



UNITED STATES
INTERNATIONAL
TRADE COMMISSION

IG

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

April 1, 2009 - September 30, 2009

October 2009

OFFICE OF INSPECTOR GENERAL



UNITED STATES INTERNATIONAL TRADE COMMISSION

WASHINGTON, DC 20436

November 2, 2009

Ms. Shara L. Aranoff
Chairman
USITC
Washington, DC 20436

Dear Ms. Aranoff:

Attached is the Office of the Inspector General Semiannual Report for the period April 1, 2009 through September 30, 2009. This report summarizes the activities and accomplishments of the Office of the Inspector General and is submitted in accordance with the Inspector General Act of 1978, as amended.

As you know, I came on board on August 17, 2009 and since that time the Office of the Inspector General has focused on completing two audits:

1. An audit of the US International Trade Commission's Financial Statements; and,
2. A performance audit required under the Federal Information Security Management Act of 2002.

These audit reports are likely to be issued in the next few weeks. I am available, any time, to discuss these audit reports and/or the operations of this office.

The Office of Inspector General will continue to work constructively with the Commission to further our common goal of assuring the effectiveness, efficiency and integrity of Commission programs and operations. Thank you for your support of this office.

Sincerely,

A handwritten signature in black ink, appearing to read "Tony Baptiste".

Tony Baptiste
Acting Inspector General



TABLE OF CONTENTS

OFFICE OF INSPECTOR GENERAL1

PROVISIONS OF THE IG REFORM ACT OF 20082

COMMISSION'S TOP MANAGEMENT CHALLENGES4

COMMISSION PROFILE.....7

AUDIT ACTIVITY8

 Reports Issued During this Period8

 On-Going Audits.....8

 Audit Follow-Up9

INSPECTION and EVALUATION ACTIVITY10

INVESTIGATION ACTIVITY10

 Summary of Investigative Activity

UNREASONABLE REFUSAL OF INFORMATION OR ASSISTANCE.....11

OTHER ACTIVITIES12

REPORTING REQUIREMENTS INDEX.....15

Table 1: AUDIT REPORTS WITH QUESTIONED COSTS16

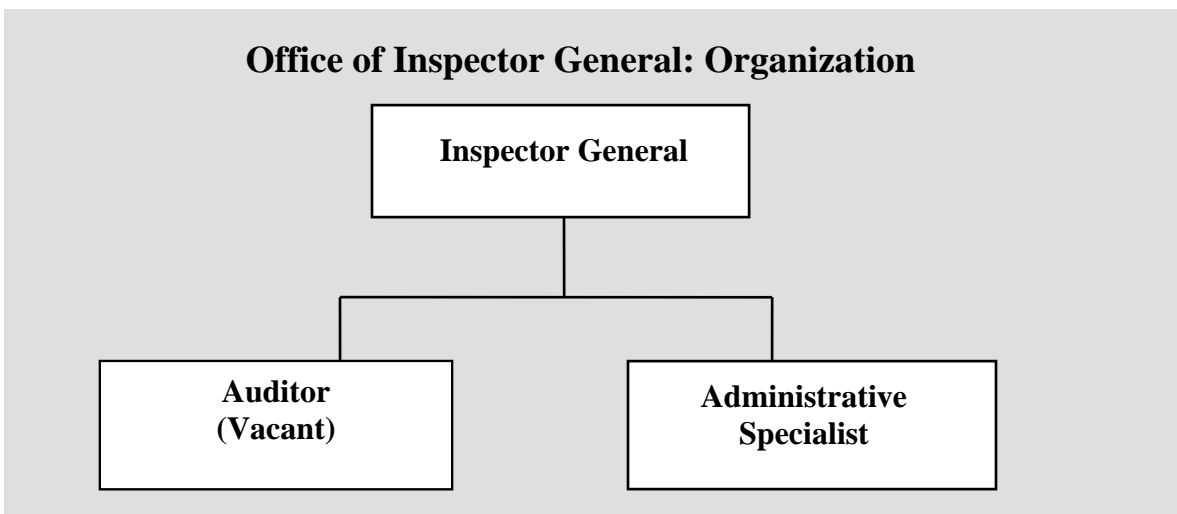
Table 2: AUDIT REPORTS WITH RECOMMENDATIONS THAT FUNDS BE PUT TO
 BETTER USE.....17

GLOSSARY18

THE OFFICE OF INSPECTOR GENERAL

The U.S. International Trade 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 three staff positions: the (Acting) Inspector General, appointed on August 17, 2009; an auditor (vacant); and an administrative specialist. In addition, Treasury Inspector General for Tax Administration has agreed to provide legal services to OIG on an as-needed basis through a Memorandum of Understanding.



Provisions of the IG Reform Act of 2008

On October 14, 2008, the IG Reform Act of 2008 was signed into law (P.L. 111-409). With the exception of amendments over the years to add new Inspectors General, this legislation was the first major action on IG reform since the passage of the 1988 amendments. The goal of the IG Reform Act of 2008 was to further enhance IG independence, create the CIGIE, and improve operations. Provided below are the Act's major provisions:

IG INDEPENDENCE

Appointment and Removal of IGs: IGs are to be appointed without regard to political affiliation, and solely on the basis of integrity and demonstrated ability in accounting, auditing, financial analysis, law, management analysis, public administration, or investigations. Before an IG can be removed or transferred, an agency head must provide the Congress with 30-days advance written notice, which would include the reasons for removal or transfer.

IG Pay: Salary adjustments were made for IGs who are presidentially appointed and Senate confirmed, and IGs who are appointed by their agency head. IGs are prohibited from receiving cash awards or cash bonuses.

Separate Counsel for IGs: Each IG will obtain legal advice from a counsel either reporting directly to the IG or another IG.

Direct Budget Submission: IGs will send to the heads of their respective agencies their budget request, which will specify the amount requested for IG training and identify resources necessary to support the CIGIE. Further, the President's budget will include any comments from an IG who concludes that the budget submitted by the President would substantially inhibit the IG from performing the duties of the office.

OIGs Established as Discrete Agencies: OIGs are defined as separate agencies and the IGs will have the functions, powers, and duties of an agency head for voluntary separation/buyouts, early outs, reemploying annuitants, waiving mandatory separation for law enforcement officers, and all provisions relating to SES.

COUNCIL ON INTEGRITY AND EFFICIENCY

Council of the Inspectors General on Integrity and Efficiency: The Act, by statute, combines the former PCIE and ECIE into one council, and includes legislative IGs and other officials. The Act established the Council as "an independent entity" in the executive branch and provided it with the ability to financially support its activities. An Integrity Committee, which would receive, review, and refer for investigation allegations of wrongdoing that are made against IGs or senior staff, was also established.

OPERATIONAL IMPROVEMENTS

Subpoena Power: The Act clarifies subpoena power as extending to electronically stored information and "any tangible thing."

OIG Web site: Reports must be posted on the OIG Web site not later than 3 days after the report is made publicly available. Any posted report must include a summary of OIG findings and be searchable and downloadable. Further, a direct link for the OIG's hotline must be on the OIG homepage.

Statistics for Evaluations/Inspections: Statistical results from evaluation and inspection reports are to be included in OIG semiannual reports in connection with audit report statistics.

Statistics for Evaluations/Inspections: Statistical results from evaluation and inspection reports are to be included in OIG semiannual reports in connection with audit report statistics.

Extending Authorities to Agency Appointed IGs: Provisions under the Program Fraud Civil Remedies Act and the law enforcement authority under the IG Act, as amended, were extended to include agency appointed IG's.

COMMISSION'S TOP MANAGEMENT CHALLENGES

Reprint of the original document issued September 2008.

The Office of Inspector General is required by statute to annually report the top management challenges facing the U.S. International Trade Commission. In addition, OIG regularly discusses the Commission's progress in addressing these challenges in the *Semi-annual Report to Congress*. 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

In Fiscal Year (FY) 2008, the Commission made noticeable progress in strengthening information security practices. Based on the work performed for the FY 2008 FISMA audit, and except for the discrepancies noted as part of the audit, OIG determined that the Commission's information security program, consisting of plans, policies, procedures, and security controls, is in place and is generally consistent with the FISMA requirements.

However, information security continues to be a challenge government wide. The FY 2008 FISMA audit results identified four areas in which the Commission should implement corrective actions to help further ensure that its information security risk management program and practices comply with applicable NIST standards and guidelines and FISMA requirements. OIG made 14 new recommendations to improve the Commission's information security program. In addition, there still remain four open recommendations from prior year reviews. Together, the recommendations are designed to improve the effectiveness of Commission's information security control program taken as a whole. Timely implementation of the all corrective actions is essential to reducing risk to Commission systems and information.

The Commission's Privacy Act Program, managed by the Chief Information Officer, is intended to ensure that the Agency fulfills the Privacy Act of 1974 requirements enacted to balance a person's right to privacy with the Federal Governments' need for information to carry out its responsibilities. The protection of Personally Identifiable Information is a priority to the Commission, but is an area of vulnerability as with all government agencies.

Securing system from cyber threats is clearly the most difficult piece of the challenge because these threats represent a moving target: they increase in number and

sophistication almost daily. As the Commission incorporates wireless and other technologies to support operations and workplace flexibilities, they invite new risks that must be anticipated and mitigated.

Finally, the Commission recently brought on–line the latest version of the Electronic Documents Imaging System. Introduction of this mission critical system holds inherently higher risk, as with any new system. OIG encourages the Commission to closely monitor and continue to test this system.

Management Challenge: Financial Management

During this reporting period, the OIG audited the Commission’s 2008 and 2007 financial statements. Based on the findings, the OIG issued an unqualified opinion on the statements along with recommendations to strengthen internal controls over procurement, property and cash.

However, the Commission still faces the challenge of integrating and implementing a new financial system, Oracle Federal Financials. This major application upgrade, while providing a more responsive and reliable financial system, has required re-training of accounting, procurement, and budget staff as well as cost center managers. The Commission is faced with the challenge of developing financial policies and procedures from ground zero, and enforcing those procedures on a consistent basis to ensure continued high marks on the reliability of the financial statements and position. In addition, the anticipated integration between the procurement and the financial systems did not occur as planned. The Commission is continuing to work with the National Business Center in developing procurement system requirements.

Procurement and Contract Management

Procurement and contracts historically have been areas subject to fraud and waste throughout the government, and effectively managing them is a continuing challenge. With significant contracting activities in services and mission critical purchases in information technology, vigilant oversight mechanisms become all the more important. Poor oversight, lax controls, and fraudulent billing are just a few examples of the Commission’s vulnerability to procurement fraud. The lack of an integrated financial – procurement system further complicates efforts to track and reconcile procurement activities. OMB continues to impose additional controls over procurement processes and the Commission will be challenged to meet these standards in a timely fashion.

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. Currently the Commission has a vacancy rate of at least 12 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. 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.

The Commission has a Strategic Human Capital Management Plan that is an essential component for strategic planning. In FY 2009, the Commission is continuing to manage and refine a new performance management system, which it considers to be the first step in implementing a pay for performance system.

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 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**
- **Intellectual Property-Based Import Investigations**
- **Industry and Economic Analysis**
- **Tariff and Trade Information Services**
- **Trade Policy Support**

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 Shara L. Aranoff and the Vice Chairman is Daniel R. Pearson. The other Commissioners are Deanna Tanner Okun, Charlotte R. Lane, Irving A. Williamson, and Dean A. Pinkert.

For FY 2009, the Commission received a budget of \$75,100.00. For the FY 2008, Congress approved funding for the Commission of \$68,400.00. The Office Director's FY 2010 requested staffing plan is for 420 permanent, 15 term and 7 temporary positions for a total of 436 positions. All employees are located at 500 E Street, SW, Washington, DC.

AUDIT ACTIVITY

Reports Issued April 1, 2009 to September 30, 2009

There were no audit reports issued during this period. However, listed below are two audits underway during this reporting period.

On-Going Audits

During this reporting period, the OIG is conducting the following audits:

US International Trade Commission's Financial Statements Audit for Fiscal Year 2009

In March, the Office of the Inspector General engaged the services of an Independent Public Accountant to conduct an audit of the Commission's Fiscal Year 2009 financial statements. At an entrance conference the OIG and agency management discussed the scope of this audit. Subsequently, the IG approved an audit plan which served as the guide for this financial statement audit. Fieldwork is nearing completion and a draft of the audit report is in process. Results of this audit will be reported by November 16, 2009.

Federal Information Security Management Act (FISMA) Fiscal Year 2009 Performance Audit

At the entrance conference, held in March 2009, a timeline was established for the audit, along with requests to management for necessary documentation and information concerning the Commission's information technology systems. Fieldwork is now complete and a draft of the report is undergoing internal review. This annual audit conducted by the OIG will be completed by November 18, 2009.

OIG Audit Follow-Up Activity

The following is the status of prior OIG recommendations.

Management Letter for the Fiscal Year 2008 Audit of the U.S. International Trade Commission's Financial Statements, OIG-AR-01-09 (March 25, 2009)

The audit addressed the non-materials findings that were identified in the FY 2008 financial statement audit. One recommendation remains open. The Commission did not have policies and procedures for several areas essential for effective internal controls and accurate financial reporting. The recommendations addressed procedures for payroll, year end accounts payable, estimation and depreciation calculations, reconciling all aspects of Fund Balance with Treasury, and documented procedures for processing personnel actions.

Federal Information Security Management Act Fiscal Year 2008 Performance Audit, OIG -02-08 (September 30, 2008)

OIG issued 14 new recommendations designed to address the Commission' information security program. The Commission agreed with all the recommendations and has provided corrective action plans for each item. OIG continues to monitor and evaluate the Commission's progress on correcting these weaknesses.

INSPECTION and EVALUATION ACTIVITY

No inspections or evaluations 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

During this reporting period one case was opened and is currently under investigation. A summary of investigative activity is presented below.

Case Workload		Referrals Processed		Investigative Results	
Open (04/01/09)	1	Received from Hotline	4	Referrals for Prosecution	0
Initiated	0	Referred to OIG Audit & Inspection Division	0	Referrals Declined for Prosecution	0
Closed	1	Referred to Commission	0	Administrative Action	0
Open (09/30/09)	0	Referred to other Federal Agencies	1		
		Evaluated but No Investigation Initiated	3		

Unreasonable Refusal of Information or Assistance

Per the IG Act of 1978 (as amended) Section 5(a) 5, the semiannual report is to contain a report on any activities that fall under Section 6(b) 2 as follows:

(b) (1) Upon request of an Inspector General for information or assistance under subsection (a) (3), the head of any Federal agency involved shall, insofar as is practicable and not in contravention of any existing statutory restriction or regulation of the Federal agency from which the information is requested, furnish to such Inspector General, or to an authorized designee, such information or assistance.

(2) Whenever information or assistance requested under subsection (a)(1) or (a)(3) is, in the judgment of an Inspector General, unreasonably refused or not provided, the Inspector General shall report the circumstances to the head of the establishment involved without delay.

On March 5, 2009, in the course of conducting an investigation regarding contractor activities, certain procurement files were removed forcibly from the possession of the Inspector General by a Commission employee. The Chairman of the Commission was immediately notified of the situation, and the IG asked that the files be returned, intact and unaltered. The Office of the Chairman did not comply with this request. OIG subsequently obtained legal advice from the Office of the Chief Counsel, Treasury Inspector General for Tax Administration. On April 27, 2009, the OIG and Office of the Chairman agreed the original files would be secured by OIG while under examination and review.

In September 2009, the current Inspector General in the Office of the Inspector General and the Office of the Chairman agreed that the Inspector General will have access to all records, reports, audits, reviews, documents, papers, recommendations, or other material available to the applicable establishment which relate to programs and operations with respect to which that Inspector General has responsibilities under this Act, see Section 6(a)1 of the Inspector General Act of 1978, as revised 6/2/2009.

OTHER ACTIVITIES

Memorandum of Understanding with Treasury Inspector General for Tax Administration

Per the IG Act Amendments of 2008, each federal Inspector General is required to retain independent counsel or retain counsel from another Inspector General through a reimbursable agreement. OIG did not have in-house counsel after October 2008, and has since reached agreement with the Office of the Chief Counsel of the Treasury Inspector General for Tax Administration. The Office of the Chief Counsel provides legal services, advice and legislative review to OIG on a reimbursable basis. OIG anticipate this to be a cost saving measure that can be applied to audit and investigative work.

Contractor Fraud Reporting Form

Changes to the Federal Acquisition Regulations on November 12, 2008 required all federal contractors to disclose to Inspectors General credible evidence of a violation of Federal criminal law involving fraud, conflict of interest, bribery, or a gratuity violation, or a violation of the civil False Claims Act, where such evidence arises in connection with a federal contract. The Rule requires such disclosure even as to conduct that occurred before December 12, 2008.

In response to this new mandate, OIG worked with the Office of the Chief Information Officer to develop and activate an electronic reporting form on the OIG website. OIG used the General Services Agency template as a basis for the form. The form was activated in March 2009. However, through malicious cyber attack a few weeks later, the reporting form and the USITC website was disabled. The CIO organization has since developed and redeployed a fully functional and secure electronic reporting form for this purpose.

OIG Database

The OIG database is modified and active. The OIG database maintains an electronic archive of all OIG reports back to 1992, status of recommendations, FOIA requests, investigations and inspections data.

Searchable website

Per the IG Act Amendments of 2008, OIG worked with the CIO organization to develop the OIG website into a fully searchable site for those users seeking certain information on audits, inspection, and semi-annual reports. The fully searchable function has been developed and implemented.

Redesigned OIG Webpage

Per the IG Act Amendments of 2008, the OIG website has been redesigned, with the assistance of the CIO organization. The main USITC webpage (www.usitc.gov) now has a more prominent link to the OIG page.

Freedom of Information Act Requests

No FOIA request was received during this period related to an investigation.

Directives Review

During this period, no Commission directives required OIG review.

Government Accountability Office

During this period, the GAO issued a report “Designated Federal Entities: Survey of Governance Practices and the Inspector General Role,” GAO-09-270 which referenced this OIG.

Liaison Activities

Council of Inspectors General on Integrity and Efficiency

The Inspector General is an active and participating member of the Council of the Inspectors General on Integrity and Efficiency (CIGIE).

On October 14, 2008 the IG reform Act of 2008 established the Council of the Inspectors General on Integrity and Efficiency as the unified council of all statutory IGs to provide government-wide coordination of and focus on the activities of the OIG community. OMB's Deputy Director for Management is the Executive Chairperson, and IGs elected by the CIGIE members, serve as the Chairperson and Vice Chairperson and collectively manage the Council's day-to-day activities. An Executive Council, comprised of selected IGs, provides corporate leadership and long-term planning. Standing committees exist to examine important issues and promote integrity, accountability, and excellence in government.

The mission of the Council is to address integrity, economy, and effectiveness issues that transcend individual Government agencies; and increase the professionalism and effectiveness of personnel by developing policies, standards, and approaches to aid in the establishment of a well trained and highly skilled workforce in the OIGs.

REPORTING REQUIREMENTS INDEX

Reporting requirements required by the *Inspector General Act of 1978*, as amended (1988) are listed below:

IG ACT	DESCRIPTION	PAGE
Section 4(a)(2)	Review of Legislation	None
Section 5(a)(1)	Significant Problems, Abuses, and Deficiencies	None
Section 5(a)(2)	Recommendations with Respect to Significant Problems, Abuses, and Deficiencies	None
Section 5(a)(3)	Recommendation Included Previous Semiannual Reports on Which Corrective Action has not Been Completed	None
Section 5(a)(4)	Matters Referred to Prosecuting Authorities	None
Section 5(a)(5)	Summary of Instances Where Information or Assistance was Unreasonably Refused	11
Section 5(a)(7)	Summary of Significant Reports	8
Section 5(a)(8)	Questioned and Unsupported Costs	None
Section 5(a)(9)	Recommendations that Funds Be Put to Better Use	None
Section 5(a)(10)	Summary of Audit Reports Issued Before the Start of the Reporting Period for Which no Management Decision Has Been Made	None
Section 5(a)(11)	Significant revised management decisions	None
Section 5(a)(12)	Management Decision with Which the Inspector General is in Disagreement	None

Table 1: AUDIT REPORTS WITH QUESTIONED COSTS

	Number of Reports	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.

OIG Points of Contact

Phone	202-205-2210	OIG-Hotline
		open 24 hours:
Fax	202-205-1859	1-800-500-0333
OIG internet	www.usitc.gov/oig	OIGHotline@usitc.gov

**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:

USITC

Office of Inspector General

500 E Street, S.W., Room 515

Washington, DC 20436

