United States International Trade Commission

Agency Financial Report

Fiscal Year 2011
(amended)

The original publication reported the institution of 32 Operation 1 investigations in FY 2011. The correct number is 43. This correction results in a 22 percent increase in overall USITC caseload over FY 2010 (as measured by institutions). Four pages in the report are corrected: 1, 2, 13, and 14.

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Message from the Chairman

I am pleased to transmit the *FY 2011 Agency Financial Report* for the United States International Trade Commission. This report documents the Commission's programmatic and financial performance for the year, and discusses our accomplishments and challenges.

The Commission has three important mandates: (1) to administer U.S. trade remedy laws in a fair and objective manner; (2) to provide the President, the United States Trade Representative, and the Congress with independent analysis, information, and support on matters relating to tariffs, international trade, and U.S. competitiveness; and (3) to maintain the Harmonized Tariff Schedule of the United States. In doing so, the Commission contributes to the development of sound and informed U.S. trade policy. The Commission carries out these mandates primarily through its import injury investigations, intellectual property-based import investigations, industry and economic analysis program, tariff and trade information services, and trade policy support. Strategic goals and strategies are reviewed annually and are designed to promote the mission of the agency.

Program Accomplishments

I would like to highlight the following noteworthy accomplishments for the past year:

- The Commission instituted in FY 2011 the highest number of investigations in more than a decade. The total number of investigations instituted by the agency during the year increased by 22 percent over FY 2010.

- Intellectual property-based import investigations support a rules-based international trading system. During FY 2011, the level of new intellectual property-based import complaint filings set new records. The Commission instituted 78 investigations based either on new complaints alleging violations or ancillary proceedings related to prior section 337 investigations. These complex investigations frequently involved products or processes related to telecommunications or microelectronic devices.

- The growth in the number of intellectual property investigations and their complexity has posed challenges to the Commission. To meet these challenges, the Commission rebalanced its resources to accommodate the expanding caseload. In particular, the Commission increased the number of attorneys in the Office of the Administrative Law Judges and the Office of the General Counsel. The Commission also obligated sufficient funds to build a third courtroom and related work areas. We expect to complete the courtroom during FY 2012. We expect these actions will alleviate scheduling problems and reduce the average length of investigations.

- Fact-finding and probable economic effects investigations support sound and informed trade policy formulation. During FY 2011, the Commission instituted eight investigations at the request of the United States Trade Representative (USTR) or the Congress to assess the impact of proposed changes in trade policy and trade negotiations. Examples of completed investigations include the impact of Chinese intellectual property infringement and indigenous innovation policies on the U.S. economy and U.S. producers; characteristics and performance of U.S. small and medium enterprises; and the effects of China's agricultural production and trade on U.S. exports. The Commission provided state-of-the-art analytical support to the United States Trade Representative and Congress that drew on its economic modeling capabilities and international trade and industry expertise. Many of these investigations required the Commission to collect data and generate new databases as relatively little, or no, prior information had been available.

- Antidumping and countervailing duty investigations and five-year reviews support a rules-based international trading system by producing high-quality and timely import injury determinations. During FY 2011, the Commission instituted 43 import injury investigations.

- The Commission met or exceeded 73 percent of its performance targets in FY 2011 in the aggregate.

FY 2011 Agency Financial Report

The Commission's FY 2011 financial statement audit resulted in an unqualified opinion by the independent accounting firm Castro & Company, LLC, monitored by the Inspector General. This represents substantial progress by the Commission in its financial management remediation efforts over the last two years. As a result, the Commission was able to move from a disclaimer of an opinion on the FY 2009 financial statement, to a qualified opinion on the FY 2010 financial statement, to an unqualified opinion.

The Commission's management team continues to oversee USITC's assessment of internal control over its program, operations, financial systems, and financial reporting. The Commission's work is consistent with the provisions of the Federal Managers' Financial Integrity Act (FMFIA) and while the Commission is exempt from the requirements of the Federal Financial Management Improvement Act (FFMIA), we have complied with the key provisions of this statute. USITC's continuous monitoring and remediation efforts allow us to provide reasonable assurance that the content of this report is based on sound and accurate data.

Nevertheless, continued improvement is needed to remediate existing material weaknesses and non-compliance. To accomplish this goal, management continues to implement corrective actions. Therefore, I provide qualified assurance that, except for the areas in need of improvement as described in the Chairman's Statement of Assurance section of this report, USITC's internal control over operations, financial systems, and financial reporting meet the objectives of FMFIA and FFMIA. The financial and performance information presented herein is complete and accurate, and in accordance with law and Office of Management and Budget guidance.

We also recognize that we have more to do operationally to ensure that we efficiently manage the resources entrusted to us. Concurrent with the FY 2011 audit, the Commission assessed its resources and expertise and has begun to implement a new financial management structure, specifically creating an office of the Chief Financial Officer. Currently, the Commission is recruiting a CFO and Chief Procurement Officer with the requisite skills to ensure transparency and accountability in the formulation, execution, performance, and management of agency budgetary resources.

As Chairman, I assure you that Commission employees are committed to the agency's mission, and I applaud their efforts.

Deanna Tanner Okun
November 15, 2011

Management's Discussion and Analysis

Introduction

The United States International Trade Commission (Commission or USITC) FY 2011 Agency Financial Report (AFR) presents the results of the Commission's program and financial performance and demonstrates to the Congress, the President, and the public, the USITC's commitment to its mission and accountability for the resources entrusted to it. This report is available at www.usitc.gov. The USITC has chosen to produce an AFR and Annual Performance Report (APR). The USITC will include its FY 2011 Annual Performance Report with its Congressional Budget Justification and will post it on the USITC's Web site by February 6, 2012.

About the USITC

The USITC was established by Congress on September 8, 1916 as the U.S. Tariff Commission. In 1974, the name was changed to the United States International Trade Commission by section 171 of the Trade Act of 1974. The USITC is an independent, quasi-judicial federal agency with broad investigative responsibilities on matters of trade. The Commission investigates the effects of dumped and subsidized imports on domestic industries and conducts global safeguard investigations. The USITC also adjudicates cases involving imports that allegedly infringe intellectual property rights. Through such proceedings, the agency facilitates a rules-based international trading system. The Commission also serves as a federal resource where trade data and other trade policy-related information are gathered and analyzed. The information and analyses are provided to the President, the Office of the United States Trade Representative (USTR), and Congress to facilitate the development of sound and informed U.S. trade policy. The Commission makes most of its information and analysis available through its Web site to the public to promote a better understanding of international trade issues.

Mission

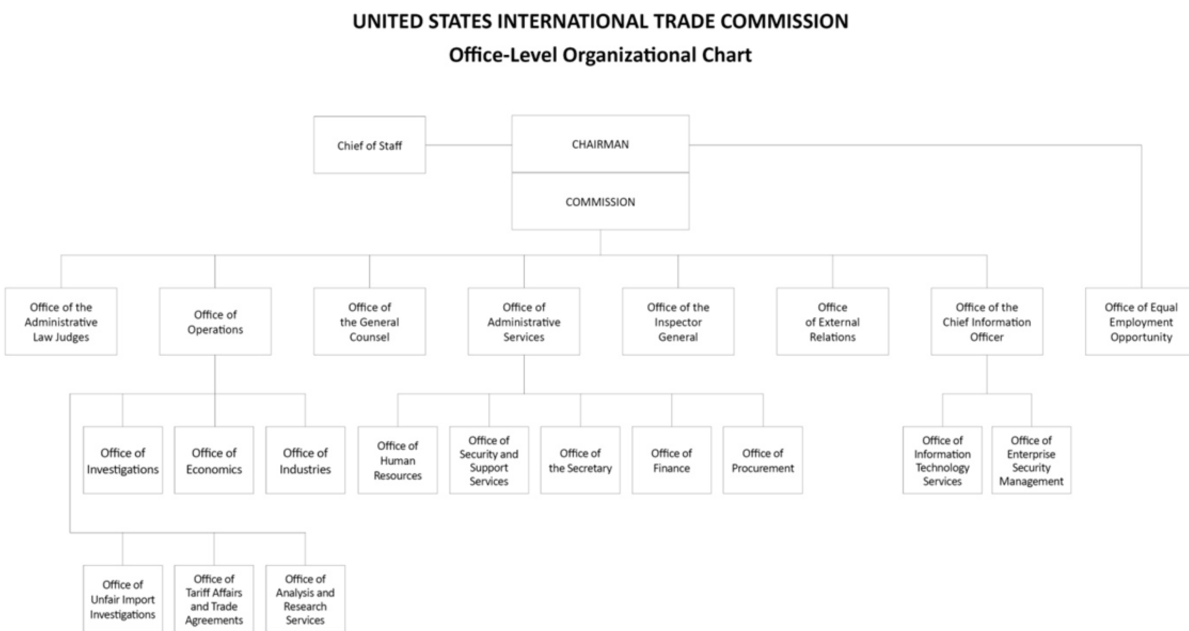
The mission of the Commission is to:

- Administer U.S. trade remedy laws within its mandate in a fair and objective manner;
- Provide the President, USTR, and Congress with independent quality analysis, information, and support on matters relating to tariffs and international trade and competitiveness; and
- Maintain the Harmonized Tariff Schedule of the United States (HTS).

In doing so, the Commission serves the public by implementing U.S. law and contributing to the development of sound and informed U.S. trade policy.

Organization

The USITC is headed by six Commissioners, nominated by the President and confirmed by the U.S. Senate. Commissioner Deanna Tanner Okun, the senior Republican, is serving as Chairman of the USITC by operation of law. Commissioner Irving Williamson, a Democrat, is serving as Vice Chairman for the term expiring June 16, 2012. Commissioners serving at the end of the fiscal year are, in terms of seniority, Charlotte R. Lane, Daniel R. Pearson, Shara L. Aranoff, and Dean A. Pinkert.



Commissioners

Each of the six Commissioners serves a term of nine years, unless appointed to fill an unexpired term. The terms are set by statute[1] and are staggered so that a different term expires every 18 months. A Commissioner who has served for more than five years is ineligible for reappointment. A Commissioner may, however, continue to serve after the expiration of his or her term until a successor is appointed and qualified. No more than three Commissioners may be members of the same political party. The Chairman and the Vice Chairman are designated by the President and serve for a statutory two-year term. The Chairman may not be of the same political party as the preceding Chairman, nor may the President designate two Commissioners of the same political party to serve as the Chairman and Vice Chairman. Currently three Democrats and three Republicans serve as Commissioners.

Office of the Administrative Law Judges

The Commission's administrative law judges (ALJs) hold hearings and make initial determinations in investigations under section 337 of the Tariff Act of 1930. If after receipt of a petition, the Commission decides to institute an investigation, the matter is referred to this office. The Chief ALJ assigns each case on a rotational basis to one of the Commission's six ALJs. After a discovery process, a formal evidentiary hearing is held in accordance with the Administrative Procedure Act (APA) (5 U.S.C. 551 et seq.). The ALJ considers the evidentiary record and the arguments of the parties and makes an initial determination (ID), including findings of fact and conclusions of law. The ID becomes the Commission's determination unless the Commission determines to review and modify it or send the matter back to the ALJ for further consideration. Temporary relief may be granted in certain cases.

[1] 19 U.S.C § 1330, Organization of Commission.

Office of the General Counsel

The General Counsel (GC) serves as the Commission's chief legal advisor. The GC and the staff attorneys provide legal advice and support to the Commissioners and staff on investigations and research studies, represent the Commission in court and before dispute resolution panels and administrative tribunals, and provide assistance and advice on general administrative matters, including personnel, labor relations, and contract issues.

Office of Operations

The Commission's core of investigative, industry, economic, nomenclature, and technical expertise is found within the Office of Operations (OP). The following six offices are under the supervision of the Director:

- The Office of Economics (EC) conducts investigations primarily under section 332 of the Tariff Act of 1930, section 131 of the Trade Act of 1974, and section 2104 of the Trade Act of 2002. The Office of Economics also provides expert economic analysis for import injury investigations, as well as other industry and economic analysis products.

- The Office of Industries (IND) conducts investigations primarily under section 332 of the Tariff Act of 1930, section 131 of the Trade Act of 1974, and section 2104 of the Trade Act of 2002. The Office of Industries maintains technical expertise related to the performance and global competitiveness of U.S. industries and the impact of international trade on those industries for these studies and import injury investigations.

- The Office of Investigations (INV) conducts import injury investigations to fulfill the Commission's investigative mandates, including those specified in the Tariff Act of 1930, the Trade Act of 1974, the North American Free Trade Agreement (NAFTA) Implementation Act of 1993, and the Uruguay Round Agreements Act (URAA) of 1994.

- The Office of Tariff Affairs and Trade Agreements (TATA) implements the Commission's responsibilities with respect to the HTS and the International Harmonized System.

- The Office of Unfair Import Investigations (OUII) participates in adjudicatory investigations, usually involving patent and trademark infringement, conducted under section 337 of the Tariff Act of 1930, both during the pre-institution phase and as a party to the litigation with no commercial interest in the outcome.

- The Office of Analysis and Research Services (OARS) provides research and investigative support. It comprises the library, editorial, knowledge resources, and statistical services.

Office of External Relations

The Office of External Relations (ER) develops and maintains liaison between the Commission and its diverse external customers and is the point of contact with USTR and other executive branch agencies, Congress, foreign governments, international organizations, the public, and the media. The Commission's Trade Remedy Assistance Office, a component of the Office of External Relations, assists small businesses seeking benefits or relief under U.S. trade laws.

Office of the Chief Information Officer

The Office of the Chief Information Officer (OCIO) provides information technology leadership, a comprehensive services and applications support portfolio, and a sound technology infrastructure to the Commission and its customers. Through its staff and subsidiary offices, the OCIO seeks to promote, deliver, and manage the secure and efficient application of technology to the Commission's business activities. Component offices include Information Technology Services (ITS) and Enterprise Security Management.

Office of Administrative Services

The Office of Administrative Services (OAS), formerly known as the Office of Administration, compiles the Commission's annual budget, prepares the appropriation and authorization requests, and closely monitors budget execution. OAS also provides human resource services—including collective bargaining with union representatives—acquisitions, information and document management; management of work life issues; facilities management services, and is responsible for all Commission physical and personnel security matters. Component offices include Human Resources, Security and Support Services, Secretary, Finance, and Procurement.

Office of Inspector General

The Office of Inspector General (OIG) provides audit, evaluation, inspection, and investigative support services covering all Commission programs and strategic operations. The mission of the OIG is to promote and preserve the effectiveness, efficiency, and integrity of the Commission. The OIG activities are planned and conducted based on requirements of laws and regulations, requests from management officials, and allegations received from Commission personnel and other sources.

Office of Equal Employment Opportunity

The Office of Equal Employment Opportunity (OEEO) administers the Commission's affirmative action program. The Director advises the Chairman, the Commission, and USITC managers on all EEO issues; manages and coordinates all EEO activities in accordance with relevant EEO laws and EEO Commission regulations; evaluates the sufficiency of the agency's EEO programs and recommends improvements or corrections, including remedial and disciplinary action; encourages and promotes diversity outreach; and monitors recruitment activities to assure fairness in agency hiring practices.

Resources

The USITC's workforce consists of 348 employees and includes international trade analysts (investigators, nomenclature experts, and experts in particular industries), international economists, attorneys, and technical support personnel (figure 1).

The Commission has received "no year" appropriations for operations since FY 1993. For FY 2011, the Commission received appropriated funds of approximately $81.7 million. Sixty-five percent of the Commission's one program consists of salary and benefit expenses totaling $55.1 million. The Commission's budgetary resources for FY 2011 totaled $84.8 million (figure 2).

Figure 1: USITC workforce FY 2007–FY 2011

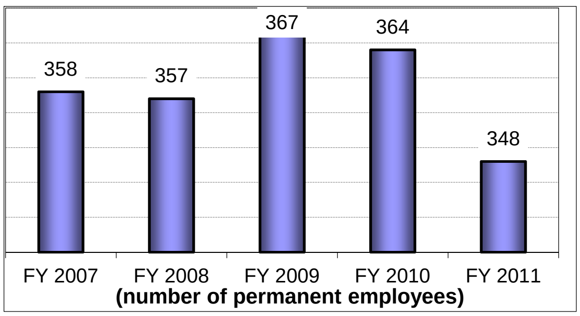
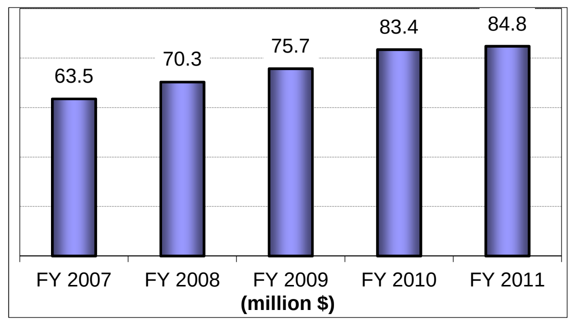


Figure 2: USITC resources, FY 2007–FY 2011



Performance Goals, Objectives, and Results

The Commission creates annual performance measures and uses them to evaluate its performance results in order to fulfill its mission efficiently and effectively. This section summarizes the Commission's strategic planning and management activities and reviews its accomplishments during FY 2011.

Commission Strategic Planning and Management

The Commission issues a Strategic Plan, an annual Performance Plan, and an annual Performance Report in accordance with the Government Performance and Results Act of 1993 (GPRA) and the GPRA Modernization Act of 2010 (2010 Act). The Strategic Plan establishes general goals and objectives for the Commission. To ensure the effectiveness of strategic planning and budget development, the Commission aligns its budget formulation and execution with its Strategic Plan. The Commission's budget justification includes its annual Performance Plan for that year to form a performance budget. The annual Performance Report provides a detailed review of agency performance.

The Performance Plan for FY 2011 set out annual measures that correspond to the broader strategic goals, performance goals, and strategies identified in the Strategic Plan. The FY 2011 Budget Justification describes the operational processes, skills, and technology, as well as the human capital, information, and other resources, required to meet the performance goals.

During FY 2011, the Commission began aligning its planning and reporting with the new reporting requirements laid out in the 2010 Act. The Commission also took action to implement various recommendations stemming from internal reviews of its administrative activities, and its functions related to intellectual property-based import investigations.

The Commission will issue an Addendum to its Strategic Plan for FY 2009–2014 in February 2012. The Addendum will describe revisions to existing performance goals and will set out new management goals established by the Commission in areas such as financial management, procurement, human resources, and information technology. These goals will address major management challenges facing the agency as well as concerns that are the subject of government-wide initiatives. The FY 2012 and FY 2013 Performance Plans, which will likewise be issued in February 2012, will provide specific annual measures and targets for these management goals. These Performance Plans will also include information about low-priority activities in accordance with the 2010 Act and Office of Management and Budget (OMB) guidelines. The Performance Report for FY 2011 will be issued at this time as well. The Commission has also conducted a review of the reports it prepares for Congress to determine whether any of them should be identified as outdated or duplicative.

Human capital and information technology are essential to fulfilling the Commission's mission. The agency regularly updates its Strategic Human Capital Plan, which identifies programs and activities that will further efforts to develop and maintain a workforce with the requisite knowledge and skills to fulfill its mission over the long term. The Commission implemented an updated Strategic Human Capital Plan during FY 2010–2011 and is now revising this Plan to adjust to anticipated funding constraints and changing operational requirements. The agency expects to complete this update during FY 2012.

The Commission is developing a new Information Technology (IT) Strategic Plan, in accordance with the Information Technology Management Reform Act of 1996 (Clinger-Cohen Act) and the Paperwork Reduction Act of 1995. The Commission's IT Strategic Plan for FY 2012–FY 2016 contains goals and performance measures that relate to or integrate government-wide initiatives and requirements with the Commission's Strategic Goals. The new plan will be issued in early FY 2012.

During FY 2012 and FY 2013, the Commission will develop its Strategic Plan for FY 2014–2018. Preliminary work is underway. Besides engaging staff throughout the agency, the Commission will seek feedback from its legislative and executive branch customers, as well as the public.

Strategic Operations

While the Commission has one program activity set forth in the Budget of the United States, the Commission's Strategic Plan identifies five strategic Operations. These Operations define the functions of the Commission, highlighting the diverse benefits that the Commission provides in facilitating an open trading system based on the rule of law and the economic interests of the United States. For each of these Operations, the Strategic Plan identifies a strategic goal, performance goals, and strategies to enable the agency to meet these goals. The Commission's annual measures provide targets by which the agency can assess whether it is making progress toward achieving its performance goals.

The Commission's Operations are—

- Import Injury Investigations
- Intellectual Property-based Import Investigations
- Industry and Economic Analysis
- Tariff and Trade Information Services
- Trade Policy Support

Performance Results in Brief

The Commission met or exceeded 73 percent of its targets in FY 2011 in the aggregate, which is somewhat lower than Commission performance in FY 2010 (79 percent). It is, however, in line with the range of results achieved during FY 2007–2010, when the agency met or exceeded 71–82 percent of its targets annually. During this five year period the Commission established new performance goals, measures, and targets. It also set more challenging targets for some existing performance goals. As a result, the aggregate annual results are not fully comparable from one year to the next.

Table 1 shows the Commission's FY 2011 performance for each of the agency's Strategic Goals. The Commission met or exceeded at least 67 percent of the targets associated with each of these goals and made progress on a number of the targets that were not fully met.

Table 1 Performance by Strategic Goal, 2011

	Performance Targets (number)		
Strategic Goals	Total [a]	Met or exceeded	Not met/ improved but not met [b]
OP 1: Support a rules-based international trading system by producing high-quality and timely import injury determinations based on the following— • an effective exchange of information between the Commission and interested parties • an appropriate investigative record, and • transparent, fair, and equitably implemented procedures	6	4	2
OP 2: Conduct intellectual property-based import investigations in an expeditious, technically sound, and transparent manner, and provide for effective relief when relief is warranted, to support a rules-based international trading system	13	8	4
OP 3: Enhance the quality and timeliness of its industry and economic analysis to support sound and informed trade policy formulation	12	9	3
OP 4: Improve the availability of and access to high-quality and up-to-date tariff and international trade information and technical expertise to support the executive and legislative branches, the broader trade community, and the public	10	8	1
OP 5: Provide enhanced support to the development of well-informed U.S. international trade policy by quickly responding to executive and legislative branch policymakers' needs for technical support, data, and analysis	6	4	2

[a] The total number of targets for OP 2 and OP 4 each include one target that did not apply during the fiscal year (no activity).

[b] Of the 12 targets that are shown in this column, the Commission partially met or made progress achieving five (OP 1, one; OP 2, two; OP 4, one; OP 5, one).

The Commission instituted a high number of investigations in FY 2011, the highest in over a decade. As shown in figure 3, the total number of investigations instituted by the agency during the year increased by 22 percent over FY 2010. The average number of active investigations (on a monthly basis), which reflects recurring as well as newly instituted investigations, rose by 9 percent in FY 2011 (figure 4).

Figure 3 Number of investigations instituted by fiscal year, 2001–2011

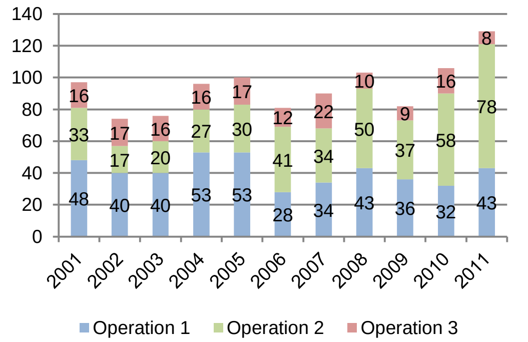
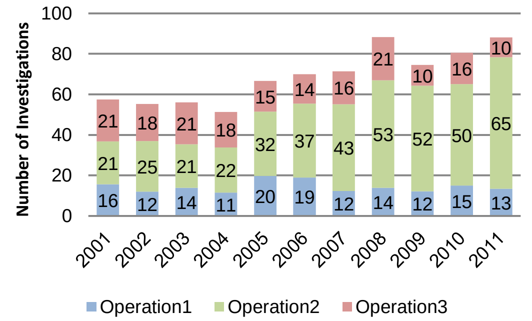


Figure 4 Average monthly number of active investigations, by fiscal year, 2001-2011



Investigative activity associated with intellectual property investigations (Operation 2) accounted for this increase. The number of Operation 2 filings has grown substantially over the past decade. Moreover, these investigations have grown more complex as well, since cases involving telecommunications devices and other high-technology products, often asserting infringement of many patents by numerous respondents, constitute a rising share of the overall caseload. This growth in sheer numbers and complexity has posed a challenge to the Commission, as it has had to rebalance its resources to accommodate the expanding caseload.

Activity related to import injury investigations (Operation 1) increased in FY 2011, as measured by the number of instituted investigations, whereas industry and economic analysis investigations (Operation 3) declined. In terms of average investigations, investigative activity declined somewhat. However, the timing of Operation 1 filings (e.g., five preliminary investigations filed within two days during the second quarter) and short investigative time frames for some Operation 3 investigations made meeting certain performance targets more challenging. The data also do not capture differences in the scope and complexity of the investigations—particularly for Operation 3. The Commission completed studies on a wide range of new and complex topics that provided unique information and analysis that helped fill critical information gaps for policy makers. Examples include the impact of Chinese intellectual property infringement and indigenous innovation policies on the U.S. economy and U.S. producers; characteristics and performance of U.S. small and medium enterprises; the effects of China's agricultural production and trade on U.S. exports; and the economic effect of significant U.S. import restraints. This last study included new research on global supply chains—an area in which the Commission is viewed as a leading source of expertise. These complex and comprehensive studies required additional staff and data resources as the Commission investigated areas with relatively little, or no, prior information available.

The Commission also received numerous requests for technical support from its principal legislative and executive branch customers. As measured by the number of requests, activity increased 25 percent in the first three quarters of CY 2011 over activity for all of CY 2010. In contrast, resources required to maintain the Harmonized Tariff Schedule (HTS) were stable in FY 2011, as no special updates were required.

During FY 2011 the Commission continued to focus many of its performance goals and measures on the timeliness of its determinations and reports, improvements in the effectiveness of information collection, improvements in its analytical capabilities, as well as enhancing communication with and outreach to its customers and the general public. Highlights for each Strategic Operation follow.

Operation 1: Import Injury Investigations

The Commission conducts investigations into the effects on a U.S. industry of unfairly traded imports or an increase in imports and appellate litigation to defend Commission decisions.[2] These include the following:

- Antidumping and Countervailing Duty (AD/CVD) investigations, five-year (sunset) reviews, and changed circumstances reviews
- global and country-specific safeguard investigations and market disruption investigations
- safeguard investigations under various statutes implementing free trade agreements
- World Trade Organization (WTO) consistency proceedings requested by the U.S. Trade Representative (USTR)

The Commission's work on these investigations ensures that each import injury determination is based on an appropriate investigative record and made within the time limit mandated by statute, and that all procedures are transparent and fair.

The Commission met most of the targets it established for Operation 1. All targets involving statutory and administrative deadlines were met with the exception of one internal administrative deadline.

The Commission made considerable progress during the year on its effort to collect information electronically, with the goal of offering companies a secure and more efficient way to give the agency information in Operation 1 proceedings. Much of the information supporting these investigations is proprietary and is supplied by firms involved in these matters. The ongoing efforts to shift to electronic collection of information by questionnaire should ultimately generate cost savings for the Commission and investigation participants by reducing submission and processing times.

Commission efforts to provide information to its customers were successful in several areas. The agency continued to exceed the targets it set for making information available on its electronic docket information system (EDIS). As in FY 2010, documents filed on EDIS for both Operations 1 and 2 were available well within the established timeframes. Ready access to documents is important both to agency staff and to parties to the investigations. Commission staff outreach to industry groups also continued throughout the year. In addition, the Commission began developing a customer feedback survey that it plans to issue to external investigative participants in FY 2012. This is one of a number of customer feedback surveys pertaining to selected agency-wide operations that the Commission plans to issue during FY 2012 and FY 2013. The Commission has used such surveys in past years in its efforts to improve the effectiveness of its rules and procedures.

[2] Applicable statutes include title VII of the Tariff Act of 1930; sections 202, 204, 406, 421, and 422 of the Trade Act of 1974; sections 302 and 312 of the North American Free Trade Agreement (NAFTA) Implementation Act of 1993; and section 129(a)(4) of the Uruguay Round Agreements Act.

User satisfaction with the agency's Operation 1 Web pages did not improve. To address this lack of improvement, the Commission has undertaken an effort to redesign its public Web site. Based on survey feedback, the redesign focuses on improving the navigation and usability aspects of the website in order to raise user satisfaction. These improvements are scheduled for deployment in early FY 2012.

Operation 2: Intellectual Property-based Import Investigations

The Commission investigates alleged unfair methods of competition and unfair acts in the importation of articles into the United States, or in their sale.[3] Most of these investigations involve allegations relating to infringement of U.S. patents and trademarks. If the Commission finds a violation, it may issue an exclusion order barring the imported product from entry into the United States, and it may also direct a respondent to cease and desist from engaging in the unfair practices. The violation of a cease and desist order can be punished by civil penalties of up to $100,000 a day or twice the domestic value of the articles entered or sold. The President may, for policy reasons and typically following interagency review, disapprove Commission exclusion and/or cease and desist orders within 60 days of their issuance. Commission determinations may be appealed to the U.S. Court of Appeals for the Federal Circuit.

The continued increase in investigative activity in this area over the past decade has made it difficult for the Commission to fully meet the goals it set for this Operation. In particular, the Commission, while making progress, did not meet all of its targets concerning investigative time frames and certain administrative deadlines.

The Commission has faced a number of constraints as Operation 2 investigation activity surged, including an insufficient number of Administrative Law Judges (ALJs) and courtrooms. Staffing in other parts of the agency also was strained. The Commission began addressing these constraints as they developed and undertook a comprehensive review of Operation 2 during FY 2009–2010. The Commission increased the number of ALJs and attorneys in the Office of the ALJs and the Office of the General Counsel. In FY 2009 the Commission established a pilot mediation program for section 337 investigations. Several mediation sessions have been held and the Commission is expanding its roster of mediators to accommodate demand. In FY 2010, the Commission secured additional space for a new courtroom. The Commission delayed the construction of the courtroom in FY 2011 because of budget uncertainties. However, the agency is going forward with plans to build the courtroom and anticipates it to be operational by the end of FY 2012. The Commission expects these actions to alleviate scheduling problems and help reduce the average length of such investigations. In addition, the Commission determined, after completion of the comprehensive review, that achieving the Commission's goals of adjudicating section 337 matters in an efficient, expeditious, technically sound, and transparent manner requires a balance of funding for all offices involved in these matters including the Office of the ALJs and the Office of the General Counsel. As a result, the Commission determined that an increase in the share of agency resources devoted to the Office of Unfair Import Investigations was not feasible or warranted in light of government-wide budgetary limitations, and the need to adequately fund other agency operations. The Commission therefore adjusted the extent to which the Office of Unfair Import

[3] Section 337 of the Tariff Act of 1930, as amended, authorizes the Commission to conduct these investigations.

Investigations participates in section 337 investigations, in order to maximize its contribution within existing resources.

The Commission met targets associated with its efforts to facilitate the enforcement of exclusion orders during FY 2011. It also partially met targets related to improving the information the agency provides to investigation participants and the public. As with Operation 1, outreach efforts and targets set for making information available via EDIS were exceeded, but user satisfaction with the Operation 2 Web page did not reach the targeted level. The Commission regularly seeks feedback from firms involved in Operation 2 investigations and modifies its rules and procedures, as appropriate. The agency expects to conduct a survey during FY 2012 and FY 2013 to help it assess whether its realignment of Operation 2 resources has been effective.

The agency also met the Performance Goal it established at the end of FY 2010 regarding early identification of public-interest issues. The Commission issued a notice of proposed rulemaking and published its final rules in early FY 2012.

Operation 3: Industry and Economic Analysis

The Commission's industry and economic analysis provides policymakers in the legislative and executive branches with insightful, independent, and objective information as they consider policy decisions. As a recognized leader in the analysis of international trade and industry competitiveness, the Commission provides its customers with high-quality analysis that is both timely and relevant to U.S. trade policy.[4]

The Commission invests in its staff to ensure that they have the relevant wide-ranging and highly technical industry and economic expertise and continue to develop analytical tools and data resources that allow it to quickly respond as policy interests and customer needs change. The resources developed for Operation 3 also are integral to investigative and other activities in Operations 1, 4, and 5.

The agency's efforts to improve data collection methods have been particularly vital to certain Operation 3 investigations, as a number of such investigations rely on firm-level data that are not publically available. Because the investigations address one-time requests, the structure and content of surveys vary and limit efforts at standardization. One investigation completed during FY 2011 required the agency to issue thousands of questionnaires. Many of the survey respondents were able to submit their responses electronically, which made processing the information feasible despite the limits imposed by the Commission's staff resources and the investigation's time frame.

The Commission met or generally made progress on the performance goals it set for Operation 3. The agency issued all of its reports to its customers on time. It continued its efforts to improve its communications with its legislative and executive branch customers, although it did not fully meet established targets in this area. To address this, the Commission developed new procedures for

[4] Commission conducts these investigations pursuant to section 332(g) of the Tariff Act of 1930; section 131 of the Trade Act of 1974; section 2104(b)(2) of the Trade Act of 2002; and section 103 of certain FTA implementation acts, such as the NAFTA Implementation Act.

improving customer communication regarding these investigations. The agency did meet its target regarding positive feedback from users of the Operation 3 Web pages. As noted above, the Commission is working on its external Web site to improve its overall functionality. The Commission makes most of its reports and staff research available to the public on its Web site, providing information and analysis that the public cannot find elsewhere.

The Commission met most of the targets it set concerning its goal to strengthen its analytical capabilities. For example, the agency improved its capability to assess the impact of non-tariff measures and foreign direct investment, areas of continuing interest to U.S. policy officials. Commission staff also continued to develop data and conduct research on global supply chains, which have been integrated into various Commission studies. Two targets were not met, as statutory work took precedence. They have been extended, with work expected to be completed in FY 2012.

Operation 4: Tariff and Trade Information Services

Tariff and trade information services include maintenance and publication of the HTS, preparation of legislative reports for the Congress, drafting of implementing annexes to trade agreements negotiated by USTR, maintenance of the online Interactive Tariff and Trade DataWeb (DataWeb), and management of Commission trade databases. Services also include contributions to the development of the interagency International Trade Data System (ITDS), maintenance of U.S. commitments under Schedule XX of the General Agreement on Tariffs and Trade/World Trade Organization (GATT/WTO), preparation of the electronic database that supports U.S. submissions to the WTO Integrated Database, and related information gathering, processing, and dissemination activities.[5] Commission staff are members of the U.S. Delegation to the HS-related committees at the World Customs Organization (WCO) and are members of the interagency 484(f) Committee.

The performance goals and targets established for Operation 4 involve providing accurate and timely tariff and trade information to customers and the public. The Commission met all but one target established for FY 2011. The one target concerning requests for statistical changes to the HTS was met in the fourth quarter, but not for the full year.

A number of the targets set for FY 2011 are new and were developed as a part of the review of the Commission's FY 2010 performance. Targets for this Operation relate to improving the accuracy and timeliness of the Web-based HTS and its online reference tool. The agency established a baseline for usage of the tool, monitored the success rate of users' searches, and measured the accuracy of the information that the agency posted. The Commission also continued to assess the feedback it received regarding satisfaction with Commission staff responses to email queries about the HTS, as well as feedback it received from users of the Operation 4 Web pages.

[5] The functions of the Commission in this Operation are carried out mainly in response to legal requirements set out in the Tariff Act of 1930 (19 U.S.C. § 1484(f)) and the Omnibus Trade and Competitiveness Act of 1988 (19 U.S.C. § 3001 et seq); other statutes also apply.

Another target related to timeframes for reports to Congress on miscellaneous trade bills was not relevant, as there was no activity in this area during FY 2011.

Operation 5: Trade Policy Support

The Commission provides trade policymakers with technical expertise, accurate data and information, and objective analysis on international trade and competitiveness issues in order to support the development of well-informed U.S. international trade policy. The Commission's capability to provide prompt staff responses to requests for trade policy support from both the legislative and executive branches complements and draws upon work in other strategic Operations, most notably Operations 3 and 4.[6] The Commission is a non-voting member of the interagency Trade Policy Staff Committee (TPSC), and its staff participates in various TPSC subcommittees.

During FY 2011 the Commission focused its efforts on giving policy makers timely and responsive staff technical assistance and improving its outreach efforts in this area. The agency met most of its targets and made significant progress with those that were not met.

Although there were more requests for staff technical assistance than in FY 2010, the Commission met its target regarding the number of issues supported by Commission staff assistance, as it had in FY 2010. The agency also met its target regarding deadlines for responses to letters from Congress. During FY 2011, the Commission developed an automated system for tracking technical assistance requests, though it was still being tested at the end of the fiscal year. This system is one piece in a broader agency effort to create more unified methods of collecting, maintaining, and reporting performance information to support performance management efforts. The Commission was not able to meet its target to develop procedures and the capacity to provide classified information electronically because of external delays. However, this effort now appears to be on track, and the Commission expects to reach this target in FY 2012.

Commission efforts to enhance its outreach to new congressional staff and receive regular feedback from executive branch staff largely succeeded. The Commission uses feedback on its technical assistance efforts both to improve the quality of those products and as a means of gauging which trade policy issues are likely to be of interest to policy makers going forward.

[6] The Commission provides this support in accordance with section 332 of the Tariff Act of 1930.

Reviews and Evaluations

The Commission gathers performance data each quarter, and periodically verifies and validates them. The agency began gathering data and reporting performance results internally on a quarterly basis during FY 2010. For each Operation, a senior agency manager serves as Goal Leader. Under the general oversight of the Strategic Planning Subcommittee and the Executive Management Committee, the Goal Leaders and staff supplying the data are responsible for verification and validation. The Commission believes that the performance data summarized in this report are complete and reliable.

During FY 2011, the Commission did not have any federal Priority Goals. The agency plans, as noted earlier in this section, to establish management goals, measures, and targets for FY 2012 and it will ensure that its management goals are aligned with government-wide management efforts.

Pursuant to the GPRA and the 2010 Act, the Commission conducts program evaluations to improve its plans and operations. The Strategic Plan for FY 2009–2014 and the FY 2011 Performance Plan identified the review of programs and procedures as part of the Commission's strategy for meeting the performance goals set for several strategic Operations.

More broadly, in early FY 2012, the Commission began the process of developing its Strategic Plan for FY 2014–2018. After developing a draft plan with input from all parts of the agency, the Commission expects to seek input from its legislative and executive branch customers, as well as from the general public.

As noted in its FY 2010 Performance and Accountability Report, the Commission completed an evaluation of Operation 2 (Intellectual Property-based Import Investigations). Also, in FY 2011, the Commission initiated and completed an evaluation of its Office of Administration, which supports all five strategic Operations. The Commission began taking actions to realign resources during FY 2011. These actions are described more fully in the following section on key management initiatives.

The Commission did not complete any comprehensive reviews of its Operations during FY 2011, but did begin a long term project to evaluate its internal business processes. The agency will use the information generated by this effort as a baseline for evaluating the efficiency and quality of its Operations.

Progress in Meeting Key Management Initiatives

Background

Since receiving an audit disclaimer of opinion in FY 2009 by the independent accounting firm Castro & Co., LLC, monitored by the Inspector General, management has worked diligently to improve performance in the areas of financial management and internal controls. In FY 2010, the Commission concentrated on documenting how information flows through the organization in the form of cycle memoranda, providing financial management training to its senior managers, and drafting its first comprehensive accounting manual. As a result of the major efforts taken during FY 2010, the Commission was able to achieve a qualified opinion on its FY 2010 financial statements. However, at that time the Commission recognized that more improvements were needed in securing resources to implement new internal control and financial management procedures.

During FY 2011 the Commission established the framework for a new financial management structure, began the hiring process for staff with requisite high-level analytical and communication skills, worked on training existing staff to upgrade knowledge and professional skill sets, and progressed toward ensuring transparency and accountability in the formulation, execution, performance, and management of agency budgetary resources. During FY 2011 the Commission supplemented its Human Capital Plan to substantially restructure its financial and administrative functions. The plan included the creation of the Office of the Chief Financial Officer (CFO), which includes the offices of Finance, Procurement and Budget. As part of this reorganization, additional staff and new high level positions have been included in the plan for these offices to better ensure optimal performance in achieving the agency's mission. The new positions include a CFO, Director of Budget, and financial management positions.

Additionally, during the past fiscal year, the Commission continued to update its financial procedures in its accounting manual. The rules, procedures, and best practices contained within the manual have been implemented throughout the year. Extensive internal control testing of these procedures was conducted in crucial financial management areas such as property, plant and equipment, and employee labor costs. The Commission plans to continue testing and refining its financial procedures and internal controls in order to more effectively and efficiently accomplish its mission.

Looking toward the future, the Commission desires to expand the scope of its advancements. Management has identified several key initiatives in which to focus improvement efforts going forward, including improving the effectiveness and efficiency of human capital development, acquisitions, and financial management controls.

As described in greater detail below, the Commission has already made progress related to these initiatives and plans to make even greater strides in these areas during the upcoming fiscal year.

Human Capital Development

As part of the management initiative to improve effectiveness and efficiency in this area, the Commission is working to decrease processing time for hiring actions, improve satisfaction with agency hiring practices and employee development and training, and improve documentation pertaining to hiring activities. In FY 2011 the Commission improved efficiency in this area—advertising and filling existing vacancies and staffing positions newly created under the revised Human Capital Plan in shorter periods than previously achieved. It also created a new training council to develop organization-wide training guidelines. A survey was conducted to elicit feedback related to the hiring process and other important areas of human capital development such as training.

Acquisitions

As part of the initiative to improve effectiveness and efficiency in this area, the Commission is working to reduce processing time related to requisitions, improve employee satisfaction with the acquisition process, and improve documentation. In FY 2011 the Commission streamlined certain aspects of procurement in order to improve office performance and increase efficiency. Recordkeeping practices were reviewed and updated to ensure more consistent and accurate acquisition records. Efforts were also made to promote transparency in the acquisition process and improve customer communication.

Financial Management Controls

As part of the initiative to improve financial management controls, the Commission is working to better ensure the timeliness and accuracy of financial information, reduce the incidence of improper payments and improve compliance with internal controls. In addition to continuing to update the accounting manual during FY 2011, the Commission made efforts to establish and test new financial controls and procedures. The Commission also focused efforts toward transitioning financial record keeping from paper to electronic records. Finally, the Commission worked to promote transparency in its financial management processes and improve customer communication.

Chairman's Statement of Assurance

Statement of Qualified Assurance

The Commission's management is responsible for establishing and maintaining effective internal control and financial management systems that meet the objectives of the Federal Managers' Financial Integrity Act (FMFIA). The Commission is able to provide a qualified statement of assurance that the internal controls (Section 2 of FMFIA) and financial management systems (Section 4 of FMFIA) meet the objectives of FMFIA, with the exceptions of the material weaknesses and non-conformance described below.

The Commission conducted its assessment of the effectiveness of internal control over the effectiveness and efficiency of its systems, programs, and financial operations and compliance with applicable laws and regulations in accordance with OMB Circular A-123, Management's Responsibility for Internal Control. Based on the results of this evaluation, the Commission identified inadequate controls surrounding the procurement process; over undelivered orders, accounts payable, and expenditures; and insufficient resources and personnel with appropriate skill sets as material weaknesses in its internal control over financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations as of September 30, 2011. In addition, USITC did not comply with the requirements of 5 U.S.C. § 7905, Programs to encourage commuting by means other than single-occupancy motor vehicles, and the related guidance outlined in Appropriation Law. Other than the exceptions noted above, the internal controls were operating effectively and no other material weaknesses were found in the design or operation of these internal controls.

During Fiscal Year 2010 the Commission made significant progress in addressing several management deficiencies and challenges to achieving financial accountability that our Independent Public Auditors highlighted in its November 2009 Report. For example, we gained visibility and accountability over the Commission's property accounts and drafted our first Accounting Manual. The Commission remained fully committed to achieving financial accountability over its assets and operations in Fiscal Year 2011 as it continued to address the auditors findings in its Fiscal Years 2009 and 2010 reports. For example, we issued a final version of the Accounting Manual, reorganized our Executive Management structure, provided staff extensive training on internal controls, and started implementation of a Congressionally approved Human Capital Plan. This plan includes the establishment of an Office of Administrative Services and Office of Chief Financial Officer (CFO), both reporting directly to the Chairman. The Office of CFO is comprised of Finance, Budget and Procurement operations.

While significant progress was made during Fiscal Year 2011, the Commission continued to face challenges that we fully addressed or continue to address so that we can stay on track to achieving our goal of financial accountability. Specifically, the Commission's Inspector General identified conditions in procurement operations that required swift remedial actions. Immediately following the IG's notification of the issue, the Commission took prompt remedial actions to address the issues raised. We have also requested a GAO decision on whether or not the Commission is compliant with Title 5 United States Code (U.S.C.) Section 7905, Programs to encourage commuting by means other than single-occupancy motor vehicles. Once we receive a GAO interpretation, we will take appropriate steps to ensure we are compliant with the code. While we noted the actions taken over the past two years represent significant progress, more work is still required before we are fully compliant with the FMFIA and OMB Circular No. A-123. The Commission remains fully committed to establishing and maintaining an effective internal control program in the future.

Deanna Tanner Okun
Chairman

November 15, 2011

Overview of Financial Results

Overview of Financial Statements

The Commission received an unqualified opinion on its FY 2011 financial statements. Notwithstanding this opinion, the Commission's auditors reported repeat material weaknesses with respect to the procurement process; undelivered orders; accounts payable and expenditures; and, insufficient resources and personnel with appropriate skill sets. This follows the qualified opinion the Commission received on its FY 2010 financial statements, with the qualification limited to undelivered orders and the related accounts payable and net position. Over the course of the last two years, the Commission has made significant improvements to its internal controls over financial management. Nonetheless, there is still room for improvement. The Commission must complete remedial efforts and put lasting reforms in place, hire and train staff, and test compliance. The unqualified opinion on the FY 2011 financial statements reflects the accomplishments of the last year; however, additional efforts are needed to achieve financial accountability.

The Commission agrees that internal controls are inadequate in the areas of the recording and reporting of accounts payable, expenditures and obligations. Additionally, the Commission acknowledges its need to improve its monitoring, analysis and oversight of financial operations. Finally, while the Commission has begun to address its shortcomings with respect to financial management personnel, it must follow through on its Human Capital Plan, and staff up and train personnel, so that that financial management staff are fully capable of performing their duties. While there has been significant improvement in documentation supporting financial transactions over the past two years, there are still gaps that need to be filled.

Summary of the Balance Sheets and Statements of Changes in Net Position

Assets: At the end of FY 2011, the Commission's balance sheet showed total assets of $21.2 million, an increase of $0.82 million or 4.0 percent over FY 2010. This increase was the net result of two offsetting factors. The first factor was the $2.3 million (16.8 percent) increase in Fund Balance with Treasury (FBWT). The bulk of this change is found in the $3.9 million or 47.8 percent increase in unexpended appropriations. There was no increase in appropriations for FY 2011, however, there was a decrease of $1.6 million in appropriations used and a 70.4 percent increase in undelivered orders. The increase in undelivered orders was due to obligations to pay for renovation of the second floor of the USITC headquarters building and to forward fund most service contracts through March 31, 2012. The second factor was the $1.4 million (20.9 percent) decrease in net assets. This decrease, in turn, was the net result of $1.6 million in annual depreciation expense and a marginal ($0.27 million) increase in expenditures for new Property, Plant, and Equipment.

Liabilities: At the end of FY 2011, the Commission's total liabilities were $7.8 million, a decrease of $1.8 million or 18.7 percent over FY 2010. The decrease in total liabilities was primarily the result of a lower percentage for payroll accruals and payroll tax accruals for FY 2011.

Net Position: The Commission's net position on the Balance Sheet and the Statement of Changes in Net Position was $13.4 million, an increase of $2.6 million or 24.1 percent above the FY 2010 ending net position of $10.8 million. The amount of unexpended appropriations increased by nearly $3.9 million, which more than offset a decrease in cumulative results of operations of approximately $1.2 million.

Financing sources from appropriations used during FY 2011 were $77.8 million and imputed financing sources totaled $3.9 million. This represents a decrease of 4.2 percent from FY 2010. The imputed financing consisted of $2.0 million in future retirement benefits and $1.9 million in future health and life insurance benefits, which will be paid to future retirees.

Summary of the Statements of Net Cost

The Commission's net cost of operations for FY 2011 was $83.0 million, a decrease of $0.55 million or 0.7 percent over FY 2010. The decrease in net cost of operations was the result of less appropriations used and lower imputed financing costs.

Summary of the Statements of Budgetary Resources

The Statement of Budgetary Resources provides information on budgetary resources made available to the Commission and the status of these resources at the end of the fiscal year. For FY 2011, total budgetary resources were $84.8 million. This represents an increase of $1.4 million, or 1.6 percent, over the total budgetary resources of $83.4 million in FY 2010. Additionally, direct obligations were $84.3 million and net outlays totaled $79.4 million this year. This represents an increase in direct obligations of $2.9 million or 3.6 percent and an increase in net outlays of $1.3 million or 1.6 percent over FY 2010. In sum, the increase in direct obligations was similar to the increase in budgetary resources. Net outlays did not increase at the same rate of obligations, as significant obligations were incurred for renovation of newly acquired space and for service contracts that will not result in disbursements until FY 2012. As a result, the end of year net outlays rose by $1.3 million in FY 2011.

Limitations on Financial Statements

The Commission's financial statements were prepared in conformity with the hierarchy of accounting principles approved by the Federal Accounting Standards Advisory Board (FASAB) and OMB Circular No. A-136, *Financial Reporting Requirements*.

The principal financial statements have been prepared to report the financial position and results of operations of the Commission, pursuant to the requirements of 31 U.S.C. 3515(b). While the statements have been prepared from the books and records of the Commission in accordance with U.S. Generally Accepted Accounting Principles (GAAP) for federal entities and the formats prescribed by OMB, the statements are in addition to the financial reports used to monitor and control budgetary resources, which are prepared from the same books and records.

The statements should be read with the realization that they are for a component of the U.S. Government, a sovereign entity.

Management Controls and Compliance with Laws and Regulations

Federal Managers' Financial Integrity Act (FMFIA)

The objectives of the Federal Managers' Financial Integrity Act of 1982 are to ensure that the Commission's controls and systems provide reasonable assurance that:

- obligations and costs are in compliance with applicable laws;
- funds, property, and other assets are safeguarded against waste, loss, unauthorized use, or misappropriation;
- revenues and expenditures are properly recorded and accounted for to permit the preparation of accounts and reliable financial reports and to maintain accountability over assets; and
- programs are efficiently and effectively carried out in accordance with applicable laws and management policy.

In accordance with the Accountability of Tax Dollars Act of 2002 (ATDA), the Commission's financial information is audited annually to help assess if these objectives are being met. Additionally, at the end of each fiscal year, management reviews the operating units' performance data to ensure that performance results can be properly supported.

For FY 2011, the Commission evaluated the internal control over the effectiveness and efficiency of operations and compliance with applicable laws and regulations in accordance with OMB Circular No. A-123, *Management's Responsibility for Internal Control*. Based on the results of this evaluation, the Commission identified inadequate internal controls over accounts payable, expenditures, procurement, and obligations; and insufficient resources and personnel with appropriate skill sets as material weaknesses in its internal control over financial reporting, the effectiveness and efficiency of operations, and compliance with applicable laws and regulations as of September 30, 2011. In addition, the Commission did not comply with the requirements of Title 5 U.S.C. § 7905, *Programs to encourage commuting by means other than single-occupancy motor vehicles*, and the related guidance outlined in Appropriations Law.

The Commission is committed to the integrity of its financial information, including the principles and objectives of the FMFIA and the ATDA, the accounting principles approved by the Federal Accounting Standards Advisory Board (FASAB), and the guidance provided in OMB Circular No. A-123 and OMB Circular No. A-136, *Financial Reporting Requirements*. The Commission reviewed and strengthened its internal controls over financial management and operations to support improved accountability. That effort is ongoing and will require continued review, analysis, and updates of existing policies and procedures. That review will likely result in changes in a number of areas to more closely conform to financial management "best practices."

In addition to developing and issuing comprehensive financial management policies and procedures, the Commission concentrated on improving its internal controls over operations. The Commission developed policies and procedures for collecting, analyzing, and reporting operational data to promote efficiency and integrity in its operations. These policies and procedures support the agency financial reporting cycle and help to link financial and operational management. The Commission also provided financial management training to all senior managers.

Government Performance and Results Act

The Government Performance and Results Act of 1993 requires a recurring cycle of performance reporting for federal agencies. This cycle involves five-year strategic plans, annual performance plans, and annual program performance reports. The Commission elected to issue an Agency Financial Report in 2011 as an alternative to the consolidated Performance and Accountability Report that had been issued in previous fiscal years.

GPRA Modernization Act

The Act creates a new government wide framework including (1) long-term federal government priority goals, (2) revised federal government performance plan requirements, (3) quarterly priority progress reviews, and (4) a government-wide performance website.

Federal Financial Management Improvement Act

Under the Federal Financial Management Improvement Act of 1996 (FFMIA), agencies are required to report on whether their financial management systems substantially comply with the federal financial management systems requirements, applicable federal accounting standards, and the United States Standard General Ledger (USSGL) at the transaction level. Since the Commission is not a CFO Act agency, it is not subject to the FFMIA. The Commission uses the Department of Interior's financial management system and that system is FFMIA compliant. Thus, the Commission's financial management system complied with the requirements of FFMIA and produced records in accordance with USSGL at the transaction level.

Federal Information Security Management Act

The Federal Information Security Management Act of 2002 (FISMA) requires each federal agency to establish and maintain an information security program for all non-national security information and information systems. The Commission's information security program includes a process for planning, implementing, evaluating, and documenting remedial action to address any deficiencies in its information security policies, procedures, and practices. In addition, FISMA requires the OIG to perform an annual independent evaluation.

During FY 2011, the Commission maintained its information security program by (1) providing annual information security awareness training to its user community, including contractors; (2) performing annual assessments on its major information systems, incorporating the testing of management, operational, and technical security controls; (3) maintaining the process for planning, implementing, evaluating, and documenting remedial action to address any deficiencies in the information security policies, procedures, and practices; (4) maintaining procedures for detecting, reporting, and responding to security incidents, consistent with standards and guidelines issued by the OMB and the National Institute of Standards and Technology (NIST); and (5) applying secure configuration baselines from NIST, based on functional requirements.

The OCIO addressed all but two findings in the *Evaluation of the U.S. International Trade Commission's Fiscal Year 2005 Information Security Program and Practices Audit Report*, OIG-AR-04-05. The two outstanding issues are related to COOP. The Chief Information Officer, the IG, and the Chairman have agreed to a new timeline to address these two issues.

Accountability of Tax Dollars Act

ATDA requires the preparation of financial statements by the federal agencies that were exempted by the Chief Financial Officers Act of 1990. OMB Circular No. A-136, *Financial Reporting Requirements*, enables agencies to either produce a consolidated Performance and Accountability Report or to produce a separate Agency Financial Report. The Commission chose to produce an Agency Financial Report. This report meets the requirements of the Act.

Improper Payments Elimination and Recovery Act

The Improper Payments Elimination and Recovery Act of 2010 (IPERA), enacted on July 22, 2010, requires the development of policies and procedures for the prevention and detection of improper payments in the federal government. The Act expands on the Improper Payments Information Act of 2002 (IPIA), which requires an initial assessment to identify those programs that are susceptible to significant risk of improper payments.

The Commission's formal, written improper payment identification and recovery plan includes analysis of receivables, analysis of payroll transactions, and sample testing of both payroll and non-payroll disbursements to identify improper payments.

Prompt Payment Act

The Prompt Payment Act of 1982, as amended, provides government-wide guidelines for establishing due dates on commercial invoices and provides for interest payment on invoices paid late. The Commission made late payments on 18 percent of all invoices, resulting in interest penalties of $4,001 in FY 2011.

Inspector General Act

The 1988 amendments to the Inspector General Act of 1978 established the Commission's Inspector General (IG). The IG is responsible for overseeing audits, investigations, and inspections of the Commission's programs and operations.

Debt Collection Improvement Act

The Debt Collection Improvement Act of 1996 requires agencies to review and report annually on their internal standards and policies regarding compromising, writing down, forgiving, or discharging debt. In FY 2011, the Commission referred no debts to Treasury.

Anti-Deficiency Act

The Anti-Deficiency Act prohibits federal agencies from obligating or expending federal funds in advance or in excess of an appropriation or apportionment. The Act also prohibits an agency from accepting voluntary services for the United States, or employing personal services not authorized by law, except in cases of emergency involving the safety of human life or the protection of property. The Commission did not have any Anti-Deficiency Act violations during FY 2011.

Buy American Act

The Buy American Act requires federal agencies to purchase goods, supplies, and materials that have been mined, produced, or manufactured in the United States of America. The Commission followed the requirements of this Act during FY 2011.

Economy Act

The Economy Act of 1933 allows the head of an agency or major organizational unit within a federal agency to place an order with a major organizational unit within the same federal agency or another federal agency for goods or services, if

1. amounts are available;
2. the head of the ordering federal agency or unit decides the order is in the best interest of the United States Government;
3. the federal agency or unit to fill the order is able to provide or get by contract the ordered goods or services; and
4. the head of the federal agency decides ordered goods or services cannot be provided as conveniently or cheaply by a commercial enterprise .

During FY 2011, the Commission had interagency agreements with 13 agencies: Council of the Inspectors General on Integrity and Efficiency, Department of Homeland Security, Department of Labor, Federal Occupational Health, General Services Administration, Library of Congress, National Business Center, National Gallery of Art, Office of Federal Operations, Office of Personnel Management, United States Postal Service, United States Census Bureau, and the United States Department of Agriculture.

Financial Section

Message from the Chief Administrative Officer

I am pleased to present the United States International Trade Commission's financial statements for the FY 2011 Annual Financial Report. The independent accounting firm of Castro & Company, LLC, monitored by the Inspector General, issued an unqualified opinion on the Commission's FY 2011 financial statements. While the unqualified opinion represents continued improvement in financial management reform over the last two years, and is a testament to the Commission's commitment to improve its financial management, challenges remain and the process of reform is not complete.

The Independent Auditor's Report on Internal Control included three material weaknesses, one significant deficiency, and one instance of noncompliance. The material weaknesses relate to accounting for undelivered orders, procurement processes, and lack of resources for financial management. Remedial plans are in place to address all of the material weaknesses, the significant deficiency and noncompliance findings, and I am confident that we will eliminate these issues if we stay on our current path.

Much has been accomplished in the last year regarding financial management reform or we would not have been able to obtain an unqualified opinion. Unless we maintain our resolve and complete planned remedial efforts, however, we will not be able to sustain our current level of performance. I am grateful to the dedicated staff of the Commission who worked tirelessly to increase our accountability for financial resources and improved the quality and accuracy of our financial reporting.

I am also grateful to the Commission for approving a new human capital plan for administrative services that will provide the resources necessary to obtain and maintain a sound internal control environment. The approved plan includes the creation of the Office of the Chief Financial Officer with increased staff and management support for financial operations, and consolidates finance, budget and procurement functions under a single senior manager reporting to the Commission. The Commission is currently in the process of selecting a Chief Financial Officer and a Chief Procurement Officer. Once these key management positions have been filled, I have no doubt that the Commission will be able to complete its financial management reform plan during FY 2012.

I look forward to working closely with internal and external stakeholders to make further improvements to the Commission's financial management operations in FY 2012.

Stephen A. McLaughlin
Chief Administrative Officer

UNITED STATES INTERNATIONAL TRADE COMMISSION

WASHINGTON, DC 20436

November 10, 2011 OIG-JJ-023

Commissioners:

This memorandum transmits the results of the audit (OIG-AR-12-02) of the Commission's financial statements for the fiscal years ended September 30, 2011 and 2010.

We contracted with the independent certified public accounting firm, Castro & Company, LLC, to conduct this audit. The contract required that the audit be performed in accordance with U.S. generally accepted government auditing standards.

My office has policies and procedures that are designed to provide assurance that work performed by non-Federal auditors complies with the auditing standards. These procedures follow the guidelines provided in the GAO/PCIE Financial Audit Manual (FAM650). In connection with this contract, we reviewed Castro & Company's final report and related documentation and made inquiries of its representatives. Our involvement in the audit process consisted of monitoring audit activities, attending meetings, participating in discussions, and reviewing the audit planning, working papers, conclusions, and results.

Our involvement and review of Castor & Company's work disclosed no instances where they did not comply, in all material respects, with the U.S. generally accepted government auditing standards; however, this review cannot be construed as an audit, and is not intended to enable us to express, and we do not express, any opinion on the Commission's financial statements. Castro and Company is solely responsible for the audit report dated November 8, 2011, and the conclusions expressed in the report.

Thank you for the cooperation and courtesies extended to both Castro & Company and my staff during this audit.

Sincerely,

Philip Heneghan

Philip M. Heneghan
Inspector General

Castro & Company
Accountants • Consultants

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Independent Auditor's Report

Inspector General
U.S. International Trade Commission

We have audited the accompanying balance sheets of the U.S. International Trade Commission (ITC) as of September 30, 2011 and 2010, and the related statements of net cost, changes in net position, and budgetary resources for the fiscal years then ended. These financial statements are the responsibility of ITC management. Our responsibility is to express an opinion on these financial statements based on our audits.

Except for the limitations on the scope of our work related to the prior year amounts as explained in the following paragraph, we conducted our audits in accordance with the auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and, Office of Management and Budget (OMB) Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements*, as amended. We considered the limitations on the scope of our work in forming our conclusions. 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.

We audited the accompanying balance sheet of the ITC as of September 30, 2010, and the related statements of net cost, changes in net position, and budgetary resources for the fiscal year then ended. Because of the matters discussed in our Independent Auditor's Report dated November 8, 2010, we were unable to obtain sufficient audit evidence to support ITC's financial statement amounts as of and for the fiscal year ended September 30, 2010 for undelivered orders and the related accounts payable and net position; nor were we able to satisfy ourselves as to the associated balances reported on the balance sheet and statement of budgetary resources by other auditing procedures. Our opinion on the FY 2010 financial statements does not differ from that opinion expressed in our previous report dated November 8, 2010.

In our opinion, except for the limitations cited in our Independent Auditor's Report dated November 8, 2010, the financial statements referred to in the first paragraph above present fairly, in all material respects, the financial position of the ITC as of September 30, 2011 and 2010, and the related statements of net cost, changes in net position, and budgetary resources for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The information presented in the Management's Discussion and Analysis is not a required part of ITC's financial statements, but is considered supplementary information required by U.S. generally accepted accounting principles and OMB Circular No. A-136, *Financial Reporting Requirements*. The other accompanying information has not been subjected to the auditing procedures applied in our audit of the basic financial statements and accordingly, we express no opinion on it.

Independent Auditor's Report
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The information presented in the Message from the Chairman and Performance Section is presented for purposes of additional analysis and is not required as part of the financial statements. However, we have applied certain limited procedures, which consist principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. Such information has not been subjected to auditing procedures, and accordingly, we express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our reports dated November 8, 2011, on our consideration of ITC's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations and other matters. The purpose of those reports is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. Those reports are an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Castro & Company, LLC

November 8, 2011
Alexandria, VA

UNITED STATES INTERNATIONAL TRADE COMMISSION

WASHINGTON, DC 20436

November 10, 2011 OIG-JJ-024

Commissioners:

This memorandum transmits the Independent Auditor's Report on Internal Controls (OIG-AR-12-03) associated with the audit of the Commission's financial statements for fiscal year 2011.

We contracted with the independent certified public accounting firm, Castro & Company LLC, to conduct the financial statement audit. The contract required that the audit be conducted in accordance with U.S. generally accepted government auditing standards and these auditing standards require a report on Internal Control to be produced as part of the audit.

This report contains 12 recommendations for corrective action. In the next 30 days, please provide me with your management decisions describing the specific actions that you will take to implement each recommendation.

Throughout the audit and at its conclusion, my office followed procedures and conducted a final review that included monitoring the performance of the audit, reviewing Castro & Company's report and related documentation, and making inquiries of its representatives. Our final review disclosed no instances where Castro & Company did not comply, in all material respects, with the U.S. generally accepted government auditing standards; however, this final review cannot be construed as an audit, and is not intended to enable us to express, and we do not express, any opinion on the Commission's internal control. Castro and Company is solely responsible for this report dated November 8, 2011, and the conclusions expressed in the report.

Thank you for the cooperation and courtesies extended to the auditors and my staff during this audit.

Sincerely,

Philip M. Heneghan
Inspector General

Castro&Company
Accountants • Consultants

2121 Eisenhower Ave.
Suite 606
Alexandria, VA 22314
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Independent Auditor's Report on Internal Control

Inspector General
U.S. International Trade Commission

We have audited the financial statements of the U.S. International Trade Commission (ITC) as of and for the year ended September 30, 2011, and have issued our report thereon dated November 8, 2011.

In planning and performing our work, we considered ITC's internal control over financial reporting by obtaining an understanding of the design effectiveness of ITC's internal control, determining whether controls had been placed in operation, assessing control risk, and performing tests of ITC's controls as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not to express an opinion on the effectiveness of ITC's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of ITC's internal control over financial reporting. We limited our internal control testing to those controls necessary to achieve the objectives described in the Office of Management and Budget (OMB) Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements,* as amended. We did not test all internal controls relevant to operating objectives as broadly defined by the Federal Managers' Financial Integrity Act of 1982 (FMFIA), such as those controls relevant to ensuring efficient operations.

Our consideration of internal control over financial reporting was for the limited purposes described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a deficiency in internal control, or a combination of deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with U.S. generally accepted accounting principles (GAAP) such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected.

A material weakness is a significant deficiency, or combination of significant deficiencies, that result in a more than remote likelihood that a material misstatement of the financial statements will not be prevented or detected.

Independent Auditor's Report on Internal Control
Page 2

Our consideration of the internal control over financial reporting was for the limited purpose described above and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we consider the first three deficiencies described below to be material weaknesses.

We also noted less significant matters involving internal control and its operations which we have reported to ITC management in a separate letter dated November 8, 2011.

This report is intended solely for the information and use of the management and the Office of Inspector General of ITC, OMB, Government Accountability Office, and Congress, and is not intended to be and should not be used by anyone other than these specified parties.

Castro & Company, LLC

November 8, 2011
Alexandria, VA

Independent Auditor's Report on Internal Control
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MATERIAL WEAKNESSES

I. Insufficient Resources and Personnel with Appropriate Skill Sets (Repeat Condition)

ITC management reported to the Office of Inspector General that ITC implemented all of the "Management Decisions" related to the recommendations from last year's Independent Auditor's Report on Internal Control. However, significant internal control weaknesses still exist and are identified in this report. The fact that a significant number of the findings were not corrected, but ITC management considered all Management Decisions complete relating to the prior year's internal control report recommendations, continues to highlight that ITC does not have adequate resources and personnel with appropriate skill sets and expertise to perform financial management accounting and reporting functions. However, we were able to determine that the fiscal year 2011 financial statements are fairly presented because ITC performed a significant data clean-up right before year-end, but the controls were not in place for the majority of the fiscal year.

Furthermore, ITC has not developed a program to cross train finance personnel in performing day-to-day financial management accounting and financial reporting tasks. Specifically, ITC did not have a systems accountant on staff with expertise in the accounting system. Accordingly, an understanding of the system's key processes did not exist, which impeded ITC's ability to process accounting transactions accurately and generate financial data and reports in a complete, timely, and accurate manner.

Government Accountability Office's (GAO's) *Standards for Internal Control in the Federal Government* states:

> Management sets the objectives, puts the control mechanisms and activities in place, and monitors and evaluates the control. However, all personnel in the organization play important roles in making it happen. All personnel need to possess and maintain a level of competence that allows them to accomplish their assigned duties, as well as understand the importance of developing and implementing good internal control. Management needs to identify appropriate knowledge and skills needed for various jobs and provide needed training, as well as candid and constructive counseling, and performance appraisals.

Without the adequate staffing levels and the proper skill sets, ITC will continue to encounter challenges in its accounting and financial reporting processes. By not adequately performing management functions specific to monitoring, analysis, oversight, and reconciliations, discrepancies may exist but go undetected and uncorrected; thereby causing the financial information to be misstated. Effective management oversight greatly increases ITC's ability to proactively identify and resolve issues that could result in misstatements in financial accounting and reporting records.

Independent Auditor's Report on Internal Control
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Recommendations:

We made recommendations in the prior year related to this issue that ITC management has undertaken certain actions to implement. Specifically, the ITC's *Supplement to the Strategic Human Capital Plan: Reorganization of Agency-wide Administrative Functions, 2009-2013*, discusses that ITC will establish a new Office of the Chief Financial Officer (OCFO) with a Chief Financial Officer (CFO) who reports directly to the Commission. The CFO will be a Senior Executive Service (SES) level position, with the requisite skills and Federal expertise to address the ITC's financial management and reporting challenges. The CFO will oversee the budget, procurement, accounting, financial management, financial reporting internal controls, risk management, and asset evaluation. In addition, the CFO will be responsible for the development of efficient financial and administrative reporting and data information systems. To enhance the CFO's likelihood of meeting the challenges of standing up a newly created division, all hiring decisions for the newly created positions (Director of Budget, Systems Accountant, Internal Auditor/Financial Controls Manager, Program Analysts, Financial Manager, Junior Contract Specialist, and Procurement Assistant) will not be finalized until a CFO is hired by the Commission.

ITC externally posted a position announcement for the CFO. Senior leadership is in the evaluation assessment phase of recruiting the CFO.

II. Inadequate Controls over Undelivered Orders (i.e., Open Obligations) Accounts Payable, and Expenditures (Repeat Condition)

During our testing, we noted multiple issues surrounding the accounting for open obligations, accounts payable, and expenditures as summarized below, which further substantiates the finding reported above in Material Weakness I, *Insufficient Resources and Personnel with Appropriate Skill Sets*.

- Even though improvements were made over the prior fiscal year, sufficient documentation was not provided to support the validity of certain Undelivered Orders (UDO) balances (i.e. obligating documents, invoices). Additionally, invalid UDOs were still recorded in the general ledger for the majority of the fiscal year, even though the period of performance had expired and the final invoice had been received. We were unable to rely on our interim testing as of June 30, 2011 for the UDO balance, accounts payable (AP), and expenditures because of a significant number of testing exceptions, which required us to perform expanded testing related to all open obligations as of September 30, 2011. Since ITC did not perform an adequate data clean-up of the UDO and AP balances prior to June 30, 2011, management had to perform a significant data clean-up prior to year-end, where numerous UDOs were deobligated because the amounts were invalid.

- Accruals were not properly recorded throughout the fiscal year. To determine the amount to record as AP on the financial statements, ITC performed a review of open obligations as of September 30, 2011 to determine if an accrual was needed. The review consisted of contacting each Contracting Officer's Technical Representative (COTR) with a list of

Independent Auditor's Report on Internal Control
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general ledger-generated open obligations and having the COTR state whether the obligations were valid. If the obligation was valid, the COTR should have provided an amount to accrue for AP as of September 30, 2011. However, ITC did not have a detailed, logical methodology to accrue expenses for goods/services that were received but not yet paid for as of September 30, 2011. We noted that certain accrued amounts were not supported by proper documentation such as an estimate of services received based on past services received and paid. We also noted that COTRs provided certain accrual amounts without clearly documenting an explanation on the methodology of why the amount should be accrued. Additionally, ITC frequently recorded the accrual (payable) when the invoice was received rather than when goods and/or services were received. Our interim testing performed as of June 30, 2011 also identified the same issues related to the recording of accruals.

- ITC does not use a standardized numbering schema for all procurement actions. As a result, when a modification was created to an existing contract, a completely new obligation document was created that did not have a relationship to the original contract in the financial system. Invoices are often split between the different obligations, creating problems trying to map and reconcile the obligations and invoices in the general ledger.

- The Department of the Interior (DOI), National Business Center (NBC) financial management system requires the Designated Oracle Representative (DORs) and finance staff to enter data into fields where the headings do not properly correspond to the type of data being entered. The DORs are required to enter the price of the requisition in the quantity column and quantity in the price column, and finance staff are required to complete the "quantity" field in the payment screen as the payment amount. If the DOR has entered the quantity as "the total price of the contract" and the price as "1" in the requisition module, the payment will be debited to account 4801, "Undelivered Orders – Obligations, Unpaid," properly. However, if the DOR has entered the quantity in the quantity heading and the price in the price heading, then the UDO (4801) account is debited for the incorrect amount. Additionally, the format the DORs use for quantity and price also has a direct impact on the payment of invoices. If the DOR enters the quantity as a percentage, then whenever a payment is made, the percentage entered will be debited to the 4801 account instead of the approved payment amount.

By not having controls in place to detect and prevent the improper debiting of the 4801 account as a result of a payment, Undelivered Orders – Obligations, Unpaid may be misstated. For example, we noted that invoices were approved for payment and Finance entered the payments and they were paid by Treasury correctly. However, the DOR did not set the requisition up as unit quantity "as the total price of the contract." As a result, the UDO (4801) was debited for the incorrect amount. The debit was based on how the DOR set up the quantity. Currently, there are no controls in place to prevent and detect this type of error. This type of error might be caught when Finance tries to post a payment and there is not enough obligated in the DOI NBC financial system to make the payment. Finance contacts the DORs to determine how the quantity was entered and request that an adjustment be made to quantity. Afterwards, the previous payment that incorrectly reduced the obligation is taken out and reentered with the proper quantity so additional payments can be posted to the obligation.

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In the prior fiscal years, we recommended to ITC management to document procedures to implement policies for monitoring obligations, operating expenses, and related AP on a routine basis. We reviewed ITC Management's Decision regarding this recommendation, and even though ITC management created policies, the policies were not always followed.

Additionally, in the prior fiscal years, we recommended to ITC management to train responsible personnel on how to monitor obligations, operating expenses, and AP to enhance compliance with the applicable requirements. We reviewed ITC Management's Decision regarding this recommendation, and even though ITC management provided training, the training was not sufficient because the internal controls were not in place throughout the fiscal year related to UDOs and AP. Obligation errors continued to occur, and the accrual methodology was not clearly documented to support the accruals recorded.

Finally, in the prior fiscal years, we recommended to ITC management to perform a data clean-up for all open obligations and AP documents to ensure that the balances are properly reported, with appropriate adjustments posted at the detailed general ledger level. We reviewed ITC Management's Decision regarding this recommendation, and even though ITC management stated that it completed a data clean-up, it was not thorough or sufficient, because we continued to note significant errors, and adjustments continued to not be posted at the detailed general ledger level.

The fact that the above internal control weaknesses related to the accounting for open obligations, accounts payable, and expenditures still exist, further substantiates the finding reported above in Material Weakness I, *Insufficient Resources and Personnel with Appropriate Skill Sets.*

GAO's *Standards for Internal Control in the Federal Government* states:

> Internal control and all transactions and other significant events need to be clearly documented, and the documentation should be readily available for examination. The documentation should appear in management directives, administrative policies, or operating manuals and may be in paper or electronic form. All documentation and records should be properly managed and maintained.

The Statement of Federal Financial Accounting Standards (SFFAS) No. 1, *Accounting for Selected Assets and Liabilities* states:

> Accounts payable are amounts owed by a Federal entity for goods and services received from, progress in contract performance made by, and rents due to other entities…When an entity accepts title to goods, whether the goods are delivered or in transit, the entity should recognize a liability for the unpaid amount of the goods. If invoices for those goods are not available when financial statements are prepared, the amounts owed should be estimated.

By not performing a review of open obligations, expenditures, and accounts payable on a routine basis, financial data used to generate management reports or financial reports required by applicable laws and regulations may be over or understated.

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Recommendations:

We recommend that ITC management:

1. Create an obligation folder for each open obligation.

2. Create a detailed checklist that identifies the contents to be included in each obligation folder, to include at a minimum, all obligation documents, invoices, and quarterly accrual amounts and methodologies.

3. Reconcile all open obligation folders to the general ledger.

4. Establish and implement quality control procedures for the open obligation reviews.

5. Establish and implement a standardized numbering schema to be used for all procurement actions.

6. Post financial transactions, including adjustments at the detailed general ledger transaction level, including accruals, deobligations, and refunds.

7. Research and correct all errors based on the unit difference between the DORs entered quantity and the Finance entered quantity.

8. Coordinate with the DOI NBC and request that the financial application be modified so that field headings correspond to the data being entered.

III. Inadequate Controls Surrounding the Procurement Process (Repeat Condition, Modified)

We reviewed ITC Management's Decisions regarding the recommendations made in the prior year's internal control report, and even though ITC management stated that all actions related to procurement were completed, we noted numerous instances where procurement documents were not adequately documented to consistently demonstrate compliance with the requirements of the Federal Acquisition Regulation (FAR). For example, we noted instances where the procurement documents:

- Insufficiently explained the purpose of the services to be provided;

- Were inconsistent and contained errors related to funding amounts, delivery dates, and periods of performance;

- Lacked documentation to support the reason or amount for modifications, or were not signed by the contracting officer;

Independent Auditor's Report on Internal Control
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- Did not contain substantiation why the contracting officer determined to offer multiple vendors contracts from a single award solicitation;

- Did not contain substantiation why the contracting officer determined to add option years to a sole source contract without recompeting; and

- Sole source justification letters did not have the required content or proper approvals.

Section 4.801 General of the FAR states:

> (a) The head of each office performing contracting, contract administration, or paying functions shall establish files containing the records of all contractual actions.
> (b) The documentation in the files (see 4.803) shall be sufficient to constitute a complete history of the transaction for the purpose of—
> (1) Providing a complete background as a basis for informed decisions at each step in the acquisition process;
> (2) Supporting actions taken;
> (3) Providing information for reviews and investigations; and
> (4) Furnishing essential facts in the event of litigation or congressional inquiries.

The FAR is the primary regulation for use by all Federal Executive agencies in their acquisition of supplies and services with appropriated funds. *Section 1.602 Contracting Officers, 1.602-1 Authority, of the FAR states,* "(b) No contract shall be entered into unless the contracting officer ensures that all requirements of law, executive orders, regulations, and all other applicable procedures, including clearances and approvals, have been met."

ITC contracting officers did not perform a sufficient review of the procurement documents prior to the release of the documents, which further contributed to the lack of adequate internal controls over the processing, approval, and documentation surrounding procurement efforts. Additionally, there has been significant turnover in senior officials in the procurement office, which has contributed to the inadequate internal controls over the procurement processes.

By not following the written policies and specific procedures for procurement efforts, ITC increases the risks of non-compliance with applicable laws and regulations, and the possibility that a material error or fraud may not be prevented or detected and corrected on a timely basis. The fact that the above internal control weaknesses related to procurement still exist, further substantiates the finding reported above in Material Weakness I, *Insufficient Resources and Personnel with Appropriate Skill Sets.*

Recommendations:

We recommend that ITC management:

Independent Auditor's Report on Internal Control
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9. Review all open ITC procurement files to ensure all FAR required documentation is in the contract file such as, requisitions, solicitation information, documentation of quotes, statements of work, all signed modifications, etc.

10. Reconcile the open ITC procurement files to the open obligation folders.

11. Provide additional training to all staff involved in the procurement cycle (e.g., requestors, procurement staff, and finance staff) to communicate what documentation is needed and considered adequate to support the procurement action.

SIGNIFICANT DEFICIENCY

IV. Inadequate Internal Controls over Financial Reporting (Repeat Condition, Modified)

During testing of ITC's financial reporting, we noted that major improvements were made over the prior year in producing its quarterly financial statements and related reconciliations. However, during our review of ITC's financial statement and reconciliation preparation process, we identified certain issues, as summarized below, impacting ITC's ability to effectively accumulate, assemble, and analyze information presented in its financial statements in accordance with applicable guidance. Specifically, we noted the following:

- A significant error was made in one of the notes related to undelivered orders in the original year-end draft financial statements. ITC made the necessary correction to the final issued financial statements.

- Reconciliations between the subsidiary listings and the general ledger on key financial accounts were not well documented, contained errors, and did not always contain the signatures evidencing the review and approval for the reconciliation as required by the ITC Accounting Manual. For example, there were numerous errors on the year-end AP reconciliation, and it did not contain an approval by ITC management.

- A significant number of transactions were processed through the use of manual journal vouchers throughout the fiscal year, instead of posting the adjustments at the detailed transaction level in the general ledger. Certain of these manual journal vouchers contained errors. For example, ITC received refunds from vendors for erroneous payments, and the manual journal vouchers done to record the refunds were posted to the wrong accounts, and weren't posted to the general ledger at the transaction level. Although manual journal vouchers in and of themselves are not considered an issue, they do increase the risk for errors.

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These errors occurred because of ineffective management reviews and approvals to ensure that transactions and adjustments were accurate and properly supported. A major objective of internal control is to ensure the integrity of the underlying accounting data supporting the financial statements. A key control is performing reconciliations of significant account balances. An adequate reconciliation provides assurances that transactions are properly processed and recorded in the accounting records in a timely manner.

GAO's *Standards for Internal Control in the Federal Government* states:

> Internal control should generally be designed to assure that ongoing monitoring occurs in the course of normal operations. It is performed continually and is ingrained in the agency's operations. It includes regular management and supervisory activities, comparisons, reconciliations, and other actions people take in performing their duties. Internal control and all transactions and other significant events need to be clearly documented, and the documentation should be readily available for examination.
>
> Control activities are an integral part of an entity's planning, implementing, reviewing, and accountability for stewardship of government resources and achieving effective results…They include a wide range of diverse activities such as approvals, authorizations, verifications, reconciliations, performance reviews, maintenance of security, and the creation and maintenance of related records which provide evidence of execution of the activities as well as appropriate documentation.

OMB Circular No. A-123, *Management's Responsibility for Internal Control* states:

> Management has a fundamental responsibility to develop and maintain effective internal control. Federal employees must ensure that Federal programs operate and Federal resources are used efficiently and effectively to achieve desired objectives. Programs must operate and resources must be used consistent with agency missions, in compliance with laws and regulations, and with minimal potential for waste, fraud, and mismanagement.

Effective internal control provides assurance that significant weaknesses in the design or operation of internal control, that could adversely affect the ITC's ability to meet its objectives, would be prevented or detected in a timely manner. However, based on the issues noted above, ITC management needs to strengthen its internal control surrounding financial management to ensure compliance with applicable laws and regulations throughout the year.

<u>Recommendations</u>

We recommend that ITC management:

12. Document quality control procedures performed related to the review and approval of financial statements and related account reconciliations.

Chairman

UNITED STATES INTERNATIONAL TRADE COMMISSION

WASHINGTON, DC 20436

November 3, 2011

Thomas Castro, Partner
Castro & Company, LLC
2121 Eisenhower Avenue, Suite 606
Alexandria, VA 22314

Dear Mr. Castro:

The draft Report on Internal Control identified three material weaknesses and a significant deficiency. I concur with your assessment that in the financial management area the Commission has insufficient resources and personnel with appropriate skill sets; inadequate controls over undelivered orders, accounts payable, and expenditures; and inadequate controls surrounding the procurement process. I also concur that we have inadequate internal controls over financial reporting.

Beginning with your reports on our 2009 financial statements, which highlighted the financial management deficiencies and challenges that the Commission faced, we began developing an aggressive and comprehensive strategy to address the findings. As a result of this strategy, during fiscal years 2010 and 2011the Commission made significant progress in a number of areas that we believe will result in achieving our goal of accountability over Commission assets and operations. For example, we gained control and accountability over the Commission's property accounts; we also drafted the first accounting manual; we established a Chief Financial Officer position and are currently evaluating candidates.

We recognize that we have much more to do to change the financial management culture here at the Commission and plan to implement each of your recommendations.

Sincerely,

Deanna Tanner Okun

cc: Philip M. Heneghan
Inspector General

UNITED STATES INTERNATIONAL TRADE COMMISSION

WASHINGTON, DC 20436

November 10, 2011 OIG-JJ-025

Commissioners:

This memorandum transmits the Independent Auditor's Report on Compliance with Laws and Regulations (OIG-AR-12-04) associated with the audit of the Commission's financial statements for fiscal year 2011.

We contracted with the independent certified public accounting firm, Castro & Company LLC, to conduct the financial statement audit. The contract required that the audit be conducted in accordance with U.S. generally accepted government auditing standards and these auditing standards require a report on Compliance with Laws and Regulations to be produced as part of the audit.

This report identifies one instance of non-compliance related to the Commission's transit subsidy and parking program that was identified last year. Because the Commission submitted a request for a decision to the Government Accountability Office (GAO) on (1) the Commission's past parking and transit subsidy program, and (2) a proposed parking and transit subsidy program and is waiting for a reply, there are no recommendations in this report.

Throughout the audit and at its conclusion, my office followed procedures and conducted a final review designed to assure that the work performed by non-Federal auditors complied with the auditing standards. Our final review disclosed no instances where Castro & Company did not comply, in all material respects, with the U.S. generally accepted government auditing standards; however, this final review cannot be construed as an audit, and is not intended to enable us to express, and we do not express, any opinion on the Commission's compliance with laws and regulations. Castro and Company is solely responsible for this report dated November 8, 2011, and the conclusions expressed in the report.

Thank you for the cooperation and courtesies extended to both Castro & Company and my staff during this audit.

Sincerely,

Philip M. Heneghan
Inspector General

Castro & Company
Accountants • Consultants

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Independent Auditor's Report on Compliance with Laws and Regulations

Inspector General
U.S. International Trade Commission

We have audited the financial statements of the U.S. International Trade Commission (ITC) as of and for the year ended September 30, 2011, and have issued our report thereon dated November 8, 2011.

The management of ITC is responsible for complying with laws and regulations applicable to ITC. We performed tests of its compliance with certain provisions of laws and regulations, noncompliance with which could have a direct and material effect on the determination of financial statement amounts, and certain other laws and regulations specified in the Office of Management and Budget (OMB) Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements,* as amended, including the requirements referred to in the Federal Managers' Financial Integrity Act of 1982 (FMFIA). We limited our tests of compliance to these provisions, and we did not test compliance with all laws and regulations applicable to ITC.

The results of our tests of compliance with applicable laws and regulations, and government-wide policies described in the preceding paragraph disclosed one instance of reportable noncompliance, which is a repeat finding from fiscal year 2010 that is required to be reported under *Government Auditing Standards* or OMB guidance and is described in the following paragraphs.

Title 5 United States Code (U.S.C.) Section 7905, *Programs to encourage commuting by means other than single-occupancy motor vehicles*, "allows a program to involve such options as Transit passes; Furnishing space, facilities, or services to bicyclists; and any non-monetary [incentive] which the agency head may otherwise offer under any other provision of law or other authority." Furthermore, Executive Order 13150 requires, "by no later than October 1, 2000, Federal agencies shall implement a transportation fringe benefit program that offers qualified Federal employees the option to exclude from taxable wages and compensation, consistent with section 132 of title 26, United States Code, employee commuting costs incurred through the use of mass transportation and vanpools, not to exceed the maximum level allowed by law."

The Government Accountability Office's (GAO) *Principles of Federal Appropriations Law*, Chapter 4, Section J (pages 271–274) states, "agencies must generally obtain parking accommodations through the General Services Administration (GSA) under the Federal Property and Administrative Services Act of 1949, as amended (Ch. 288, 63 Stat. 377 (June 30, 1949)), unless they have independent statutory authority or a delegation from GSA."

ITC does not have independent statutory or delegated authority to procure space and facilities to provide for employee parking. As such, ITC's program provides benefits that do not fully comply with the requirements of *GAO Principles of Federal Appropriations Law*. In addition, ITC's program is also inconsistent with the requirements of 5 U.S.C. Section 7905, *Programs to encourage commuting by means other than single-occupancy motor vehicles*, and Executive Order 13150, *Federal Workforce Transportation.*

Independent Auditor's Report on Compliance with Laws and Regulations
Page 2

During fiscal year 2011, ITC formally requested for GAO to make a determination on ITC's past parking program, and to approve its new proposed program. ITC is currently awaiting GAO's decision.

Providing an opinion on compliance with certain provisions of laws and regulations, and government-wide policies was not an objective of our audit, and accordingly, we do not express such an opinion.

This report is intended solely for the information and use of management and the Office of Inspector General of ITC, OMB, GAO, and Congress, and is not intended to be and should not be used by anyone other than these specified parties.

Castro & Company, LLC

November 8, 2011
Alexandria, VA

Chairman

UNITED STATES INTERNATIONAL TRADE COMMISSION

WASHINGTON, DC 20436

November 3, 2011

Thomas Castro, Partner
Castro & Company, LLC
2121 Eisenhower Avenue, Suite 606
Alexandria, VA 22314

Dear Mr. Castro:

The draft Report on Compliance with Laws and Regulations for fiscal year 2011 identifies one instance of non-compliance related to the Commission's transit subsidy and parking program. This instance of non-compliance is a repeat finding from the fiscal year 2010 report. In order to bring our program into compliance, and in response to the finding last year, the Commission submitted a request for a decision from the Government Accountability Office (GAO) regarding (1) the Commission's past parking and transit subsidy program, and (2) a proposed parking and transit subsidy program going forward. As of the date of this letter, we are waiting for GAO's decision and will accept and comply with any and all findings and recommendations.

Thank you for bringing this instance of non-compliance to our attention. We are dedicated to resolving this issue as quickly as possible.

Sincerely,

Deanna Tanner Okun

cc: Philip M. Heneghan
Inspector General

Principal Financial Statements

U.S. INTERNATIONAL TRADE COMMISSION
BALANCE SHEET
As of September 30, 2011 and 2010
(in dollars)

	2011	2010
Assets:		
Intragovernmental:		
Fund balance with Treasury (Note 2)	$ 15,978,367	$ 13,684,392
Accounts receivable (Note 3)	26,752	80,216
Total intragovernmental	16,005,119	13,764,608
Accounts receivable (Note 3)	21,467	83,289
Property, plant, and equipment, net (Note 4)	5,147,809	6,504,939
Total Assets	$ 21,174,395	$ 20,352,836
Liabilities:		
Intragovernmental:		
Accounts payable (Note 6)	$ 1,267,530	$ 967,464
Employer contributions and payroll taxes payable (Note 5)	200,775	559,732
Unfunded FECA liability (Note 5)	25,076	27,208
Total intragovernmental	1,493,381	1,554,404
Accounts payable (Note 6)	1,704,165	1,763,073
Accrued funded payroll (Note 5)	887,214	2,331,238
Actuarial FECA liability (Note 5)	100,256	139,738
Unfunded leave (Note 5)	3,571,471	3,754,341
Total Liabilities	$ 7,756,487	$ 9,542,794
Net position:		
Unexpended appropriations	11,918,684	8,062,885
Cumulative results of operations	1,499,224	2,747,157
Total Net Position	$ 13,417,908	$ 10,810,042
Total Liabilities and Net Position	$ 21,174,395	$ 20,352,836

The accompanying notes are an integral part of these statements.

U.S. INTERNATIONAL TRADE COMMISSION

STATEMENT OF NET COST

For the years ended September 30, 2011 and 2010
(in dollars)

	2011	2010
Program Costs:		
Total Program Costs	$ 83,016,706	$ 83,561,963

The accompanying notes are an integral part of these statements.

U.S. INTERNATIONAL TRADE COMMISSION

STATEMENT OF CHANGES IN NET POSITION

For the years ended September 30, 2011 and 2010
(in dollars)

	2011	2010
Cumulative Results of Operations:		
Beginning balance	$ 2,747,157	$ 2,810,282
Budgetary Financing Sources:		
Appropriations used	77,840,481	79,396,430
Other Financing Sources (Non-Exchange):		
Imputed financing costs (Note 9)	3,928,292	4,102,408
Total Financing Sources	81,768,773	83,498,838
Net Cost of Operations	(83,016,706)	(83,561,963)
Net Change	(1,247,933)	(63,125)
Total Cumulative Results of Operations	$ 1,499,224	$ 2,747,157
Unexpended Appropriations:		
Beginning balance	$ 8,062,885	$ 6,186,331
Prior period adjustments due to correction of errors (Note 10)	-	(587,016)
Beginning balance, as adjusted	8,062,885	5,599,315
Budgetary Financing Sources:		
Appropriations received	81,860,000	81,860,000
Less: Other adjustments	(163,720)	0
Less: Appropriations used	(77,840,481)	(79,396,430)
Total budgetary financing sources	3,855,799	2,463,570
Total Unexpended Appropriations	$ 11,918,684	$ 8,062,885
Net Position	$ 13,417,908	$ 10,810,042

The accompanying notes are an integral part of these statements.

U.S. INTERNATIONAL TRADE COMMISSION
STATEMENT OF BUDGETARY RESOURCES
For the years ended September 30, 2011 and 2010
(in dollars)

	2011	2010
Budgetary Resources:		
Unobligated balance, brought forward, October 1	$ 2,071,623	$ 425,340
Recoveries of prior year unpaid obligations, actual	1,081,654	1,284,427
Budget authority:		
Appropriation (Note 1)	81,860,000	81,860,000
Spending authority from offsetting collections:		
Earned		
Collected	-	5,665
Change in receivables from federal sources	(53,464)	(131,020)
Subtotal Budget Authority	81,806,536	81,734,645
Permanently not available	(163,720)	0
Total Budgetary Resources	$ 84,796,093	$ 83,444,412
Status of Budgetary Resources:		
Obligations incurred:		
Direct (Note 14)	$ 84,287,141	$ 81,372,789
Unobligated balance:		
Apportioned	508,952	2,071,623
Total Status of Budgetary Resources	84,796,093	83,444,412
Change in Obligated Balance:		
Obligated balance, net		
Unpaid obligations, brought forward, October 1	$ 11,692,985	$ 9,732,352
Uncollected customer payments from federal sources	(80,216)	(211,236)
Total unpaid obligated balance, net	11,612,769	9,521,116
Obligations Incurred, net	84,287,141	81,372,789
Less: Gross outlays	(79,402,305)	(78,127,729)
Less: Recoveries of prior year unpaid obligations, actual	(1,081,654)	(1,284,427)
Change in uncollected payments from federal sources	53,464	131,020
Obligated balance, net, end of period:		
Unpaid obligations	15,496,167	11,692,985
Uncollected customer payments from federal sources	(26,752)	(80,216)
Total, unpaid obligated balance, net, end of period	$ 15,469,415	$ 11,612,769
Net Outlays:		
Gross outlays	$ 79,402,305	$ 78,127,729
Offsetting collections	-	(5,665)
Net Outlays	$ 79,402,305	$ 78,122,064

The accompanying notes are an integral part of these statements.

United States International Trade Commission
Notes to Financial Statements
September 30, 2011 and 2010

Note 1. Significant Accounting Policies

A. Reporting Entity

The Commission is an independent agency of the U.S. Government created by an act of Congress and 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, each of whom serve two-year terms. The USITC's budget constitutes a single program in the Budget of the United States. Accordingly, the USITC receives a lump sum appropriation. The appropriated funds are "no year" funds and may be obligated for goods and services that are provided in subsequent fiscal years.

The USITC conducts investigations and reports findings relating to imports and the effect of imports on industry, and unfair import practices. The USITC advises the President on the probable economic effect of proposed trade agreements with foreign countries. The USITC also conducts analytical studies and provides reports on issues relating to international trade and economic policy to Congress and the President

B. Basis of Accounting and Presentation

The USITC's financial statements conform to Generally Accepted Accounting Principles (GAAP) as promulgated by the FASAB. The American Institute of Certified Public Accountants (AICPA) recognizes FASAB Standards as GAAP for federal reporting entities. These principles differ from budgetary reporting principles. The differences relate primarily to the capitalization and depreciation of property, plant, and equipment, as well as the recognition of other long-term assets and liabilities. The statements were prepared in conformity with OMB Circular No. A-136, *Financial Reporting Requirements*.

The financial statements have been prepared from the books and records of the USITC and include all accounts of all funds under the control of the USITC. Accounting principles generally accepted in the United States of America encompass both accrual and budgetary transactions. Under the accrual method, revenues are recognized when earned and expenses are recognized when a liability is incurred, without regard to receipt or payment of cash. Budgetary accounting facilitates compliance with legal constraints and controls over the use of federal funds. The accompanying financial statements are prepared on the accrual basis of accounting. The USITC's fiscal year is October 1 through September 30. FY 2011 and FY 2010 financial statements are presented to allow comparison.

Assets: Intragovernmental assets are those assets that arise from transactions with other federal entities. Funds with the U.S. Treasury represent intragovernmental assets on the USITC's balance sheet. Fiduciary assets are not assets of the USITC and are not recognized on the balance sheet. The USITC holds cease and desist bonds, which are held for non-federal parties that the USITC does not have the authority to use in its operations. See Note 12, Fiduciary Activities, for additional disclosure.

Financing Sources: The USITC has received "no year" appropriations for operations since FY 1993. Appropriations are recognized as a financing source and expensed when related operating expenses are incurred. Differences between appropriations received and those expensed are included as unexpended appropriations. Congress appropriated to the USITC $81,860,000 for salaries and expenses in FY 2011 and in FY 2010. In FY 2011 there was a rescission of $163,720.

Fund Balance with the U.S. Treasury: Cash receipts and disbursements are processed by the Treasury. The fund balance with the U.S. Treasury represents appropriated entity funds in the custody of the U.S. Treasury and is available to pay current liabilities and to finance authorized purchase commitments. The USITC's obligated and unobligated fund balances are carried forward until goods or services are received and payments are made, or until such time as funds are deobligated.

C. Property, Plant, and Equipment, Net

The USITC's portfolio of assets includes IT-related equipment, furniture, software, and leasehold improvements. For financial statement reporting purposes, the USITC does not own heritage assets or plant, as defined in the FASAB Statements of Federal Financial Accounting Standards (SFFAS) No. 6, *Accounting for Property, Plant, and Equipment*. The USITC therefore reports only property and equipment in its financial statements. The USITC's operations are housed in a leased structure. In FY 2007, the USITC entered into a 10-year operating lease with the General Services Administration (GSA) for the facility that houses its day-to-day mission operations.

The USITC capitalizes all equipment and furniture when an asset acquisition costs $50,000 or more and when the acquired asset has a useful life of two or more years. Depreciation expense for equipment and furniture is calculated using the straight-line method over an estimated economic useful life. Maintenance and license fees associated with equipment are expensed in the accounting period that purchased maintenance and licenses are received.

The USITC capitalizes internal use software (IUS) using the standards defined and prescribed in the SFFAS No. 10, the *Accounting for Internal Use Software* and further explained and clarified in the "Federal Financial Accounting and Auditing Technical Release 5, Implementation Guidance on Statement of Federal Financial Accounting Standards 10: Accounting for Internal Use Software." Accordingly, the USITC begins to accumulate IUS development costs for equipment integral to the functioning and operation of the software, as well as costs for development work associated with an IUS project when accumulated costs reach $10,000. When the combined accumulated equipment and IUS development costs reach $100,000, the IUS project is classified for financial statement reporting purposes as a capital asset and reported in the financial statements as an "in progress" capital asset. Equipment integral to the functioning and operation of the software is not depreciated until the software is placed in service. Upon completion and user acceptance testing, IUS and its associated equipment are reclassified as IUS equipment and software. The equipment is depreciated and the software is amortized using the straight-line (S/L) method over an estimated economic useful life. Maintenance and license fees associated with an IUS capital asset are accrued, expensed, and allocated between accounting periods based on period-of-performance timeframes specified in contractual agreements. Commercial software costs that do not meet the capitalization criteria and thresholds are expensed in the accounting period that the purchased software is received.

The USITC capitalizes all leasehold improvement acquisition costs that are $50,000 or more and that have a useful life of two or more years. The USITC applies the same accounting treatment and standards to leasehold improvements as it does for IUS, when the leasehold improvement involves multiple stages of completion before work acceptance. For financial reporting purposes, all accumulated costs are captured in an "in progress" account and reported on the financial statements. Upon completion and acceptance of work, the costs are reclassified and reported on the financial statements as a leasehold improvement subject to amortization. Leasehold improvements are amortized over either the remaining life of lease term or the estimated economic useful life of the leasehold improvement, whichever is less.

D. Accrued Annual Leave

Accrued annual leave is paid from future funding sources and accordingly is reflected as a liability not covered by budgetary resources. Each quarter the balance in the accrued leave account is adjusted to reflect the current leave balances and pay rates. Sick leave and other types of non-vested leave are expensed as taken.

E. Employee Retirement Plans

Commission employees participate in either the Civil Service Retirement System (CSRS) or the Federal Employees Retirement System (FERS), which became effective on January 1, 1987. Most federal employees hired after December 31, 1983, are automatically covered by FERS and Social Security. For employees covered by CSRS, the USITC withheld 7.0 percent of base pay earnings. The Commission matches this withholding, and the sum of the withholding and the matching funds is transferred to the Civil Service Retirement System.

FERS contributions made by employer agencies and covered employees are comparable to the U.S. Government's estimated service costs. For FERS covered employees, the Commission made contributions of 11.7 percent of basic pay. Employees participating in FERS are covered under the *Federal Insurance Contribution Act (FICA)* for which the Commission contributes a matching amount to the Social Security Administration.

F. Net Position

Net position is the residual difference between assets and liabilities and is composed of unexpended appropriations and the cumulative results of operations. Unexpended appropriations represent the amount of unobligated and unexpended budget authority. Unobligated balances are the amount of appropriations or other authority remaining after deducting the cumulative obligations from the amount available for obligation. Cumulative results of operations are the net result of the USITC's operations since inception.

G. Intragovernmental Activities

The USITC records and reports only those government-wide financial matters for which it is responsible and identifies only those financial matters that the USITC has been granted the budget authority and resources to manage.

H. Use of Estimates

The financial statements are based on the selection of accounting policies and the application of certain accounting estimates, some of which require management to make significant assumptions. Further, the estimates are based on current conditions that may change in the future. Actual results could differ materially from the estimated amounts. The financial statements include information to assist in understanding the effect of changes in assumptions to the related information.

I. Reclassifications

Certain prior-year amounts have been reclassified to conform to classifications adopted in FY 2010. This reclassification had no impact on USITC's results of operations.

Note 2. Fund Balance with Treasury

Fund Balance with Treasury is an intragovernmental asset. The entity fund balance represents funds appropriated by Congress for use by the USITC. No entity funds are restricted; however, in accordance with section 605 of Title 5 of Public Law 105-277, Congressional approval is required under certain reprogramming or transfer actions.

No discrepancies exist between the Fund Balance reflected in the general ledger and the balance in the Treasury accounts.

Fund Balance with Treasury	2011	2010
A. Fund balance		
Appropriated funds	$ 15,978,367	$ 13,684,392
Total	$ 15,978,367	$ 13,684,392
B. Status of Fund Balance with Treasury		
Unobligated balance available	508,952	2,071,623
Obligated balance not yet disbursed	15,469,415	11,612,769
Total	$ 15,978,367	$ 13,684,392

Note 3. Accounts Receivable

The balance of accounts receivable was $48,219 and $163,505 at September 30, 2011 and September 30, 2010, respectively. The intragovernmental receivable is the amount GSA overcharged the Commission for prior period real estate taxes, while the non-governmental amount is principally amounts due from vendors.

Receivable Type	2011	2010
Intragovernmental	26,752	80,216
Non-governmental	21,467	83,289
Total	$ 48,219	$ 163,505

Note 4. Property, Plant, and Equipment, Net

Depreciation expense was $1,630,319 and $1,578,383 for fiscal years ending September 30, 2011 and 2010, respectively, and is included in the accumulated depreciation.

Comparative asset tables summarized by class of property appear below:

Property, Plant, and Equipment as of September 30, 2011

Class of Property	Depreciation/ Amortization Method	Capitalization Threshold for Individual Purchases	Service Life (Years)	Acquisition Cost	Accumulated Depreciation/ Amortization	Book Value
Equipment and Furniture	S/L	$ 50,000	5	$ 3,893,054	$ 2,284,262	$ 1,608,792
Software	S/L	$ 100,000	5	3,639,811	1,779,519	1,860,292
Software in Progress	-	-	-	-	-	-
Leasehold Improvements	S/L	$ 50,000	-	2,612,284	1,124,966	1,487,318
Leasehold Improvements in Progress	-	-	-	191,407	-	191,407
Total	**-**	**-**		$10,336,556	$ 5,188,747	$ 5,147,809

Property, Plant, and Equipment as of September 30, 2010

Class of Property	Depreciation/ Amortization Method	Capitalization Threshold for Individual Purchases	Service Life (Years)	Acquisition Cost	Accumulated Depreciation/ Amortization	Book Value
Equipment and Furniture	S/L	$ 50,000	5	$ 3,619,865	$ 1,631,772	$ 1,988,093
Software	S/L	$ 100,000	5	3,639,811	1,051,485	2,588,326
Software in Progress	-	-	-	-	-	-
Leasehold Improvements	S/L	$ 50,000	-	2,612,284	875,171	1,737,113
Leasehold Improvements in Progress	-	-	-	191,407	-	191,407
Total	**-**	**-**		$10,063,367	$ 3,558,428	$ 6,504,939

Note 5. Liabilities Not Covered by Budgetary Resources

Liabilities not covered by budgetary authority are not charged to the USITC's appropriation. These liabilities include unfunded Federal Employees' Compensation Act (FECA) liability, accrued annual leave, and actuarial FECA liability.

Unfunded FECA Liability: The FECA program is administered by the Department of Labor (DOL). DOL pays valid claims against the USITC and subsequently seeks reimbursement. Reimbursements are paid by the USITC out of current funds.

Accrued Annual Leave: Accrued annual leave is paid from future funding sources and accordingly is reflected as a liability not covered by budgetary resources. Each quarter the balance in the accrued leave account is adjusted to reflect the current leave balances and pay rates. Sick leave and other types of non-vested leave are expensed as taken.

Actuarial FECA Liability: This represents an estimated liability for future workers compensation claims based on data provided from DOL. DOL calculates the estimate based principally on benefit payments made over the prior 12 quarters.

Liabilities Covered by Budgetary Resources: In contrast to the liabilities identified above, all other liabilities are charged to the USITC's appropriation and thus are covered by budgetary resources. These liabilities include accounts payable, employer contributions, payroll taxes, and accrued funded payroll. The composition of accounts payable is described in more detail in Note 6, below.

Liabilities Not Covered by Budgetary Resources	2011		2010
Intragovernmental			
Unfunded FECA liability	$ 25,076		$ 27,208
Total Intragovernmental	$ 25,076		$ 27,208
Accrued annual leave	3,571,471		3, 754,341
Actuarial FECA liability	100,256		139,738
Total liabilities not covered by budgetary resources	$ 3,696,803		$ 3,921,287
Total liabilities covered by budgetary resources	4,059,684		5,621,507
Total Liabilities	$ 7,756,487		$ 9,542,794

Note 6. Accounts Payable

The amounts reported on the Balance Sheet for Accounts Payable represent amounts owed by the USITC to other federal agencies (intragovernmental) and to non-federal entities for goods and services received but not paid by the USITC as of the Balance Sheet date.

The $128,844 reported below as accounts payable to trading partners principally includes amounts owed to the Department of Homeland Security (DHS), Office of Personnel Management (OPM), and Government Printing Office (GPO) for guard services, human resources training and support services, and printing services. Accounts payable to trading partners fluctuate from year to year.

The amounts reported below as real estate taxes payable, $1,138,686 and $607,278, represent unpaid property taxes for the periods (1) January 1, 2010 to September 30, 2011, and (2) January 1, 2010 to September 30, 2010, respectively. These amounts represent taxes that are invoiced and generally paid annually in August for the previous calendar year to the GSA. Thus, each fiscal year the Commission recognizes twelve months of real estate tax expense – three months of actual expense (Oct.-Dec.) and nine months of accrued expense (Jan.-Sep.) – as payable at the end of the fiscal year. As of September 30, 2011, the GSA had not yet invoiced the Commission for the calendar year 2010 property taxes, resulting in a large increase in the amount payable. The Commission's real estate tax liability decreased in FY 2011 due to a reduction in the assessed property value.

Amounts shown on the Balance Sheet as payable to vendors represent amounts owed by the USITC to non-federal entities for goods and services received by the USITC in support of mission operations as of the Balance Sheet date.

Accounts Payable		2011		2010
Intragovernmental				
Accounts payable to trading partners	$	128,844	$	360,186
Real estate taxes payable		1,138,686		607,278
Total Intragovernmental	$	1,267,530	$	967,464
Non-federal				
Accounts payable to vendors		1,704,165		1,763,073
Total Accounts Payable	$	2,971,695	$	2,730,537

Note 7. Leases

The USITC has no capital leases. The USITC has operating leases for its buildings and for certain equipment (e.g., copiers). The USITC's lease for its headquarters building amounted to $9.3 million for FY 2011 and $9.2 million for FY 2010. In FY 2010, the USITC acquired additional space in its headquarters building to accommodate an additional courtroom and office space. The total cost of equipment rental is less than $500,000 annually. Future minimum lease payments under leases of commercial property due as of September 30, 2011 are as follows:

Fiscal Year	
2012	$9,486,265
2013	9,565,505
2014	9,647,021
2015	9,734,189
2016	9,817,415
Thereafter	8,018,958
Total Future Minimum Lease Payments	$56,269,353

Note 8. Commitments and Contingencies

The USITC has certain claims and lawsuits pending against it. USITC management and legal counsel believe that losses, if any, from other claims and lawsuits will not be material to the fair presentation of the USITC's financial statements.

Note 9. Other Financing Sources (Non-Exchange)

Imputed Financing: The amounts remitted to OPM for employees covered by the federal civilian benefit programs generally do not cover the actual cost of the benefits those employees will receive after they retire. As a consequence, the USITC has recognized an "imputed financing" equal to the difference between the cost of providing benefits to USITC's employees and the contributions the

USITC remitted for them. The amount of imputed financing is calculated based on a formula provided by OPM.

Note 10. Prior Period Adjustments Due to Correction of Errors

Real estate taxes payable for the first nine months of fiscal year 2009 amounting to $587,016 were recorded as a prior period adjustment during fiscal year 2010. This adjustment is consequently included in the beginning balance of unexpended appropriations for fiscal year 2010.

Note 11. Undelivered Orders at the End of the Period

Undelivered orders consist of goods and services ordered and obligated that have not been received. Undelivered orders may be indicative of potential deobligations or may represent obligations to cover future delivery of good and services. Since the USITC has "no year" funds, it often funds contracts, particularly service contracts, on a calendar year or other annual basis, rather than on a fiscal year basis. Undelivered orders were $11,436,483 and $6,071,478 in FY 2011 and FY 2010, respectively. The increase in undelivered orders was due to obligations to pay for renovation of the second floor of the USITC headquarters building and to forward fund most service contracts through March 31, 2012.

Note 12. Explanation of Differences between the Statement of Budgetary Resources and the Budget of the United States Government

For FY 2010 there were no material differences between amounts reported in the Commission's Statement of Budgetary Resources and the actual amounts reported on the President's Budget. The President's Budget with actual numbers for FY 2011 has not yet been published. It is expected to be published by the Office of the President in February 2012.

Note 13. Fiduciary Activities

Fiduciary activities are the collection or receipt, and the management, protection, accounting, investment and disposition by the federal government of cash or other assets in which non-federal individuals or entities have an ownership interest that the federal government must uphold.

Fiduciary cash and other assets are not assets of the federal government and accordingly are not recognized on the balance sheet.

Fiduciary net assets held by the USITC consist of cease and desist bonds held for non-Federal recipients.

Fiduciary Assets		2011		2010
Fiduciary net assets, beginning of year	$	395,326	$	343,326
Cash collections from cease and desist bonds		57,947		84,910
Cash disbursements to beneficiaries		(46,175)		(32,910)
Fiduciary Net Assets, end of year	$	407,098	$	395,326

Note 14. Reconciliation of Net Cost of Operations to Budget

A reconciliation of net cost of operations to budget is presented below to show the relationship between accrual-based (financial accounting) information in the statement of net cost and obligation-based (budgetary accounting) information in the statement of budgetary resources. This reconciliation ensures that the proprietary and budgetary accounts in the financial management system are in balance. For FY 2011, the USITC reconciled the difference between the $84.3 million in obligated resources and the $83.0 million in the net cost of operations by adjusting for offsetting collections/adjustments/recoveries, imputed financing, financing resources not part of the net cost of operations, and depreciation. The details of this reconciliation are as follows:

Reconciliation of Net Cost of Operations to Budget	2011	2010
Resources Used to Finance Activities:		
Budgetary resources obligated:		
Obligations incurred	$ 84,287,141	$ 81,372,789
Less: Spending authority from offsetting collections and recoveries	1,081,654	1,290,092
Obligations net of offsetting collections and recoveries	83,205,487	80,082,697
Other Resources:		
Imputed financing from costs absorbed by others	3,928,292	4,102,408
Total resources used to finance activities	87,133,779	84,185,105
Resources Used to Finance Items not Part of the Net Cost of Operations:		
Change in budgetary resources obligated for goods, services, and benefits ordered but not yet provided	5,365,006	686,266
Resources that fund expenses recognized in prior periods	(115,287)	(60,976)
Resources that finance the acquisition of assets	273,189	1,982,275
Total resources used to finance items not part of the net cost of operations	5,522,908	2,607,565

Total resources used to finance the net cost of operations	81,610,871	81,557,540
Components of Net Cost of Operations that will not Require or Generate Resources in the Current Period:		
Components Requiring or Generating Resources in Future Periods:		
Increase / decrease in annual leave liability	(182,870)	309,949
Increase / decrease workers' compensation	(41,614)	96,091
Total components of Net Cost of Operations that will require or generate resources in future periods	(224,484)	406,040
Components not Requiring or Generating Resources:		
Depreciation and amortization	1,630,319	1,578,383
Total components of Net Cost of Operations that will not require or generate resources in the current period	1,405,835	1,984,423
Net Cost of Operations	$ 83,016,706	$ 83,561,963

Other Accompanying Information

Management Challenges

UNITED STATES INTERNATIONAL TRADE COMMISSION

WASHINGTON, DC 20436

October 15, 2011 OIG-JJ-021

Chairman Okun:

This memorandum transmits the Inspector General's summary of the top management and performance challenges facing the Commission and briefly assesses management's progress in addressing these challenges.

I have identified three management challenges for fiscal year 2012; Internal Controls, Financial Management, and Information Technology-Location Independence. These challenges were identified based on work by the Office of Inspector General, input from Commission management, and knowledge of the Commission's programs and operations.

Internal Controls: The Commission's management is responsible for establishing and maintaining a system of internal controls that can ensure effective and efficient operations, reliable financial reporting, and compliance with laws and regulations. Recent reviews have identified issues associated with weak or non-existent internal controls. The most significant weaknesses identified were noncompliance with the *Federal Manager's Financial Integrity Act* and OMB Circular A-123, *Management's Responsibility for Internal Control*.

Although initially identified in the financial management area, the internal control weaknesses appear to be a systemic problem throughout the Commission. The Commission has a long standing culture of undocumented and informal processes to complete daily tasks. Documented and consistent processes and procedures are necessary to provide a reasonable level of assurance that offices are operating in an efficient and cost-effective manner.

The most significant challenge will be to manage the cultural changes associated with the implementing new systems of internal control throughout the Commission. This will require first line supervisors to check, inspect, or review the work of subordinates to make sure the new procedures are being followed.

Financial Management: The Commission is responsible to ensure that managers have access to timely, reliable, and practical information to make informed decisions. The Commission does not have the systems or core competencies required to integrate and coordinate budget formulation, execution, and financial reporting into a comprehensive financial management program that provides accountability for agency funds and provides essential data to managers for decision making purposes.

The Commission's budget formulation and execution process is not transparent because information on past execution is not available to decision makers. This means that decisions impacting resource allocations for agency operations are being made without sufficient input from key stakeholders who have the necessary information. The lack of communication with stakeholders, documented procedures, and defined methodologies for determining budget priorities does not provide reasonable assurance that all the Commission priorities are being considered when budget decisions are being made.

The Commission does not have the appropriate technical systems expertise to provide managers with adequate, timely financial information to administer budget execution activities. The lack of timely and practical financial reports deprive managers of information needed to effectively monitor the expenditure of funds, evaluate program performance, and make informed financial decisions on their programs and operations.

The Commission does not have the necessary technical and analytical skills required to provide the appropriate management of agency resources in accordance with laws and regulations. Budget formulation, budget execution, accounting, and financial reporting should be fully integrated and have transparent processes that promote accountability and deter potential fraud, waste, and abuse of agency budgetary resources. The management challenge will be to transform the current approach to financial management from an accounting exercise to a process that provides transparency and accountability in the formulation, execution, performance, and management of agency budgetary resources.

As a result of its disclaimer on the 2009 financial statements the Commission recognized the importance and necessity of instituting a system of stronger internal controls and is implementing corrective actions to address financial management deficiencies. Improvements resulted in a qualified opinion on the 2010 financial statements and the decision of the Commission to recruit for a Chief Financial Officer.

Information Technology-Location Independence: The Commission's IT systems should enable staff to operate with the same levels of efficiency and location independence that they have in their personal lives. Currently, the Commission's network cannot support this expectation.

Several components are required to enable this functionality, including: increased bandwidth, a secondary data center, wireless, and high performance remote access. Currently staff are required to be at their desks to access the full suite of their data and mission-specific applications. Building-wide wireless access can enable staff to perform their work regardless of their physical location within Commission space.

The Commission's current network bandwidth is barely sufficient for normal operations, and cannot support high performance remote access or the mirroring of data to an alternate data center. While the Commission currently provides remote access to applications and data through Citrix, it is frustrating to use because of the high latency due to saturated bandwidth. For this reason, users cannot operate efficiently outside of their office space.

Any number of events could cause the loss of the Commission's data center, including power outages, HVAC problems, or an inadvertent virtual or physical cut to the Commission's Internet access. The realization of any of these risks will result in a total loss of email, EDIS, and other critical Commission functions until an alternate data center can be established.

If the Commission can successfully implement wireless, increase bandwidth, and establish an alternate data center, it will enable its staff to function regardless of the state of the Commission's primary data center or physical location. In responding to the challenge to support contingency planning and a mobile workforce, the CIO has taken steps to virtualize many of the Commission servers and signed a contract to expand the bandwidth capability of the network.

In closing, I would like to recognize the commitment the Commission has made to implement corrective actions in order to resolve recommendations over the past year. The cultural challenges that I identified can only be overcome by your continued support and dedication to improving the integrity of the Commission programs and operations. I will continue to work with you, the other Commissioners, and management to reassess our goals and objectives to ensure that my focus remains on the risks and priorities of the Commission.

Philip M. Heneghan
Inspector General

Chairman

UNITED STATES INTERNATIONAL TRADE COMMISSION

WASHINGTON, DC 20436

COMMENTS ON MANAGEMENT CHALLENGES IDENTIFIED BY THE INSPECTOR GENERAL

In his memorandum dated October 15, 2011, the USITC Inspector General identified three management challenges for FY 2012: (1) Internal Controls, (2) Financial Management, and (3) Information Technology-Location Independence. He also assessed the USITC's progress in addressing those challenges, as required by the Reports Consolidation Act of 2000.

The USITC concurs with the Inspector General on the significant challenges management faces and on his assessment of agency progress in addressing those challenges. That assessment recognizes the progress we have made, but also provides useful guidance for a way forward. During FY 2012 USITC management will continue its efforts to address these challenges and finish the tasks we have begun.

Management Challenge: Internal Controls

The disclaimer of opinion of the Commission's Fiscal Year 2009 financial statement audit occurred because the agency lacked the systems or core competencies required to integrate and coordinate budget formulation, execution, and financial reporting into a comprehensive financial management program that provides accountability for agency funds and provides essential data to managers for decision making purposes. The Commission also understands that it has a culture of undocumented and informal processes and that internal control weaknesses appear throughout the agency. Although the agency has made substantial progress, including receiving an unqualified opinion on the Commission's FY 2011 financial statements, full implementation of our corrective actions is ongoing.

Transforming the management culture of the agency is a top priority to ensure that the Commission can efficiently meet its objectives in an era of government-wide budgetary limitations. In response to these challenges, the Commission has restructured its management with the creation of the Executive Management Committee and its subcommittees and has called upon its senior managers to work collectively and strategically to manage the agency's human, financial, and information resources. In addition, the Commission has initiated process mapping in several operations, which will enable the agency to document its processes and to explore whether we can make them more efficient.

The Commission added a new performance element – agency-wide management – to the performance plan of every member of the Senior Executive Service (SES). The multi-year effort to transform the management structure and culture of the Commission requires SES to be held accountable for the management of the agency as a whole. The SES and other supervisors must verify that assignments are being completed and procedures are being followed, whether that is in the operational or administrative areas of the Commission. Strong internal controls will enable managers to monitor progress.

Management Challenge: Financial Management

The Commission is responsible to ensure that managers have access to timely, reliable, and practical financial information to make informed decisions. Currently, the Commission lacks the systems or core competencies required to integrate and coordinate budget formulation, execution, and financial reporting into a comprehensive financial management program that provides accountability for agency funds and provides essential data to managers for decision making purposes.

To address this weakness, the Commission recently amended its strategic human capital plan to establish a new Office of the Chief Financial Officer (CFO). The Commission currently is recruiting the CFO, and once hired, the Commission will transfer the agency's financial, budget, procurement, and internal control functions to the new organization. The Commission expects the CFO to hire or train staff with requisite high-level analytical and communication skills.

The Commission concurs that it must transform the current approach to financial management from an accounting exercise to a process that provides transparency and accountability in the formulation, execution, performance, and management of agency budgetary resources. The new organization will provide managers with access to timely, reliable, and practical information concerning the financial affairs of the agency to assist managers in program planning and decision-making.

Management Challenge: Information Technology-Location Independence

Information technology is integral to the Commission's operations. Recognizing that the agency currently lacks the resources to ensure continuity of IT operations if a disaster were to occur, the Commission's Chief Information Officer has developed plans and has begun to implement actions necessary to achieve robust remote functionality. In the next few months, the agency will significantly expand its bandwidth capability. Over the next year, the agency will (1) implement a high-bandwidth network to support offsite continuity of operations plan (COOP) requirements, (2) install hardware and software infrastructure sufficient to provide COOP capabilities for all mission-critical applications at a secondary data center, and (3) implement and test all mission-critical applications from the secondary site. With these efforts, the mission of the agency should continue in the event of a disaster or systems problems at the agency's headquarters.

Deanna Tanner Okun
November 15, 2011

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Summary of Financial Statement Audit and Management Assurances

Table 1. Summary of Financial Statement Audit (as of September 30, 2011)

Audit Opinion: Unqualified					
Restatement: No					
Material Weaknesses	**Beginning Balance**	**New**	**Resolved**	**Consolidated**	**Ending Balance**
Inadequate Internal Controls over Financial Reporting	✓		✓		
Insufficient Monitoring, Analysis and Oversight of Financial Operations	✓		✓		
Inadequate Controls Surrounding the Procurement Process		✓			✓
Inadequate Controls over Accounts Payable, Expenditures, and Obligations	✓				✓
Insufficient Resources and Personnel with Appropriate Skill Sets	✓				✓
Total Material Weaknesses	4	1	2[7]	0	3

[7] These material weaknesses have dropped below the level of materiality as a result of improvements made in these areas during FY 2011, and are "resolved" as defined in OMB Circular A-136. As a result of this progress, the auditors downgraded the findings into one Significant Deficiency for FY 2011.

Table 2. Summary of Management Assurances (as of September 30, 2011)

Effectiveness of Internal Control over Financial Reporting (FMFIA Section 2)					
Statement of Assurance: Qualified					
Material Weaknesses	**Beginning Balance**	**New**	**Resolved**	**Consolidated**	**Ending Balance**
Inadequate Internal Controls over Financial Reporting	✓		✓		
Insufficient Monitoring, Analysis and Oversight of Financial Operations	✓		✓		
Inadequate Controls Surrounding the Procurement Process		✓			✓
Inadequate Controls over Accounts Payable, Expenditures, and Obligations	✓				✓
Insufficient Resources and Personnel with Appropriate Skill Sets	✓				✓
Total Material Weaknesses	4	1	2[8]	0	3
Compliance with Federal Financial Management Improvement Act (FFMIA)[9]					
	Commission		**Auditor**		
Overall Substantial Compliance	Yes		Yes		
1. System requirements	Yes		Yes		
2. Accounting Standards	Yes		Yes		
3. USSGL at Transaction Level	Yes		Yes		

[8] These material weaknesses have dropped below the level of materiality as a result of improvements made in these areas during FY 2011, and are "resolved" as defined in OMB Circular A-136. As a result of this progress, the auditors downgraded the findings into one Significant Deficiency for FY 2011.

[9] The Commission uses the Department of Interior's financial management system and that system is FFMIA compliant. Thus, the Commission's financial management system complied with the requirements of FFMIA and produced records in accordance with USSGL at the transaction level.

Improper Payments Information Reporting Details

The IPERA of 2010, enacted on July 22, 2010, requires the development of policies and procedures for the prevention and detection of improper payments in the federal government. The Act defines an improper payment to mean any payment that should not have been made or that was made in an incorrect amount (including overpayments and underpayments) under statutory, contractual, administrative, or other legally applicable requirements. In addition, an improper payment includes any payment to an ineligible recipient, any payment for an ineligible good or service, any duplicate payment, any payment for a good or service not received (except for such payments where authorized by law), and any payment that does not account for credit for applicable discounts. The Act also defines a payment for an ineligible good or service to mean making a payment for any good or service that is rejected under any provision of any contract, grant, lease, cooperative agreement, or any other funding mechanism.

Risk assessment

The USITC has only one program for budget purposes, which totaled approximately $83.0 million in FY 2011. Sixty-five percent of that program consists of payment for salaries and benefits to federal employees. The FY 2011 Statement on Standards for Attestation Engagements (SSAE) 16 examination and testing of the controls applicable to the processing of personnel transactions by the Oracle Federal Financials (OFF) application indicated that processes and controls in place as of June 30, 2011 were operating effectively to safeguard data from waste, fraud, abuse and destruction. Also, controls associated with the Federal Personnel Payroll System (FPPS) prevent the likelihood of over payments at the transaction level. As a result, salaries and benefits are not susceptible to significant risk of material improper payment. In addition, none of the USITC's other major cost centers are funded at more than $10 million. Thus, it is unlikely that the USITC has any programs that are susceptible to significant risks of material improper payments as defined in the Act.

Nonetheless, it is USITC's policy to classify both over and under payments as improper payments, regardless of the amount. It is also USITC's policy to use the absolute value of over and under payments to determine reportable improper payments. It is USITC's policy to track and report on controllable improper payments. Controllable improper payments include payments specifically approved in advance by USITC. In addition, the USITC will report on the status of recovered and unrecovered improper payments. However, IPAC withdrawals from the Treasury account by other government agencies are uncontrollable payments. These are considered transfers of funds rather than improper payments because there is no cost to the Treasury. As a result, IPAC transfers are not tracked and reported for improper payment purposes.

Recovery auditing

The Improper Payments Elimination and Recovery Act of 2010 replaced the recovery auditing program contained in the National Defense Authorization Act of 2002. The 2010 Act requires agencies to conduct recovery audits with respect to each program and activity of the agency that expends

$1,000,000 or more annually, if conducting such audits would be cost-effective. Once USITC has identified an improper payment, it is USITC's policy to aggressively correct the improper payment.

Accountability for reducing and recovering improper payments

The Acting Chief Financial Officer, in consultation with the Chairman, the Inspector General and the Director of Finance, is the designated official responsible for establishing policies and procedures to assess USITC program risks of improper payments. The Director of Finance is responsible for taking actions to reduce improper payments and reporting results of the actions taken to reduce and recover improper payments. In addition, USITC reviews, in coordination with the Inspector General, internal policies and procedures on an annual basis to ensure that cost-beneficial control procedures are in place to prevent and detect improper payments. In FY 2010, the USITC implemented a cost effective recovery auditing program to recover improper payments as mandated by the Act. Specifically, on a quarterly basis, USITC reviews the accounts receivable subsidiary ledgers, randomly selects transactions from the cash disbursements subsidiary ledger, and reviews personnel payroll transactions to identify improper payments. When an underpayment is identified, the Office of Finance promptly pays the additional amount upon identification of, and receipt of appropriate documentation for, the correct amount. When overpayments are identified, the Office of Finance promptly sets up a receivable and notifies the party of the amount(s) to be recovered. For ongoing contracts, the Office of Finance offsets the amount to be recovered on the next billing. In the event that a party does not refund an overpayment within three months of receiving notification of the improper payment, the Office of Finance notifies the Office of the General Counsel of the disputed amount and requests remedial action.

Appendices

Glossary of Acronyms and Abbreviations

ATDA	Accountability of Tax Dollars Act
ALJs	Administrative Law Judges
AICPA	American Institute of Certified Public Accountants
AD/CVD	Antidumping and Countervailing Duty
CSRS	Civil Service Retirement System
DHS	Department of Homeland Security
DOL	Department of Labor
EDIS	Electronic Document Information System
FASAB	Federal Accounting Standards Advisory Board
FERS	Federal Employees Retirement System
FECA	Federal Employees' Compensation Act
FFMIA	Federal Financial Management Improvement Act
FISMA	Federal Information Security Management Act
FICA	Federal Insurance Contribution Act
FMFIA	Federal Managers' Financial Integrity Act
GATT/WTO	General Agreement on Tariffs and Trade/World Trade Organization
GC	General Counsel
GSA	General Services Administration
GAAP	Generally Accepted Accounting Principles
GPRA	Government Performance and Results Act
HTS	Harmonized Tariff Schedule
IPERA	Improper Payments Elimination and Recovery Act
IPIA	Improper Payments Information Act

IT	Information Technology
ITS	Information Technology Services
ID	Initial Determination
IG	Inspector General
DataWeb	Interactive Tariff and Trade DataWeb
IUS	Internal Use Software
ITDS	International Trade Data System
NIST	National Institute of Standards and Technology
NAFTA	North American Free Trade Agreement
OAS	Office of Administrative Services
OARS	Office of Analysis and Research Services
EC	Office of Economics
OEEO	Office of Equal Employment Opportunity
ER	Office of External Relations
IND	Office of Industries
OIG	Office of Inspector General
INV	Office of Investigations
OMB	Office of Management and Budget
OP	Office of Operations
OPM	Office of Personnel Management
TATA	Office of Tariff Affairs and Trade Agreements
OCIO	Office of the Chief Information Officer
OUII	Office of Unfair Import Investigations
SFFAS	Statement of Federal Financial Accounting Standards
Treasury	U.S. Department of Treasury

Commission	United States International Trade Commission
USITC	United States International Trade Commission
USSGL	United States Standard General Ledger
USTR	United States Trade Representative
URAA	Uruguay Round Agreements Act
WCO	World Customs Organization
WTO	World Trade Organization

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