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# UNITED STATES INTERNATIONAL TRADE COMMISSION

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WASHINGTON, DC 20436

November 16, 2009

## MEMORANDUM

**TO:** Shara Aranoff, Chairman

**FROM:** Tony Baptiste, Acting Inspector General 

**SUBJECT:** Inspector General's Assessment of the Most Serious Management Challenges Facing the U.S. International Trade Commission (ITC)

### Introduction

The *Reports Consolidation Act of 2000* (RCA) authorizes the ITC to provide financial and performance information in a more meaningful and useful format for Congress, the President, and the public, through publication of the Performance and Accountability Report (PAR). The RCA requires the Inspector General to summarize the "most serious" management and performance challenges facing the agency and to assess the agency's progress in addressing those challenges, all for inclusion in the PAR. This memorandum fulfills the Inspector's General duties under the RCA.

In order to identify and describe the most serious management challenges, as well as the agency's progress in addressing them, we have relied on data contained in the Office of the Inspector General (OIG) financial statement audit of ITC and PAR, as well as our knowledge of ITC operations. Since Congress left the determination and threshold of what constitutes a most serious challenge to the discretion of the Inspector General, we applied the following definition in preparing this statement:

Serious management challenges are mission critical areas or programs that have the potential for a perennial weakness or vulnerability that, without substantial management attention, would seriously impact agency operations or strategic goals.

This memorandum summarizes the results of the ITC's current financial statement audit, describes the Commission's (Agency) progress on last year's management challenges, and finally discusses the most serious management challenges that we have identified for this coming fiscal year (FY).

### **ITC Financial Statement Audit Results**

In accordance with the *Accountability of Tax Dollars Act*, ITC, along with numerous other federal entities, is required to submit to an annual independent financial statement audit by the Inspector General. This year, on behalf of the OIG, an independent public accounting firm conducted the required audit of the ITC's financial statements. The OIG audit team was unable to render an opinion on the ITC's financial statements and issued a disclaimer opinion on the ITC's financial statements.

Nonetheless, several issues relating to internal control of the ITC's accounting for Property, Plant & Equipment, accounts payable and financial reporting were identified and presented to management. Furthermore, during the fieldwork of this attempted audit, information came to our attention which we conveyed to management that resulted in management restating its prior year financial statements. However, we found no evidence of intentional fraud or willful misrepresentation of financial information under the control of the ITC. Additionally, during this fiscal year, the OIG conducted a performance audit under the Federal Information Security Management Act of 2002 (FISMA).

### **ITC's Progress on Last Year's Management Challenges**

Last year the OIG identified the following four management challenges:

1. Information Technology Security;
2. Financial Management;
3. Procurement and Contract Management; and
4. Strategic Management of Human Capital.

In Fiscal Year 2009, the Commission continued to make progress in strengthening information technology (IT) security practices. Based on the work performed for the FY 2009 FISMA audit, the OIG determined that the Commission's information security program, consisting of plans, policies, procedures, and security controls, is in place and is generally consistent with the FISMA requirements. However, due to budgetary constraints I learned that the Commission has not addressed prior year findings such as the lack of an agency-wide Continuity of Operations Program plan, contingency plans need to be updated and tested, and an alternative processing facility does not exist. As a result of this year's FISMA audit we informed management of eight areas needing further improvement in which the Commission should implement corrective actions to help further ensure that its management and operational controls comply with applicable National Institute of Standards and Technology standards and guidelines and FISMA requirements.

This year the agency supplemented the existing management team, strengthened its IT policies and procedures, and upgraded key elements of its IT infrastructure. These

initiatives and responsive mitigation strategies for this year's FISMA findings will well position the agency towards meeting foreseeable challenges.

Last year's OIG assessment of significant management challenges identified financial management as a likely management challenge for the coming fiscal year. The challenge of integrating and implementing a new financial system, Oracle Federal Financials (OFF) has proven to be an insurmountable challenge. The ITC was not able to extract accurate and timely financial information from OFF for addressing requirements of this year's financial statement audit.

The OIG also learned that during this fiscal year the procurement and contract management module in the financial reporting system was not integrated into the Agency's financial reporting procedures. This system limitation reduced the ITC's ability to improve its oversight controls over its contracts. During this year's financial statements audit the OIG and the ITC found at least two instances of significant discrepancies over vendor bills, thus highlighting the need for further improvements in this critical operational area.

Initial OIG reviews indicate opportunities exist to improve policies and procedures in the procurement and contract management area. Management has bolstered its operational policies with new hirings and formalized procedures consistent with the Federal Acquisition Regulations- which should decrease the potential for procurement and contract mismanagement.

Finally, in last year's assessment, strategic management of human capital was identified as an additional focus area for management. Our review of the strategic human capital management plan and the ITC's operations during this fiscal year revealed that the Agency has devoted considerable effort towards addressing the mission critical human capital needs of the Agency. However, additional reviews conducted by the Office of Personnel Management indicate the need for greater effort in this area during this coming fiscal year.

Two issues likely to challenge ITC in this coming year are: Financial Management and to a lesser extent Information Technology Security.

## **Most Serious Management Challenges for Fiscal Year 2010**

### **Financial Management**

This fiscal year due to the inability of the Agency to generate accurate and timely financial information the OIG audit team was unable to render an opinion on the Agency's financial statements. Several material weaknesses<sup>1</sup> were identified in the internal control over financial reporting, analyses and oversight. For example, we noted errors related to incorrect accumulation of account balances, incorrect identification of general ledger accounts, and incorrect postings to the financial

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<sup>1</sup> A material weakness is a significant deficiency, or combination of significant deficiencies, that result in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. See Government Auditing Standards: July 2007 Revision "Yellow Book" Section 5.11(b)

reporting system. The inability to resolve this issue will impede the Agency ability to convey its success in managing the Agency's limited budget.

Another weakness identified is that the Agency needs to improve its identification, recording and reporting of Property, Plant and Equipment. Proper recording of Agency assets will ensure that management can effectively allocate its resources to Agency missions, in compliance with laws and regulations, and with minimal potential for waste, fraud and/or mismanagement.

Finally, improvements are needed in the recording and reporting of Accounts Payable, Expenditures, and Obligations. Inaccurate assessment of Agency liabilities can subject the Agency to improper payments and vendor fraud. During our review we found several instances of incorrect charges made by suppliers of services to the Agency. Fortunately, they were resolved favorably for the Agency. We restate Financial Management as a challenge in the hope that we can spur the Agency to heighten its focus on addressing this issue during the coming year.

Although we have primarily stated financial management challenges there remain several information technology security challenges facing the Agency in the coming fiscal year.

### **Information Technology Security**

During FY 2009 the Agency made improvements in its technical security controls by strengthening patch and configuration management practices over the local area network and implementing quarterly vulnerability scans. Improvements were also made in logical access administration over contractors. However, our recent review of security over the Agency's information technology systems revealed several vulnerable areas that management is currently addressing. The ITC is subject to daily cyber attacks and we are concerned that in the coming year their complexity and frequency are likely to increase. Therefore the OIG would like to reemphasize the significance of these threats to Agency's management.

### **Conclusion**

This year the Agency migrated to a new financial management system that proved to be more complex and difficult for the Agency to absorb into its standard operation than planned. We anticipate that the Agency will be able to correct most of the material weaknesses that we identified and generate financial statements that accurately reflect the financial condition of the Agency. Achieving this result will enable management to properly allocate resources to critical mission areas as well as safeguarding resources appropriated to the Agency for the coming fiscal year. Our goal is to monitor the Agency operations and evaluate whether the Agency has wisely used the assets granted by Congress and the taxpayers. The Office of the Inspector General looks forward to undertaking constructive reviews that might improve the operations at the US International Trade Commission.