

U.S. International Trade Commission

Audit of 332 Cost Estimates



OIG-AR-14-13

July 7, 2014



Office of Inspector General

The U.S. International Trade Commission is an independent, nonpartisan, quasi-judicial federal agency that provides trade expertise to both the legislative and executive branches of government, determines the impact of imports on U.S. industries, and directs actions against certain unfair trade practices, such as patent, trademark, and copyright infringement. USITC analysts and economists investigate and publish reports on U.S. industries and the global trends that affect them. The agency also maintains and publishes the Harmonized Tariff Schedule of the United States.

Commissioners

Meredith M. Broadbent, Chairman

Dean A. Pinkert, Vice Chairman

Irving Williamson

David S. Johanson

F. Scott Kieff

Rhonda K. Schmidlein



UNITED STATES INTERNATIONAL TRADE COMMISSION

OFFICE OF INSPECTOR GENERAL

WASHINGTON, DC 20436

July 7, 2014

IG-MM-012

Chairman Broadbent:

This memorandum transmits the Office of Inspector General's final report, *Audit of 332 Cost Estimates*, OIG-AR-14-13. This audit focused on whether the Commission was managing costs of 332 investigations by comparing the estimated costs approved on the Action Jacket to the actual costs of the investigation. In finalizing the report, we analyzed management's comments to our draft report and have included those comments in their entirety as Appendix A.

This audit identified three problem areas that prevented the Commission from being able to compare the estimated costs to the actual costs of the 332 investigations. This report contains seven recommendations to address the problem areas. In the next 30 days, please provide me with your management decisions describing the specific actions that you will take to implement each recommendation.

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

Philip M. Heneghan
Inspector General

U.S. International Trade Commission

Audit Report

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Results of Audit

The purpose of this audit was to answer the question:

Does the Commission compare the actual costs of 332 investigations to the estimated costs on the approved action jacket?

No. The Commission did not compare the actual costs of 332 investigations to the estimated costs from the approved action jacket.

Section 332 of the Tariff Act of 1930 requires the Commission to conduct fact finding investigations on a wide variety of trade matters. The official initiation of an investigation is approved by the Commissioners through the Action Jacket process. The Action Jacket contains a set of documents that provide information regarding the investigation, and includes a proposed staffing plan and cost estimates. The estimated costs are established at the beginning of the investigation to inform Commissioners of the expected resources required for the investigation.

Managers consistently expressed the uniqueness of each investigation and described the estimate in the Action Jacket as “best guess”, “ballpark”, and “like throwing a dart at a moving target”. They explained that the complexity of the study and the associated number of staff hours required are often difficult to assess at that stage of the investigation. Additionally, they stated that while they monitored costs as they were being incurred, they did not go back and compare the actual cost to the estimate they provided in the Action Jacket.

Each investigation may have its differences, but in order to properly manage costs, the Commission must be able to identify and understand the causes of significant cost changes throughout the investigation process. This cannot be done until the Commission has established clear processes and procedures for recording all costs, adequate controls to monitor the accuracy of recorded costs to protect the integrity of the data, and accessible internal management reports that contain complete cost data.

We identified three problem areas that prevent the Commission from being able to compare the estimated costs to the actual costs of 332 investigations:

- The Commission had inconsistent methodologies for estimating and recording actual costs for labor hours.
- The Commission’s travel and procurement systems did not contain mandatory fields dedicated to capturing 332 investigation project codes. As a result, reports could not be generated to show these costs by investigation.
- As a normal course of business the Commission’s managers did not have direct access to cost information.

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Until these problems are resolved, it would be too cumbersome and time-consuming for the Commission to obtain the data it needs to effectively manage the costs of 332 investigations.

Although this audit focused on 332 investigations, the underlying weaknesses related to the quality, integrity, reliability, and accessibility of data are systemic problems that affect all of the program areas of the Commission. Therefore, a holistic approach should be considered when determining what actions should be taken to address the approach to managing costs.

Problem Areas

Problem Area 1:

The Commission Had Inconsistent Methodologies for Estimating Costs and Recording Costs for Labor Hours

The Commission should have a way to make an equal comparison between estimated and actual costs for labor. An equal comparison of costs will allow managers to improve the cost estimate methodology, help ensure actual costs are being recorded accurately, identify and quantify events that trigger a significant increase or decrease in costs, and have a baseline to measure any cost impacts of process and technology changes.

In order to prevent an “apples to oranges” comparison, measurable cost elements need to be clearly identified, communicated to staff, used as the basis for developing cost estimates, and used as the standard for recording time. The Commission could not make an equal comparison between estimated costs and actual costs because they did not use the same measurable cost elements for developing cost estimates and recording actual costs.

- The cost estimates were developed at a high level, based on a proposed staffing plan of key personnel, using an average annual cost for a Commission staffer, and historical data from similar investigations.
- The actual costs for 332 investigations were recorded by staff members regardless of whether they were a part of the project team or indirectly supporting the project.

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- The actual labor costs for 332 investigations were not accurately captured in the Commission's Time and Attendance System, because of inconsistencies in the application of policies and practices regarding charging time to studies.

The Commission had not clearly communicated to staff what should be recorded as a direct cost to an investigation and what should not. As a result, employees directly and indirectly supporting an investigation could reasonably charge their time to one of several different labor cost codes. This led to instances where staff performing the same investigation-related task had recorded their time differently. As a result of these inconsistencies, the data that was being used by managers was inaccurate and unreliable.

Both managers and staff reported that hours worked on investigations were not always recorded in the Time and Attendance System. Many staff worked during the evenings and on week-ends without recording the hours worked. This practice was not encouraged or required by managers, but had been adopted by employees to meet deadlines. Until this issue is addressed, the hours and costs for investigations may be understated.

Recommendation 1: The Commission determine what should be measured and recorded as a direct cost and as an indirect cost for investigations.

Recommendation 2: The Commission develop a cost estimate template that can be used to make an equal comparison of estimated costs to actual costs.

Recommendation 3: The Commission update the labor cost code guidelines to provide clear instructions to employees for recording direct and indirect costs.

Problem Area 2:

The Commission's Information Systems did not Contain Mandatory Fields to Capture Procurement and Travel Costs for 332 Investigations

The Commission should have access to complete financial data about costs incurred for 332 investigations. The information systems used by the Commission should be able to generate management reports that are complete, accurate, timely, and meet the informational requirements of managers making decisions on day-to-day operations.

As a normal course of business, the Commission could not generate a report of costs for travel or procurement of supplies and services—by investigation. As a result, the data was not readily available to compare the estimates to the actual costs.

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Each investigation is assigned a unique project identifier. Commission staff have been required to use this code to record hours worked on specific investigations in the Time and Attendance System. Since the data was collected, reports could be generated to show the number of hours and associated labor costs by investigations.

In contrast, the Commission's budget execution process did not require the project identifier to be entered into the travel or procurement systems in order to process transactions. Since the data is not collected in these systems as a normal business practice, the Commission does not have the capability to generate cost reports from these systems by investigation.

Recommendation 4: The Commission capture the unique project identifiers in the respective systems for travel and procurement transactions related to each investigation.

Problem Area 3:

Managers Did Not Have Capability to Generate Management Reports That Met their Informational Requirements

Management should be able to generate standard management cost reports that are designed to meet their informational requirements and provide consistent information across the organization. The reports should be easily accessible, accurate, informative, relevant, and timely.

The Commission did not have tools available for managers to directly generate cost reports by investigation. Instead of a well-defined management reporting structure, there was a pattern of settling for the information or technology that was available and trying to make it fit.

The labor cost code application was the only reporting tool directly available to managers. The labor cost code application was originally developed to link the Commission's budget to the strategic plan and was not designed to provide internal management reports. This tool had limited access ability, insufficient functionality, inadequate reporting, and no cost data.

In order to get labor cost reports, managers had to rely on specific individuals with access to salary data. The individuals generated reports from a Microsoft Access Database (CASES) that imported data stored in a number of tables maintained on a USITC network server. Data on comp time and credit time hours charged to an investigation were not integrated into this approach, so totals were likely to be understated. As with the labor cost code application, CASES was a derivative of a database that had been developed by

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the Office of the Secretary to collect information on unfair import investigations, and was not designed to be a cost reporting tool for managers.

Managers informed us that access to salary data was restricted as an internal control to protect privacy information. This was confirmed by the Office of the Chief Financial Officer. However, salary data for all USITC staff is readily available to anyone on the internet at <http://fedsdatacenter.com/federal-pay-rates/>, so there was no reason for managers to be unable to directly generate cost reports that contain this information.

Additionally, the project leaders, who developed the cost estimate, did not have access to the labor cost code application and were not provided with reports during the course of the investigation. Without any data, they were unaware of any differences between the resource requirements estimated and what was actually happening. As the person closest to the project, the project leader should be aware of who is charging hours against the investigation and have the ability to make inquiries on questionable hours or staff.

Recommendation 5: The Commission identify the informational needs of managers and project leaders.

Recommendation 6: The Commission develop standardized management reports based on the informational needs of managers and project leaders.

Recommendation 7: The Commission develop a system to ensure that project leaders monitor all costs attributed to a project.

Management Comments and Our Analysis

On July 1, 2014, Chairman Meredith Broadbent provided management comments on the draft report. She acknowledged that the Commission had inconsistent methodologies for estimating and recording actual costs for labor hours, that the Commission's travel and procurement systems did not contain mandatory fields dedicated to capturing 332 investigation project codes, and that as a normal course of business, the Commission's managers did not have direct access to cost information. She also agreed to make management decisions in response to the recommendations in the report.

Objective, Scope, and Methodology

Objective:

Does the Commission compare actual costs to complete 332 investigations to the costs estimated on the approved action jacket?

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Scope:

- 22 investigations completed prior to July 23, 2013 (did not include recurring investigations)
- Cost estimates from the Action Jacket.
- Cost reports from Commission's information systems.

Methodology:

- Determined population of completed 332 investigations to review as part of audit.
- Performed interviews to gain understanding of:
 - 332 investigation process.
 - How costs are estimated.
 - How costs are recorded.
 - How costs are monitored.
 - Available reports for actual data.
- Reviewed procedures:
 - For creating estimates.
 - For recording actual costs.
- Collected data:
 - Obtained Action Jackets to identify approved cost estimates.
 - Obtained labor hour and cost reports.
 - Obtained travel cost reports.
 - Obtained procurement cost reports.
- Analyzed data.
- Clarified gaps.
- Reported results.

We conducted this performance audit in accordance with Generally Accepted Government Auditing Standards (GAGAS). Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

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Appendix A: Management Comments on Draft Report

Chairman



UNITED STATES INTERNATIONAL TRADE COMMISSION

WASHINGTON, DC 20436

CO84-MM-006

July 1, 2014

MEMORANDUM

TO: Philip M. Heneghan, Inspector General

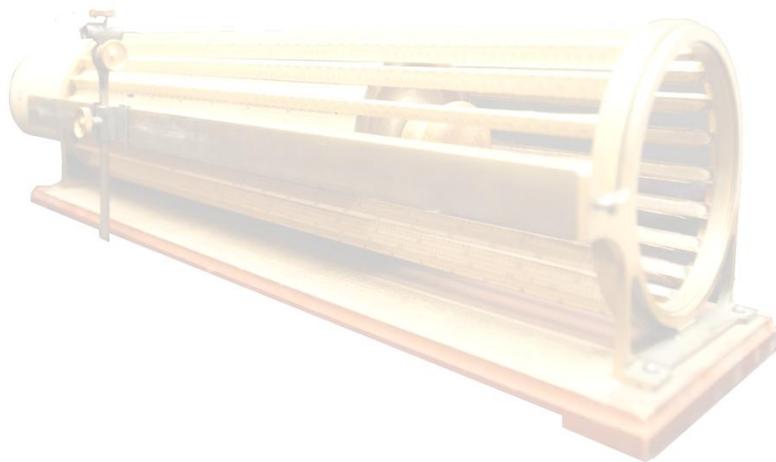
FROM: Meredith M. Broadbent, Chairman *Meredith M. Broadbent*

SUBJECT: Management Response to the Inspector General's draft "Audit of Cost Estimates for 332 Investigations" (IG-MM-010).

Thank you for your recent draft *Audit of Cost Estimates for 332 Investigations* (IG-MM-010), transmitted to Chairman Williamson on May 28, 2014.

The Inspector General's report concluded that the Commission did not compare the actual costs of 332 investigations to its estimated costs on the approved action jacket, during the period reviewed. The report identified three problems that prevented the Commission from comparing these costs. First, the report noted that the Commission had inconsistent methodologies for estimating and recording actual costs for labor hours. Second, the report demonstrated that the Commission's travel and procurement systems did not contain mandatory fields dedicated to capturing 332 investigation project codes. As a result, reports could not be generated to show these costs by investigation. Finally, the report identified that as a normal course of business, the Commission's managers did not have direct access to cost information.

We agree with the findings and the Commission will soon institute management decisions to effectively deal with these matters. Thank you for your thoughtful review.



“Thacher’s Calculating Instrument” developed by Edwin Thacher in the late 1870s. It is a cylindrical, rotating slide rule able to quickly perform complex mathematical calculations involving roots and powers quickly. The instrument was used by architects, engineers, and actuaries as a measuring device.

To Promote and Preserve the Efficiency, Effectiveness, and Integrity of the U.S. International Trade Commission



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