Office of
INSPECTOR GENERAL

Audit Report

Audit of the USITC Financial Statements for Fiscal Years 1998 and 1997

Report No. IG-04-99

UNITED STATES INTERNATIONAL TRADE COMMISSION

March 1999

INSPECTOR GENERAL

UNITED STATES INTERNATIONAL TRADE COMMISSION

WASHINGTON, D.C. 20436

March 31, 1999

TO: THE COMMISSION

I hereby submit an *Audit of the USITC Financial Statements for Fiscal Years 1998 and 1997*, Report No. IG-04-99. The Federal Financial Management Improvement Act of 1996 states that agencies are to implement and maintain financial management systems that comply substantially with federal financial systems requirements, applicable federal accounting standards, and the U.S. Government general ledger at the transaction level. The financial management systems designs are to support agency budget, accounting and financial management reporting processes by providing consistent information for budget formulation, budget execution, programmatic and financial management, performance measurement and financial statement preparation.

Historically, the Office of Inspector General (OIG) has evaluated the agency's financial systems on a cyclical basis, by conducting a biennial audit of the U.S. International Trade Commission (USITC) financial statements. The objectives of this audit were to issue an opinion as to the fairness of the USITC financial statements for the fiscal years (FYs) ending September 30, 1998, and 1997, in presenting the financial condition and results of operations; a statement on the adequacy of internal controls; and a statement on compliance.

The audit was conducted by Leon Snead and Company, P.C. in accordance with the Government Auditing Standards issued by the Comptroller General of the United States. The auditors expressed the following opinions in the auditor's report:

-- The statements of the financial position of USITC as of September 30, 1998, and 1997, present fairly, in all material respects, the financial position of USITC as of September 30, 1998, and 1997, and the results of its operations and its cash flows for the years then ended in conformity with general accepted accounting principles, except that management has elected not to depreciate fixed assets.

-- Two matters involving the internal control structure and its operation were considered to be material weaknesses: accounting for fixed assets and accounts receivable. In addition, several other areas of concern are reported in the management letter.

-- Tests results disclosed no instances of noncompliance with laws and regulations applicable to USITC that would have a material effect on the financial statements.

USITC is not subject to the Chief Financial Officers Act of 1990, the Government Management Reform Act of 1994, or guidance issued by the Office of Management and Budget (OMB) on procedures for preparing and auditing federal financial statements. Nevertheless, USITC financial statements have been prepared and audited annually since FY 1989.

OMB issued new guidelines in October 1996 that significantly altered the format of the financial statements effective for FY 1998. In August 1998, OIG informally asked the Director of the Office of Finance and Budget (OFB) if the financial statements would be prepared using the revised guidance, which was our preference. A decision had not been made at the time of the entrance conference in September 1998. In December 1998, the OFB Director asserted that, despite past practice, the Commission had not established a policy on the preparation of financial statements, the format, or the timing of the audit. Further, OFB did not know how to prepare the financial statements using either the previous or the new format. The Director of Administration instructed OFB to cooperate with the auditors who would provide extensive assistance, and prepare the financial statements using the previous format. OIG concurred since the new OMB guidance did not apply to FY 1997.

In addition to the material internal control weaknesses, which are set forth in the opinion on internal controls, the auditors found other weaknesses in the USITC's financial management operations, which are set forth in the management letter included in this report, as summarized below.

Fixed Assets

The prior financial statement audit identified recurring problems with fixed assets. Officials in the Office of Administration agreed to reconcile the fixed asset property management records with the accounting records annually by July 31 to ensure that the year end records are accurate. The USITC directive on property management requires an annual reconciliation of fixed assets. No reconciliations were performed in either FY 1997 or FY 1998.

The directive on property management does not contain a defined threshold as to what constitutes a fixed asset, which was intended to provide flexibility in revising the definition of fixed assets. In practice, individual items over $5,000 and "a grouping of like acquired items that ... collectively cost more than $5,000 . . ." were identified as fixed assets in accordance with the prior policy. Accordingly, a number of small items, such as chairs, laptops, and software, were unnecessarily classified as fixed assets. Further, the records were not adjusted for disposition of these items.

Receivables

A debt for $1.55 million dollars was not properly recorded in the FY 1997 accounting records. Procedures did not exist to ensure that accounts receivable arising from fines and penalties levied by USITC were reported to OFB and recorded. Further, procedures were often not followed in order to establish debt by USITC employees, and when indebtedness by USITC employees was established, receivables were not recorded.

ADP Security

Responsibility for automated data processing security for the financial and personnel systems was insufficient. Security violation reports were not requested from the service provider or reviewed. The USITC contingency plan for continuity of operations or for recovery in the event of system failures does not include the financial and personnel systems. USITC had not participated in any tests of the service provider's contingency plan. OFB grants access to the financial and personnel systems. This arrangement allows individuals who are responsible for processing financial transactions to also authorize access to the system.

Imprest Fund

The imprest fund operations do not comply with U.S. Treasury regulations in that USITC has no governing policy on the existence, operation or safeguarding of the funds, periodic verification and audits had not been conducted for over two years, and documentation for advances was retained inappropriately.

We recommended that the Director of Administration ensure that USITC policy on fixed assets is followed, procedures are developed to appropriately record accounts receivable, security for automated data processing systems is improved, and U.S. Treasury requirements are followed for the imprest fund operations.

We also recommended that the Director of Administration seek a policy decision from the Commission as to whether financial statements are to be prepared. The Chairman approved the Director's proposal that OFB will prepare annual financial statements in accordance with OMB guidelines on form and content.

An exit conference was held with the Directors of Administration, OFB, and Information Services, and their staff, on February 4, 1999. The Director of Administration also submitted written comments on the draft report. He agreed with the findings and all but one of the recommendations. His comments are presented in their entirety as an appendix to this report.

Janet E. Altenhofen

Jane E. Altenhofen
Inspector General

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Appendix: Memorandum from the Director of Administration, dated March 5, 1999, (AD-W-019), Administration's Response to the Draft Audit Report of the USITC Financial Statements for Fiscal Years 1997 and 1998

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

We have audited the accompanying statements of financial position of the United States International Trade Commission as of September 30, 1997 and 1998, and the related statements of operations and cumulative results of operations, cash flows and reconciliation of budget for the years then ended. These financial statements are the responsibility of the Commission management. Our responsibility is to express an opinion on these statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards and Government Auditing Standards, as issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the United States International Trade Commission as of September 30, 1998 and 1997, and the results of operations, cash flows, and reconciliation to budget for the years then ended, in conformity with generally accepted accounting principles, except that management has elected not to depreciate fixed assets.

In accordance with Government Auditing Standards, we also have issued a report dated February 9, 1999, on our consideration of the United States International Trade Commission's internal control structure and a report dated February 9, 1999, on its compliance with laws and regulations.

Leon Snead & Company, P.C.

Leon Snead & Company, P.C.
February 9, 1999

UNITED STATES INTERNATIONAL TRADE COMMISSION

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

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

Financing sources - USITC receives no-year funding for operations from appropriations. Appropriations are recognized as revenue and expensed when related operating expenses are incurred. Differences between appropriations received and expensed are included in unexpended appropriations.

UNITED STATES INTERNATIONAL TRADE COMMISSION
Statement of Financial Position
As of September 30, 1998 and 1997

		1998	1997
Assets			
Current assets			
Fund balance	(Note 1)	$7,178,127	$5,575,121
Accounts receivable	(Note 2)	1,550,000	1,550,000
Advances and prepayments		2,800	5,300
Total current assets		$8,730,927	$7,130,421
Property, plant and equipment			
Furniture, equipment and leasehold improvements	(Note 3)	2,852,024	2,247,461
Total Assets		$11,582,951	$9,377,882
Liabilities			
Accounts payable	(Note 2)	2,810,289	2,173,159
Accrued payroll and benefits		1,578,654	1,351,600
Accrued annual leave	(Note 3)	2,432,346	2,195,669
Other liabilities	(Note 4)	0	82,101
Total Liabilities	(Note 5)	$6,821,289	$5,802,529
Net Position	(Note 6)		
Unexpended appropriations	(Note 7)	4,341,985	3,523,561
Cumulative results of operations		419,677	51,792
Total Net Position		4,761,662	3,575,353
Total Liabilities and Net Position		$11,582,951	$9,377,882

UNITED STATES INTERNATIONAL TRADE COMMISSION
Statement of Cash Flow
For Fiscal Years Ended
September 30, 1998 and 1997

		1998	1997
Fund balance with U.S. Treasury and cash, beginning of period	(Note 8)	$5,575,121	$5,589,769
Sources of funds			
Appropriations	(Note 3)	$41,200,000	$40,850,000
Increase in accrued payroll and benefits		227,052	30,057
Increase in payables		637,131	1,113,192
Decrease in receivables		0	(1,546,000)
Decrease in advances		2,500	5,947
Unobligated amount withdrawn		0	(775,849)
Decrease in other liabilities		(82,101)	0
Total		$41,984,582	$39,677,347
Application of funds			
Operating expenses		39,170,306	38,762,927
Purchase of property, plant, and equipment		1,211,270	929,068
Total		$40,381,576	$39,691,995
Fund balance with U.S. Treasury and cash, end of period		$7,178,127	$5,575,121

UNITED STATES INTERNATIONAL TRADE COMMISSION
Statement of Reconciliation to Budget
For Fiscal Years Ended
September 30, 1998 and 1997

	1998	1997
Relation of expenses to outlays		
Expenses	$39,170,306	$38,762,927
Capital expenditures	1,211,270	929,068
Changes in:		
Increase (decrease) in accounts payable	(637,131)	(1,113,192)
Increase (decrease) in accrued payroll and benefits	(227,052)	(30,057)
Decrease (increase) in accounts receivable	0	1,546,000
Decrease (increase) in advances	(2,500)	(5,947)
Net Disbursements	$39,514,893	$40,088,799
Relation of obligations to outlays		
Obligations incurred	$40,992,930	$40,912,796
Recoveries	(184,573)	(551,805)
Beginning obligated balance	4,673,829	4,401,637
Ending obligated balance	(5,967,293)	(4,673,829)
Net Outlays	$39,514,893	$40,088,799

UNITED STATES INTERNATIONAL TRADE COMMISSION
Notes to Financial Statements

NOTE 1. Fund Balance

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

NOTE 2. Accounts Receivable and Payable

USITC imposed a civil penalty for $1,550,000 in fiscal year 1997. This amount is reflected as a receivable and also as a payable since upon collection it will be held in trust for the U.S. Treasury. This amount was not reflected in the fiscal year 1997 adjusted trial balance submitted to the U.S. Treasury.

NOTE 3. Summary of Significant Accounting Policies

Basis of accounting - Accounting principles, standards, and related requirements are set forth in the Statements of Federal Financial Accounting Concepts and Standards concurrently issued by the General Accounting Office and the Office of Management and Budget (OMB). USITC's financial statements are presented in accordance with the Statements, with the exception of depreciation of fixed assets. USITC is not subject to the Chief Financial Officers (CFO) Act or OMB Bulletin 97-01, Form and Content of Agency Financial Statements. For fiscal years 1998 and 1997, USITC elected to follow the same financial statement format used in prior fiscal years for consistency. USITC's fiscal year is October 1 to September 30.

Appropriations - Congress appropriated $41,200,000 for fiscal year 1998 and $40,850,000 for fiscal year 1997 for the general operations of the USITC. Congress appropriated $44,495,000 for fiscal year 1999 operations.

Furniture, equipment and leasehold improvements - Furniture and equipment are recorded at cost with a corresponding entry to cumulative results of operation. Assets are carried at original cost until disposition. USITC does not depreciate assets. The Commission assumed title for equipment that was purchased under capital lease in fiscal year 1997. Leasehold improvements of $2,440,674 were written off in fiscal year 1997, which is when the USITC's 10-year lease expired. This amount was not reflected in the fiscal year 1997 adjusted trial balance submitted to the U.S. Treasury.

In fiscal years 1997 and 1998, single items with a value of $5,000 or more and aggregate like acquired items with a value of $5,000 or more were recorded as fixed assets. A change in the definition of fixed assets was adapted with a retroactive effective date of October 1,1997. Fixed assets are defined as items that: 1) have a single unit dollar value of $5,000

NOTE 3. Summary of Significant Accounting Policies (continued)

or more; 2) have a useful life of three years or more; and 3) are not consumable (i.e. lose identity upon use).

Due to this accounting policy change, the furniture and equipment was reduced by $3,428,938 for fiscal years 1998 and 1997. Since the policy was retroactive, these amounts were not reflected in the fiscal years 1998 and 1997 adjusted trial balances submitted to the U.S. Treasury.

Accrued annual leave - Annual leave is accrued on the books at fiscal year end, although it is not funded until it is used by employees. Sick, compensatory and certain other types of leave are not accrued and are expensed when used by the employee.

Cumulative results of operations - Represents the activity between expenses and the U.S. Government appropriations invested in furniture and equipment (at cost), net of the accrued unfunded annual leave.

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

NOTE 4. Other Liabilities

Other liabilities consisted of a bond posted by respondents to USITC actions as a result of investigations on unfair importing practices into the United States. The bond was held for the U.S. Treasury, pending the outcome of legal proceedings, and was transferred to the U.S. Treasury during fiscal year 1998.

NOTE 5. Unliquidated Obligations and Contingencies

Unliquidated obligations - USITC incurred certain obligations for goods and services ordered but not yet received. Aggregate orders not received at September 30, 1998 and 1997 reflected as part of unexpended appropriations in the accompanying financial statements, amounted to approximately $3,131,150 and $2,704,369, respectively.

Contingencies - USITC is a party in various pending or threatened litigation, claims and assessments that individually represent a potential loss exposure in excess of $25,000. While the ultimate result of these legal proceedings is unknown, management identified no material liability or gain or loss contingencies that are required to be accrued or disclosed.

UNITED STATES INTERNATIONAL TRADE COMMISSION
Notes to Financial Statements

Note 6. Net Position

Activity in the Net Position Accounts

	Unexpended Appropriations	Cumulative Results of Operations	Total
October 1, 1996 (Note 8)	$3,141,405	$6,182,744	$9,324,149
Appropriations received	40,850,000		40,850,000
Appropriations used to fund purchase of furniture and equipment	(929,068)		(929,068)
Increase in fixed assets due to recording at cost		227,118	227,118
Appropriations used to fund operating expenses	(38,762,927)	(38,762,927)	(77,525,854)
Appropriations expensed		39,691,995	39,691,995
Increase in unfunded leave and benefits		(121,610)	(121,610)
Decrease in capital lease liability		123,708	123,708
Fiscal year 1992 unboligated balance withdrawn	(775,849)		(775,849)
Deletions of fixed assets		(4,848,562)	(4,848,562)
Deletion of leasehold improvement		(2,440,674)	(2,440,674)
September 30, 1997	$3,523,561	$51,792	$3,575,353
Appropriations received	41,200,000		41,200,000
Appropriations used to fund purchase of furniture and equipment	(1,211,270)		(1,211,270)
Increase in fixed assets due to recording at cost		4,043	4,043
Appropriations used to fund operating expenses	(39,170,306)	(39,170,306)	(78,340,612)
Appropriations expensed		40,381,576	40,381,576
Increase in unfunded leave and benefits		(236,676)	(236,676)
Deletions of fixed assets		(610,752)	(610,752)
September 30, 1998	$4,341,985	$419,677	$4,761,662

NOTE 7. Unexpended Appropriations

Unexpended appropriations include approximately $1,210,735 and $819,192 of unobligated balances as of September 30, 1998 and 1997, respectively. The amount returned to the U.S. Treasury in fiscal year 1998 was none and in 1997 was $775,849 representing unexpended funds from 1992.

NOTE 8. Fund Balance with U.S. Treasury and Cash, Beginning of Period

The beginning fund balance for fiscal year 1997 is not in agreement with the ending balance for fiscal year 1996 on the Statements of Cash Flows. In addition, the beginning unexpended appropriations and cumulative results of operations balances for fiscal year 1997 are not in agreement with the ending balances for fiscal year 1996 in the Note on Net Position. The differences are nearly all due to a change in reporting unobligated funds in fiscal years 1995 and 1996. As a result, the $2.3 million FY 1991 unobligated funds was not reported.

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Independent Auditor's Report on Internal Controls

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

We have audited the financial statements of the United States International Trade Commission (USITC) as of and for the years ended September 30, 1997 and 1998, and have issued our report thereon dated February 9, 1999. We conducted our audits in accordance with generally accepted auditing standards and Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement.

In planning and performing our audit, we considered the USITC's internal control over financial reporting by obtaining an understanding of the agency's internal controls, determined whether these internal controls had been placed in operation, assessed control risk, and performed tests of controls to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Consequently, we do not provide an opinion on internal controls.

Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be reportable conditions. Under standards issued by the American Institute of Certified Public Accountants, reportable conditions are matters coming to our attention relating to significant deficiencies in the design or operation of the internal control that in our judgment, could adversely affect the agency's ability to record, process, summarize and report financial data consistent with the assertions by management in the financial statements. Material weaknesses are reportable conditions in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

We noted two matters which are discussed in the following paragraphs involving the internal control structure and its operation that we consider to be material weaknesses.

Control of Fixed Assets

Both financial and inventory control over fixed assets are inadequate. USITC Directive 3550.3 requires an annual reconciliation of the financial and inventory records for fixed assets. However, the reconciliation was not done in fiscal years 1997 and 1998. The directive does not require physical inventories of fixed assets, and none were conducted in fiscal years 1997 and 1998. Annual physical inventories of accountable property are required, but only a limited number of fixed assets are defined to be accountable property (7 of 103 fiscal year 1998 fixed assets meet the accountable property definition).

Under USITC procedures, new fixed assets are not added to the property inventory until a list of additions is provided from the Office of Finance and Budget. Conversely, the Office of Finance and Budget does not remove fixed assets from the financial records until a list of deletions is provided by the Property Management Officer (PMO). These lists had not been exchanged for fiscal years 1997 and 1998. As a result of these failures to comply with established policy and procedures, neither the financial nor the inventory records provide an accurate record of nor an adequate control over the fixed assets.

We recommend that the Director, Office of Administration revise fixed asset accounting policies and procedures to:

> (IC-1) provide for both the Office of Finance and Budget and the PMO to record additions and deletions as they occur,
>
> (IC-2) ensure that financial and inventory records of fixed assets are reconciled at least annually as required by USITC Directive 3550.3, and
>
> (IC-3) require an annual physical inventory of fixed assets. This could be accomplished by revising USITC Directive 3550.3 to include fixed assets in the definition of accountable property.

Management Response: Agree Target Date: May 1, 1999

Accounts Receivable

USITC does not have adequate procedures to ensure that accounts receivable are recorded for civil penalties levied by the Commission or for indebtedness to USITC by its employees. Normally, the Finance Division learns of moneys due only at the time they are collected. In September 1997, the Commission levied a civil penalty of $1.550 million. The Finance Division was unaware of this receivable until it was identified during the audit by the Inspector General from an article in the Journal of Commerce in December 1998.

Four letters of indebtedness were issued to employees in October 1998. In January 1999, the Finance Division still was unaware of these receivables and they were not recorded. Other indebtedness by employees arises in the payroll process, as a result of overpayments or for items such as health insurance. Although the Finance Division has received reports regarding indebtedness from the payroll system, they are not used to record accounts receivable.

We recommend that the Director, Office of Administration establish procedures to ensure that:

> (IC-4) information about civil penalties levied by the Commission and debts of USITC employees is provided to the Finance Division, and
>
> (IC-5) accounts receivable are recorded for amounts due to be collected.

Management Response: Agree Target Date: May 1, 1999

No other reportable conditions were noted during the audit. However, we noted certain matters involving internal controls and their operation that we have reported to the management of USITC in a separate letter dated February 9, 1999.

This report is intended solely for the information and use of the Commissioners and management of the United States International Trade Commission and is not intended to be, and should not be used by anyone other than those parties. This restriction is not intended to limit the distribution of this report, which is a matter of public record.

Leon Snead & Company, P.C.

Leon Snead & Company, P.C.
February 9, 1999

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Independent Auditor's Report on Compliance with Laws and Regulations

The Commissioners
United States International Trade Commission

We have audited the financial statements of the United States International Trade Commission (USITC) as of and for the years ended September 30, 1997 and 1998, and have issued our report thereon dated February 9, 1999.

We conducted our audits in accordance with generally accepted auditing standards and Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement.

The management of the USITC is responsible for complying with laws and regulations applicable to the agency. As part of obtaining reasonable assurance about whether the agency's financial statements are free of material misstatements 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. It must be noted that the USITC is not required to produce financial statements in accordance with OMB Bulletin 97-01, *Form and Content of Agency Financial Statements*, and is not required to conform to the audit requirements of OMB Bulletin 98-08, *Audit Requirements for Federal Financial Statements*. While compliance with FFMIA is not required, we found that the system of accounting used does conform to the United States Government Standard General Ledger at the transaction level, and generally complies with other requirements of OMB Circular A-127, *Financial Management Systems*.

The results of our tests disclosed no instances of noncompliance that are required to be reported herein under Government Auditing Standards.

Providing an opinion on compliance with certain provisions of laws and regulations 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 the Commissioners and management of the United States International Trade Commission and is not intended to be and should not be used by anyone other than those specified parties. This restriction is not intended to limit the distribution of this report, which is a matter of public record.

Leon Snead & Company, P.C.

Leon Snead & Company, P.C.
February 9,1999

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The Commissioners
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We have audited the financial statements of the United States International Trade Commission (USITC) for the years ended September 30, 1997 and 1998, and have issued our reports thereon.

We conducted our audits in accordance with generally accepted auditing standards and Government Auditing Standards issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement.

Two conditions noted during the audit which we consider material weaknesses have been reported separately in the Independent Auditor's Report on Internal Controls.

In planning and performing our audit of the financial statements we also noted certain areas wherein we believe improvement is needed in operating policies and procedures. The noted conditions are summarized below.

FINANCIAL STATEMENT PREPARATION

USITC is not subject to the Chief Financial Officers (CFOs) Act of 1990, the Government Management Reform Act (GMRA) of 1994, or OMB Bulletins No. 97-01, *Form and Content of Agency Financial Statements,* and 98-08, *Audit Requirements for Federal Financial Statements,* which prescribe procedures for preparing and auditing federal financial statements. Also, USITC has no prescribed policies or procedures requiring the preparation and audit of financial statements. Nevertheless, audited financial statements have been produced for USITC biennially. However, in the absence of legislation, regulatory or policy requirements for financial statements, there is no clear assignment of responsibilities for financial statement preparation or guidance on their form and content. As a result, for the fiscal years 1997 and 1998, initially no one claimed responsibility for financial statement preparation and persons who were ultimately assigned the responsibility lacked both time and expertise in financial statement preparation.

We recommend that the Director, Office of Administration:

(ML-1) seek a policy decision as to whether financial statements are to be prepared, and if so,

(ML-2) issue a directive setting forth responsibilities for the preparation of financial statements and giving guidance as to their form and content.

Management Response: Agree Target Date: Completed March 11, 1999

FIXED ASSETS

Criteria

USITC Directive 3550.3, dated June 1, 1998 establishes policy and procedures and assigns responsibility for the management of government-owned property within the USITC. This directive defines a Fixed Asset as, "A property item which meets the current GAO definition of a fixed asset as set forth in the GAO Policy and Procedures Manual, Title 2: Accounting Principles and Standards. However, the Statements of Federal Financial Accounting Standards, which superceded the referenced GAO Manual, adopted a materiality approach, and leaves it to each entity to determine the threshold for capitalization. During the audit, the Director, Office of Administration established definitive criteria as to what constitutes a fixed asset, therefore no recommendation is needed.

ADP SECURITY

Security Violation Reports

USITC has not requested reports of security violations from the Department of Interior (DOI) computer center in Denver, where USITC financial and personnel data is stored and processed. While such reports generally show only access attempts by individuals who have forgotten user identifications or passwords, or who have entered them incorrectly, review of such reports also can enable management to spot patterns of access attempts or attempts to perform unauthorized functions which can help to prevent problems before they occur.

Contingency Plans

USITC has no formal contingency plan for continuity of operations or for recovery in the event of system failures of the LAN or communication systems linking USITC to the DOI center. Nor has USITC participated in any tests of the DOI contingency plan.

OMB Circular A-130, *Management of Federal Information Resources* which provided overall policy for security of information systems in the federal government, no longer requires extensive

risk assessments and elaborate contingency plans, but it does call for agencies to have plans consistent with the perceived risk. While primary responsibility for assessing the risk and determining what measures should be taken given the risk is vested in the managers of the information system, neither the risk assessment nor the identification of actions to be taken can be completed satisfactorily without the participation of persons familiar with ADP security issues.

Granting Authority for Access to Financial and Personnel Systems

All requests for authority to access the financial and personnel systems at the DOI computer center in Denver are forwarded to the Finance Division, where they are processed by either the Division Chief or the Accountant. Separation of duties is an inherent internal control principle, whether for manual or computerized systems. In our opinion, the arrangement which places individuals whose primary responsibilities include the processing of financial transactions in a position to assign access authorities and privileges is contrary to that principle.

We recommend that the Director, Office of Administration, in coordination with the Director, Office of Information Services, as necessary:

(ML-3) periodically obtain and analyze security violation reports from DOI,

(ML-4) develop a contingency plan adequate to the risks associated with the financial and personnel systems of USITC, and

(ML-5) ensure appropriate division of duties between responsibilities for transaction processing and granting access authorities and privileges.

Management Response: Agree in Part/Disagree in Part. Management disagreed with recommendation ML-5 on the basis that the risk is not sufficient to justify the additional workload and problems associated with transfer of responsibilities to another office.

Auditor Comment: We agree with management's balancing of risk and cost.

Target Date: August 1, 1999

IMPREST FUND

An imprest fund of $1,500 is maintained in the Office of Finance and Budget. USITC currently has no directive governing the existence, operation or safeguarding of the fund. We were unable to locate any record of any verifications or audits of this fund within the last two years. Previously, the Office of the Inspector General performed quarterly cash verifications. That effort was discontinued due to a lack of resources and based on feedback from the Commissioners.

Treasury Financial Management Manual, Volume I, Part 4, chapter 3000, provides requirements and guidance regarding the establishment and operation of imprest funds and requires that agencies make periodic unannounced verifications and audits of cash balances in imprest funds.

During our verification of the cash balance of the fund, we noted two receipts for cash, for $500.00 and $5.00 respectively, in the cash boxes of the principal and alternate fund custodians which were out of date, and were not being held as a part of the fund accountability.

The retention of receipts for cash which are not required as part of the fund accountability and the absence of periodic verifications and audits are significant weaknesses in the management controls for the imprest fund. Such receipts could be used to cover improper payments from or shortages in the fund.

We recommend that the Director, Office of Administration:

> (ML-6) issue a directive which requires the administration and operation of imprest funds in accordance with procedures set forth in the Treasury Financial Management Manual, and
>
> (ML-7) arrange for periodic verifications and audits of the imprest fund.

Management Response: Agree Target Date: May 1, 1999

This report is intended solely for the information and use of the Commissioners and management of the United States International Trade Commission, and is not intended to be used and should not be used by anyone other than those specified parties.

Leon Snead & Company, P.C.

Leon Snead & Company, P.C.
February 9, 1999

Appendix

UNITED STATES INTERNATIONAL TRADE COMMISSION

WASHINGTON, DC 20436

March 5, 1999 AD-W-019

TO: The Chairman

FROM: Stephen A. McLaughlin, Director
Office of Administration

SUBJECT: Administration's Response to the Draft Audit Report of the USITC Financial Statements for Fiscal Years 1997 and 1998

The Office of Administration is in general agreement with the findings and recommendations set forth in the draft audit report of the USITC Financial Statement for Fiscal Years 1998 and 1997. That draft report concluded that the financial statements "present fairly, in all material respects, the financial position of the United States International Trade Commission."

The only apparent area of concern with regard to the financial statements themselves is a policy question regarding the preparation and format for financial statements. This concern was separately noted by the independent auditors in their Report on Compliance with Laws and Regulations. I agree with the Inspector General's recommendation that the Office of Finance and Budget should be responsible for preparing the financial statements and should do so in accordance with existing OMB guidelines.

While the FY 1998 and 1997 financial statements themselves were satisfactory, the independent auditors did separately report two material weaknesses in the Commission's internal controls. One weakness relates to control of fixed assets; the other relates to recording civil penalties as accounts receivable. In addition, the auditors raised concerns regarding ADP security and the Commission's imprest fund.

In their summary report, the auditors made specific recommendations regarding all the issues noted above. In the sections that follow, I report the recommendations as to each issue and provide the Office of Administration's response. The Inspector General was provided a copy of this memorandum in draft form and her comments have been incorporated into the final version. You may register your approval or disapproval of the proposed Administration Response by checking the appropriate box at the end of this memorandum.

FINANCIAL STATEMENT PREPARATION

Auditors' Findings and Recommendations

The auditors noted that the Commission is not subject to legislation that requires preparation of financial statements and prescribes the method for their preparation. They note that the Commission has no stated policy or procedures requiring the preparation and audit of financial statements. This has led to some confusion regarding the obligation of the Office of Finance and Budget to prepare financial statements to facilitate the audit. As a result, in this and prior audits, the financial statements were largely prepared by the auditors from data provided by Commission staff.

To remedy this situation for the future, the auditors recommended that the Director, Office of Administration:

(1) seek a policy decision as to whether the financial statements are to be prepared, and if so,

(2) establish policy setting forth responsibilities for the preparation of financial statements and giving guidance as to their form and content.

The Inspector General, in her cover memorandum, recommended that, if financial statements are prepared, current OMB guidance should be used so that financial statements are in a format consistent with the rest of the government and that the timing of the report coincide with other agency's year-end reports to Treasury.

Administration Response: Agree

It seems to me that existence of a bi-annual audit of the Commission's financial statements necessarily implies that the Commission will produce a financial statement that can be audited. Preparation of the financial statement by the auditors creates an unnecessary conflict of interest. Given the confusion surrounding this issue, however, it would be useful for the Commission to clarify this issue with a policy decision. Approval of this draft response by the Chairman would, in my view, constitute such a policy decision.

I propose that the Office of Finance and Budget prepare an annual financial statement in accordance with existing OMB guidelines as to form and content. To the extent that additional training of OFB personnel are required, I will ensure that such training is undertaken.

TARGET DATE: DATE OF APPROVAL OF THIS RESPONSE

FIXED ASSETS

Auditors' Findings and Recommendations

The auditors noted that control of fixed assets has been a persistent problem. Both financial tracking and inventory control are inadequate. Annual reconciliation has not occurred and the physical inventories are not required. Regular recordation of additions and deletions to the fixed asset list does not occur.

The auditors recommend that the Director of Administration revise fixed asset accounting policies and procedures to:

(1) provide for both the Office of Finance and Budget and the Property Management Officer to record additions and deletions as they occur,

(2) ensure that financial and inventory records of fixed assets are reconciled at least annually as required by USITC Directive 3550.3, and

(3) require an annual physical inventory of fixed assets. This could be accomplished by revising USITC Directive 3550.3 to include fixed assets in the definition of accountable property.

Administration Response: Agree

The problem with fixed assets control stems in large part from the vagueness and over inclusiveness of the definitions used. Fixed assets used to include any bulk purchase of non-consumables that collectively cost more than $5,000. This made tracking and inventory exceedingly difficult as bulk purchases (of chairs, for example) would be split up and disbursed throughout the agency. We have remedied this situation already by eliminating items of less than $5,000 in unit value from the fixed asset list. This list should cover only large, expensive pieces of capital equipment, not miscellaneous furnishings.

Now that much of the useless tedium of the tracking of fixed assets has been eliminated, the tracking and inventory processes should be much less time consuming. To ensure that the process is implemented, the Performance Plans for the Finance Division Chief and the Property Management Officer (the Director of Facilities Management) will be revised to require them to record additions and deletions as they occur. They will also be required to reconcile their records by the end of their performance periods. The Property Management Officer will be required to complete an annual physical inventory at the same time. The performance appraisal period for both individuals ends on June 30 and these issues will have to be addressed at that time by their supervisor in evaluating their performance. This will help ensure that there will be no inadvertent slippage in performing this task as has happened in the past.

TARGET DATE: MAY 1, 1999

ADP SECURITY

Auditors' Findings and Recommendations

The auditors noted that Commission Directive 1360.1 specifies that the Director, Office of Information Services is responsible for Automated Data Processing (ADP) security. Notwithstanding this directive, responsibility for ADP security for financial and personnel systems remains with the Office of Finance and Budget and the Office of Personnel, respectively. These are the two offices that deal directly with the Department of Interior which maintains those systems.

The auditors also noted that the Commission has not requested any security violation reports, although they admitted that most security violations involve people who forgot their passwords or entered them incorrectly. They found that the Commission has no formal contingency plan in the event of system of failure. While no elaborate planning is required, there should be a plan in place consistent with perceived risks. Finally, they observed that there was insufficient separation of duties between those who process financial transactions and those who grant access to the system.

The auditors recommend that the Director, Office of Administration, in coordination with the Director, Office of Information Services, as necessary:

(1) periodically obtain and analyze security violation reports from DOI,

(2) develop a contingency plan adequate to the risks associated with the financial and personnel systems of USITC, and

(3) ensure appropriate division of duties between responsibilities for transaction processing and granting access authorities and privileges.

Administration Response: Agree in Part/Disagree in Part

The Director, Office of Administration will work with OIS and OFB to periodically obtain and analyze security violation reports from DOI. Such reporting will occur on a quarterly basis. Any unusual problems will be reported to the Director, Office of Information Services. The Director, Office of Administration will also instruct the Director, Office of Finance and Budget and the Director, Office of Personnel to develop contingency plans adequate to the risks associated with the financial and personnel systems, respectively, of the USITC. This plan will be developed by August 1, 1999.

While I agree with the separation of duties as a general theoretical goal, particularly with regard to certification of funds (budget) and payment (finance), I am skeptical that such separation would achieve any benefit to the Commission or involve any significant risks to the Commission with regard to access and

processing of financial and personnel information. Moreover, the separation of those duties would require the transfer of responsibilities to another office (presumably OIS) and would impose additional workload and manpower requirements that are currently absorbed within the Office of Finance and Budget. In addition, there are benefits to having both functions performed by OFB staff -- problems can be resolved quickly with minimal disruption to information processing.

TARGET DATE: AUGUST 1, 1999

ACCOUNTS RECEIVABLE

Auditors' Findings and Recommendations

The auditors noted that the Commission does not have adequate procedures in place to ensure that accounts receivable are recorded for civil penalties levied by the Commission or for indebtedness to the Commission by its employees. Normally, the Finance Division learns of monies to be collected only at the time of collection, not at the time the debt arises.

The auditors recommend that the Director, Office of Administration establish procedures to ensure that:

(1) information about civil penalties levied by the Commission and debts of USITC employees is provided to the Finance Division, and

(2) that accounts receivable are recorded for amounts due to be collected.

Administration Response: Agree

We agree that information about civil penalties and debts should be promptly provided to the Finance Division so that it can be properly recorded as an account receivable. This is particularly important with regard to civil penalties, which occur infrequently, but dwarf in significance the amount of employee debt. To ensure prompt reporting and recording of civil penalties and debt, the Director, Office of Administration will issue a memorandum to the General Counsel and the Director, Office of Unfair Import Investigations requiring them to report any civil penalties or debts as soon as they become aware of them. Any debts that are first reported to the Director, Office of Finance and Budget will be immediately reported to, and booked by, the Finance Division Chief. The Finance Division Chief will promptly record any civil penalties or debts reported to her.

TARGET COMPLETION DATE: MAY 1, 1999

IMPREST FUND

Auditors' Findings and Recommendations

The auditors noted certain minor irregularities in the records management for the $1500 imprest fund. They also found that verifications and audits of the fund had not been recorded during the last two years. Further, there was no written policy regarding the establishment and operation of the fund.

The auditors recommend that the Director, Office of Administration:

(1) issue a directive which requires the administration and operation of imprest funds in accordance with procedures set forth in the Treasury Financial Management Manual, and

(2) arrange for periodic verification and audits of the imprest funds.

Administration Response: Agree

The Imprest Fund Directive has been canceled and procedures governing it were to be incorporated into the OFB Financial Manual, but that has yet to occur. That portion of the manual has been prepared, but the rest of the manual and the new financial directives have not been completed. In the meantime, the Director, Office of Administration will issue an internal rule providing procedural guidelines for the imprest funds. Those guidelines can later be incorporated into a more comprehensive directive. Those guidelines will provide for periodic verifications and audits of the imprest fund.

TARGET DATE: MAY 1, 1999

Check the appropriate box, below:

☒ Approved ☐ Disapproved

3/11/99

Chairman Lynn M. Bragg

cc: The Commission
The Inspector General
Director, Office of Finance and Budget
Director, Office of Personnel
Director, Office of Information Services
Director, Office of Unfair Import Investigations
General Counsel