of furniture and equipment	(211,760)	(1,319,274)
Net cash used by investing activities	(211,760)	(1,319,274)
Cash flows from financing activities:		
Amortization of lease principal	(46,758)	-0-
Net cash used for financing activities	(46,758)	-0-
Net increase in obligated funds with U.S. Treasury	238,038	1,758,959
Fund balances with U.S. Treasury, beginning of year	9,776,470	8,017,511
Fund balances with U.S. Treasury, end of year	$ 10,014,508	$ 9,776,470

Reconciliation of excess of expenses over appropriations expensed to net cash provided by operating activities

	1994	1993
Excess of expenses over appropriations expensed	$ (5,120)	$ (49,807)
Adjustments:		
Unexpended appropriations	818,971	1,317,657
Net appropriations used in investing activities	211,760	1,319,274
Changes in:		
Receivables	0	27,682
Advances and prepayments	5,120	22,125
Accounts payable	(681,080)	477,753
Accrued payroll and benefits	236,174	122,379
Funds held in escrow	(135,318)	(128,315)
Deposits	(709)	(30,515)
Obligations under capital lease	46,758	0
Net cash provided by operating activities	$ 496,556	$ 3,078,233

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, 1994 and 1993

	1994	1993
Relation of expenses to outlays		
Expenses	$ 42,546,177	$ 41,905,525
Adjustments to expenses		
Capital expenditures	211,760	1,319,274
Transactions excluded from budget reports	(10,219)	247,741
Changes in:		
Receivables	0	(27,682)
Advances and prepayments	(5,120)	(22,125)
Accounts payable	681,080	(477,753)
Accrued payroll and benefits	(236,174)	(122,379)
Obligations under capital lease	46,758	0
Net outlays, per budget report	$ 43,234,262	$ 42,822,601
Relation of obligations to outlays		
Obligations incurred	$ 43,589,985	$ 45,151,902
Fund balances with U.S. Treasury, beginning of year	9,776,470	8,017,511
Fund balances with U.S. Treasury, end of year	(10,014,508)	(9,776,470)
Adjustments to expired accounts	(117,685)	(570,342)
Net outlays, per budget report	$ 43,234,262	$ 42,822,601

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

UNITED STATES INTERNATIONAL TRADE COMMISSION
Notes to Financial Statements
September 30, 1994 and 1993

NOTE 1. Organization

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

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

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

NOTE 2. Summary of Significant Accounting Policies

The following is a summary of significant accounting policies:

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

Appropriations - Congress appropriated $43,500,000 and $44,852,000 to USITC for general operations for fiscal years 1994 and 1993, respectively. Congress has appropriated $42,500,000 to USITC for fiscal year 1995.

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

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	
	1994	1993
Furniture and equipment	$ 4,903,732	$ 4,691,972
Equipment under capital lease	275,945	275,945
Leasehold improvements	2,440,674	2,440,674
	$ 7,620,351	$ 7,408,591

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. Bonds refunded to Treasury or respondents during fiscal years 1994 and 1993, totalled $135,318 and $131,741, respectively.

NOTE 5. *Net Position*

Unexpended appropriations include approximately $1,423,604 and $1,596,529 of unobligated balances as of September 30, 1994 and 1993, respectively. The amount of appropriations returned to the U.S. Treasury in fiscal year 1994 was $590,377, which represented fiscal year 1989 unexpended balance. No appropriations were returned in fiscal year 1993.

UNITED STATES INTERNATIONAL TRADE COMMISSION
Notes to Financial Statements
September 30, 1994 and 1993

NOTE 5. Net Position (continued)

The activity in the net position accounts for the fiscal years ended September 30, 1994 and 1993 was as follows:

	Unexpended Appropriations	Invested Capital	Cumulative Results of Operations	Total
October 1, 1992	$ 6,215,730	$ 3,583,565	$ 63,647	$ 9,862,942
Appropriations received	44,852,000			44,852,000
Appropriations used to fund purchase of furniture and equipment	(1,319,274)	1,319,274		
Appropriations used to fund operating expenses	(41,855,718)		41,855,718	
Appropriations expensed	(359,351)		(41,905,525)	(42,264,876)
Decrease in unfunded leave and benefits		107,275		107,275
September 30, 1993	7,533,387	5,010,114	13,840	12,557,341
Appropriations received	43,500,000			43,500,000
Appropriations used to fund purchase of furniture and equipment	(211,760)	211,760		
Appropriations used to fund operating expenses	(42,541,057)		42,541,057	
Appropriations expensed	118,546		(42,546,177)	(42,427,631)
Increase in unfunded leave and benefits		(62,626)		(62,626)
Amortization of lease principal	(46,758)	46,758		
September 30, 1994	$ 8,352,358	$ 5,206,006	$ 8,720	$ 13,567,084

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 the cost of the lease plus a contribution to the Federal Buildings Fund. Lease expenses for office space during fiscal years 1994 and 1993 were approximately $7,705,812 and $7,517,627, respectively.

The estimated future minimum rental payments, exclusive of escalation and other occupancy costs, as of September 30, 1994, is as follows:

September 30	Amount
1995	$ 5,060,000
1996	5,060,000
1997	4,638,333
	$ 14,758,333

Escalations paid were approximately $2,645,812 and $2,457,627 for the years ended September 30, 1994 and 1993, respectively. The GSA lease expires in August 1997.

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

NOTE 6. Leasing Arrangements (continued)

Capital Lease

USITC has entered into a lease agreement with the Xerox Corporation for docutech network publisher and accessories for the Publication 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.

Capital Lease Obligation - Future payments due are as follows:

	1994	1993
Fiscal year 1994	$ 0	$ 67,145
Fiscal year 1995	67,144	67,144
Fiscal year 1996	67,144	67,144
Fiscal year 1997	67,144	67,144
Fiscal year 1998	67,135	67,135
Total future lease payments	268,567	335,712
Less: imputed interest	39,380	59,767
Total obligations under capital lease	229,187	275,945
Less: current obligations	50,638	46,758
Long-term obligations	$ 178,549	$ 229,187

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.

NOTE 7. Employee Benefit Programs (continued)

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

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

USITC's contribution to both plans was approximately $2,304,118 and $2,259,821 for the years ended September 30, 1994 and 1993, respectively.

Accrued leave - USITC's employees are entitled to accrue annual leave (vacation and personal time) 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 $1,042,963 and $1,014,467 for the years ended September 30, 1994 and 1993, 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, 1994 and 1993, reflected as part of unexpended appropriations in the accompanying financial statements, amounted to approximately $1,423,604 and $1,596,529, respectively.

NOTE 8. Commitments and Contingencies (continued)

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

Monetary penalty receivable - During fiscal year 1992, USITC was awarded a claim against a Canadian firm for patent infringement violations on goods imported into the United States. A monetary penalty was assessed at $100,000 of which $62,500 was outstanding as of September 30, 1993. The Canadian firm has since filed for bankruptcy protection under Canadian law. The remaining $62,500 has not been recorded as a receivable, as collection of any future monies against this claim is uncertain. Consequently, this amount was written off in fiscal year 1993.

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

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

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, 1994 and 1993, and have issued our report thereon dated April 7, 1995.

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 indicate that, with respect to the items tested, the United States International Commission complied, in all material respects, with the provisions referred to in the preceding paragraph. With respect to items not tested, nothing came to our attention that caused us to believe that the United States International Trade Commission had not complied, in all material respects, with those provisions.

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, Va
April 7, 1995

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CERTIFIED PUBLIC ACCOUNTANTS
AND MANAGEMENT CONSULTANTS

BROWN & COMPANY

Independent Auditor's Report the 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, 1994 and 1993, and have issued our report thereon dated April 7, 1995.

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 United States International Trade Commission for the years ended September 30, 1994 and 1993, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control structure.

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.

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

- Expenditures
- Financial reporting
- Property and equipment
- Payroll
- Treasury/cash

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For all of the internal control structure categories listed above, 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.

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 reportable condition in which the design or operation of the specific internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material 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 reported to the management of the United States International Trade Commission in a separate letter dated April 7, 1995.

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, Va.
April 7, 1995

CERTIFIED PUBLIC ACCOUNTANTS
AND MANAGEMENT CONSULTANTS

BROWN & COMPANY

The Commissioners
United States International Trade Commission
Washington, D.C. 20436

In planning and performing our audits of the financial statements of the United States International Trade Commission (USITC) for the years ended September 30, 1994 and 1993, we noted certain areas where we believe improvement is warranted in operating policies and procedures. The noted conditions are summarized as follows:

A. CAPITALIZATION OF PURCHASE DISCOUNTS

The Finance Division initially records capitalized fixed assets into the Federal Financial System at the net amount of the purchase order. A journal voucher is then prepared to capitalize the purchase discount. This method of accounting for fixed assets resulted in an overstatement of $205,858 in the equipment account for fiscal year 1993.

GAO Policy and Procedures Manual for Guidance of Federal Agencies, Title 2 -- Accounting, provides that, "all assets shall be recorded at cost, net of any purchase discounts taken."

We recommend that the Chief of the Finance Division capitalize all fixed assets in accordance with the guidelines set forth in Title 2 under "Acquisition Cost of Assets."

Commission Comments

The Finance Division will capitalize all fixed assets at cost, net of any purchase discounts taken. The adjustment of $205,858 will be reflected in the Commission's FY1995 financial records.

B. DISPOSALS OF FIXED ASSETS

During our review of fixed assets, we selected 20 equipment items for inspection. Our inspections disclosed that 4 of the 20 equipment items selected had been traded in for new equipment. However, the items were included on the fixed asset listing as of September 30, 1993.

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USITC Directive 3550.1 (superseded by USITC Directive 3550.2, effective May 3, 1995) -Property Management Policies and Procedures, requires the Property Management Officer to maintain a "fixed asset" inventory for financial accounting purposes and annually reconciling this inventory with the Office of Finance and Budget's finance and accounting records.

We recommend that the Property Management Officer follow the guidelines set forth in USITC Directive 3550.1 (superseded by USITC Directive 3550.2, effective May 3, 1995) in order to keep an accurate and updated listing of all assigned property.

Commission Comments

The Property Management Officer will notify the Chief of the Finance Division of any fixed assets that should be removed from the fixed asset list. Upon notification, the Finance Division Chief will record the removal of these items in the Commission's financial records as of the appropriate fiscal year.

C. OVERSTATEMENT OF ACCOUNTS PAYABLE AT FISCAL YEAR END

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 100 invoices and the related receiving reports and shipping dates for fiscal years 1994 and 1993 disclosed that the goods and services for 15 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 $11,420 for fiscal year 1994 and $144,511 for fiscal year 1993.

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 Chief of the Finance Division establish a policy to examine invoices received at fiscal year end for the date of receipt of goods or services to determine the appropriate fiscal year in which to charge the invoice.

Commission Comments

The Chief of the Finance Division will instruct the accounting technicians to examine all invoices received at fiscal year end for the date of receipt of goods or services so that transactions are recorded in the appropriate fiscal year.

D. UNDOCUMENTED RECEIPT OF GOODS AND SERVICES

During our review of accounts payable and tests of disbursements, we noted that 14 out of 100 selected invoices bore no indication that the goods or services were actually received. 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 Chief of the Finance Division notify Cost Center Managers that they or their designees must sign and forward all receiving reports to the Finance Division immediately upon receipt of goods, and that Finance personnel will pay only those invoices for which they have a signed receiving report or a certification that the goods or services were received and were satisfactory.

Commission Comments

The Finance Division will issue a memorandum to Cost Center Managers informing them that only those invoices with a signed receiving report or a certification that the goods or services were received and were satisfactory will be paid.

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, VA
April 7, 1995

Attachment

(Chairman's approval by 6/28/95 please)
RECEIVED OFFICE OF THE DIRECTOR, ADMINISTRATION

AD-S-143
1995 JUN 28 P 4:56

UNITED STATES INTERNATIONAL TRADE COMMISSION

WASHINGTON, DC 20436

June 28, 1995

MEMORANDUM

TO: Chairman Watson

FROM: Steve McLaughlin *[signature]*
Acting Director, Office of Administration

SUBJECT: Approval of Administration's Comments of the Inspector General's Draft Audit Report: Audit of the USITC Financial Statements for Fiscal Years 1994 and 1993

On May 5, 1995, the Inspector General submitted copies of the subject audit to each Commissioner by memorandum (IG-S-030). The IG also requested Administration to review the draft audit report and make comments if necessary. In accordance with Section 11 of USITC Directive #1701, "Audit Policies and Procedures", the Office of Administration has sent its comments in draft to the Commissioners, other than you as Chairman, for review. No comments were received from Commissioners.

The Office of Administration concurs with the Inspector General's findings and suggestions. In accordance with Section 11 of USITC Directive #1701, submitted herewith are Administration's comments on the suggestions and a corrective action plan for your approval before they are sent to the Inspector General. Since the IG has set a deadline of June 29, 1995, for receiving a final response, it would be appreciated if you could indicate your approval, or modification, by the close of business Wednesday, June 28, 1995.

Approved: ______

Modify as follows:

____

Approved: ✓
Modify as follows: ____________________

Pete S Watson   6-28-95
Chairman   Date

ATTACHMENT

cc: Director, Office of Finance and Budget
Director, Office of Management Services
Inspector General w/o attachment

ADMINISTRATION'S RESPONSE TO THE DRAFT AUDIT REPORT OF THE USITC FINANCIAL STATEMENTS FOR FISCAL YEARS 1994 AND 1993

A. CAPITALIZATION OF PURCHASE DISCOUNTS

Finding/Suggestion

The Finance Division (FD) initially records capitalized fixed assets into the Federal Financial System at the net amount of the purchase order. A journal voucher is then prepared to capitalize the purchase discount. This method of accounting for fixed assets resulted in an overstatement of $205,858 in the equipment account for fiscal year 1993.

GAO Policy and Procedures Manual for Guidance of Federal Agencies, Title 2--Accounting, provides that "all assets shall be recorded at cost, net of any purchase discounts taken."

We recommend that the FD capitalize all fixed assets in accordance with the guidelines set forth in Title 2 under "Acquisition Cost of Assets."

RESPONSE: AGREE.

The FD will capitalize all fixed assets at cost, net of any purchase discounts taken which is in accordance with guidelines set forth in Title 2. The financial records for FY95 will reflect the $205,858 adjustment.

TARGET COMPLETION DATE: July 31, 1995.

B. DISPOSALS OF FIXED ASSETS

Finding/Suggestion

During our review of fixed assets, we selected 20 equipment items for inspection. Our inspections disclosed that 4 of the 20 equipment items selected had been traded in for new equipment. However, the items were included on the fixed asset listing as of September 30, 1993.

USITC Directive 3550.1 - Property Management Policies and Procedures, requires the Property Management Office (PMO) to maintain a "fixed asset" inventory for financial accounting purposes and annually reconciling this inventory with the Office of Finance and Budget's (OFB) finance and accounting records.

D. UNDOCUMENTED RECEIPT OF GOODS AND SERVICES

Finding/Suggestion

During our review of accounts payable and tests of disbursements, we noted that 14 out of 100 selected invoices bore no indication that the goods or services were actually received. The FD 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 FD 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 Cost Center Managers or their designees sign and forward all receiving reports to the FD immediately upon receipt of goods. We further recommend that the Finance personnel pay only those invoices for which they have a signed receiving report or a certification that the goods or services were received and were satisfactory.

RESPONSE: AGREE.

The FD will issue a memorandum to Cost Center Managers informing them that the acceptance date for any goods or services received satisfactorily is required when signing invoices. The memorandum will also state that the FD will only pay those invoices that have a signed receiving report or a certification with the date of receipt that the goods or services were received and were satisfactory.

As a clarification to procedures, Cost Center Managers sign the packaging slip which supports the receiving report. The receiving report is signed and forwarded to FD by Office of Management Services, Facilities Support Division.

TARGET COMPLETION DATE: July 31, 1995.