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Audit Report

Review of Budget Formulation and Execution

Report No. IG-01-91

UNITED STATES INTERNATIONAL TRADE COMMISSION

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REVIEW OF BUDGET FORMULATION AND EXECUTION

This review was scheduled because Federal regulations require that a detailed evaluation of agency financial systems or subsystems be conducted on a cyclical basis, not to exceed every three years. The budget process, a financial subsystem, had never been audited. The objectives of this review were to evaluate the policy and procedures for budget formulation and execution to identify any areas of non-compliance with applicable laws, regulations and guidelines, improvements to internal controls or increased efficiency.

The review was conducted by Cotton & Company in accordance with the Government Auditing Standards issued by the Comptroller General of the United States. The auditors findings fell into two broad categories: budget formulation and budget execution and funds control. The results of their review are presented as an attachment to this report.

The auditors found that the system of internal accounting control was sufficient to meet the objectives of the budget formulation and execution system insofar as those objectives pertain to the prevention or detection of material errors or irregularities. Several non-material conditions, discussed on pages 6 through 8 of the report, where internal controls could be improved are:

- -- The accounting system does not formally incorporate commitments;
- -- Cost center managers occasionally did not certify fund availability on overtime forms nor was documentation on file to indicate that responsibility had been delegated to an alternate;
- -- Travel authorizations for Commissioner travel are, on occasion, charged to travel funds allotted to the Office of Operations, without the appropriate cost center manager's certification;
- -- Budget allocations are not always entered into the accounting system in a timely manner; and
- -- A formalized process does not exist for a periodic review of obligations. This is a joint responsibility of the Office of Finance and Budget and cost center managers to determine if recorded obligations are still valid and if billings are anticipated.

Recommendations relating to the findings are presented on pages 8 and 9 of the report. We recommend that the Director of Administration take appropriate steps to implement the following recommendations:

- -- Consolidate the five budget calls into a reduced number of requests for budget information;
- -- Incorporate, where appropriate, fund commitments into the accounting system in advance of their becoming valid obligations;
- -- Process overtime forms and other obligating documents only when they contain certification by a cost center manager or by a designated alternate for whom a written delegation is on file;
- -- Coordinate the processing of travel authorizations for the Commissioners' offices with the appropriate cost center manager to ensure that funds are available before travel is initiated;
- -- Enter all current budget allocation information into the accounting system in a more timely manner; and
- -- Coordinate with cost center managers on a scheduled and timely basis to reduce obligated funds that are not expected to be needed to the extent originally anticipated.

The auditors also identified several matters during the review that they considered important enough to be brought to management's attention because they represent areas for improving the Commission's system of budgeting and internal controls. These are discussed on pages 10 through 12 of the report.

The Director of Administration generally concurred with the four findings and recommendations on budget execution and funds control, has implemented corrective action on one finding and has plans for implementing the other recommendations. He also considered the other matters brought to management's attention and implemented or made plans for action.

The Director disagreed with our recommendation to consolidate the five budget calls. He stated these were mostly calls for information rather than budget calls and were necessary. We accept this response but encourage the Director to reconsider this recommendation in the future considering the multiple comments received from Commission managers for fewer requests for information.

The Director's comments on recommendations and other matters with which he disagreed and our responses are presented on pages 9, 10, 12 and 13 of the report. The Director's comments are presented in their entirety as an appendix to the report.

Jane E. Altenhofen

Jane E. Altenhofen
Inspector General

Attachment

REPORT ON THE

INTERNAL CONTROL REVIEW OF THE

UNITED STATES

INTERNATIONAL TRADE COMMISSION

BUDGET FORMULATION AND EXECUTION SYSTEM

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August 9, 1990

Ms. Jane E. Altenhofen
Inspector General
U. S. International Trade Commission
500 E Street, SW
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Dear Ms. Altenhofen:

We conducted a study and evaluation of the United States International Trade Commission's (ITC) budget formulation and execution system in effect as of August 9, 1990. Our review was limited to controls pertaining to:

- Developing, approving, and submitting the annual ITC budget estimate, including evaluating assumptions upon which estimates are made.
- Developing and approving the annual ITC expenditure plan.
- Apportioning and allocating funds appropriated to ITC.
- Ensuring that ITC does not obligate or disburse funds in excess of those funds appropriated.
- Certifying fund availability for processing transactions that obligate and expense funds appropriated to ITC.

Our study and evaluation was performed in accordance with guidelines and standards established by the American Institute of Certified Public Accountants; Office of Management and Budget; Department of the Treasury; and U.S. General Accounting Office. This study and evaluation was more limited than would be necessary to express an opinion on ITC's system of internal control taken as a whole.

ITC's management is responsible for establishing and maintaining a system of internal controls within the budget formulation and execution system. In fulfilling this responsibility, estimates and judgements by management are required to assess the expected benefits and related costs of control procedures. The objectives of a system of internal control are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions and program management activities are executed in accordance with management's authorization and, where appropriate, recorded properly to permit the preparation of financial reports in accordance with generally accepted accounting principles and agency policies and procedures.

Because of inherent limitations in any internal accounting control system, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the system to future periods is subject to the risk that procedures may become inadequate as a result of changes in conditions, or that the degree of compliance with the procedures may deteriorate.

The specific control objectives associated with the ITC budget formulation system are as follows:

- Budget estimates are prepared and approved in accordance with laws, regulations, and management policy.

- Assumptions, such as caseload figures and lapse rate, from which the budget estimates are derived, are appropriate and supported.

The specific control objectives associated with the ITC budget execution system are as follows:

- Appropriated funds are apportioned, allocated, and monitored to ensure the rate of expenditure will not necessitate requesting supplemental funds.

- Proper certification of fund availability is made before a commitment, obligation, or expenditure is issued.

- The accounting system accurately records commitments, obligations, and expenditures in a timely manner to prevent over obligation or disbursement of appropriated funds.

Our study and evaluation made for the limited purposes described in the first paragraph of this report would not necessarily disclose all material weaknesses in ITC's internal control system. Accordingly, we do not express an opinion on ITC's internal control system taken as a whole. Based on our study and evaluation of the specific budget formulation and execution system control objectives listed above, however, the internal accounting control system in effect as of August 9, 1990, was sufficient to meet the objectives stated above insofar as those objectives pertain to the prevention or detection of errors or irregularities in amounts that would be material in relation to the budget formulation and execution system data. We did, however, identify certain conditions that we believe warrant corrective action. These are presented in the Audit Results section of the accompanying report.

We conducted our fieldwork in Washington, DC, from July 9 to August 9, 1990.

We discussed the results of our review with the Director, Office of Administration; the Director, Office of Finance and Budget; and other headquarters personnel responsible for the policy direction and overall management of the processes we reviewed. Their specific comments are incorporated into this report as appropriate.

The accompanying report describes our objectives, scope, and methodology and the resultant findings and other conditions, conclusions, and recommendations. It is intended solely for ITC's information and use and should not be used for any other purpose.

Very truly yours,

COTTON & COMPANY

By: Kevin P. McFadden
Kevin P. McFadden, CPA

mbp
Enclosure

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REPORT ON THE
INTERNAL CONTROL REVIEW OF THE
UNITED STATES
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PART I: INTRODUCTION

In this part, we discuss study and evaluation background, objectives, scope, and methodology.

BACKGROUND

The International Trade Commission (ITC) is an independent, bipartisan, quasi-judicial U.S. Government agency that, upon request, advises the President and Congress on tariff matters and conducts investigations relating to the impact of imports on domestic industries. The Commission contributes to the development of U.S. trade policy, but is not charged with a policy-making role.

The Commission has an approved staffing level of 502 permanent positions (includes six Commissioners, one of whom is designated Chairman) and a Fiscal Year (FY) 1990 budget of $38,477,000. Approximately 67 percent of ITC's appropriation is for personnel, compensation, and benefits and another 15 percent is for rent.

Although the ITC budget is not subject to review by the Office of Management and Budget (OMB), the Commission does follow OMB guidance set forth in Circulars A-11, Preparation and Submission of Budget Estimates, and A-34, Instructions on Budget Execution.

The Chairman, subject to a majority vote of the Commission, determines budget policy (USITC Directive 2100, Chapter 10, Budget Policies and Procedures) and establishes budget guidelines for the annual budget preparation.

The Director, Office of Finance and Budget (OFB), is responsible for developing an expenditure plan for the following fiscal year and an appropriations request for the budget fiscal year based on Commission policy and guidelines, adhering to legal requirements, and submitting these budget estimates to the Chairman for Commission approval. In preparing these budget estimates, the OFB director obtains detailed estimates of requirements from office directors and cost center managers and works closely with these officials in establishing budget amounts.

The Chairman, subject to approval by a majority vote of all Commissioners, formulates all budgets, budget supplementals, and budget amendments.

The OFB director performs liaison with the OMB, prepares documents in the style and formats prescribed by OMB, and submits selected documents in voluntary compliance with OMB directives by the established due dates to be included, without revision, in the President's budget or budget supplementals. In addition, the OFB director complies with other legal requirements in preparing documents for submission directly to Congress and performs liaison between the Commission and the Congressional committees on budget matters.

Throughout the fiscal year, the budget-related functions of OFB are to:

- Keep the Commission, office directors, and cost center managers fully advised on ITC's budget performance.

- Furnish technical advice and assistance to the Commission, office directors, and cost center managers in the maintenance of position controls.

- Perform external liaison with other Federal agencies, Congressional committees, and private organizations concerning financial and budget matters.

The Chairman appoints cost center managers and allocates funds to them through the Commission expenditure plan process. The cost center managers are responsible for authorizing fund expenditures and maintaining fund allocations within the expenditure plan allocation instructions. A cost center manager approves funds for personnel actions (SF-52), travel authorizations (ITC Form 005), overtime requests (GSA Form 544), training requests (SF 182) and, where applicable, other categories of expenses within the budgets that are allocated to them through the expenditure plan process. The policy and procedures for establishing cost center managers and their responsibilities are set forth in USITC Directive 2103 (Cost Center Managers).

A related aspect of the budget execution process is the Activity Reporting System (ARS). An employee activity-work summary is submitted by Commission managers for each employee every 4 weeks. These data are used to monitor agency resources and assist in budget formulation. Various summary reports of ARS data are supplied to agency managers. The ARS is not part of the accounting or payroll systems and is only intended for use in providing information on the "direct program time" of ITC staff. OFB provides reporting instructions and coding to agency managers and maintains "costing" and "activity" data in the system.

OFB conducted the most recent Internal Control Review (ICR) of the budget execution cycle in FY 1988. No weaknesses were identified. The budget process is also reviewed annually as part of the Federal Managers' Financial Integrity Act (FMFIA) Section 4 report. No weaknesses were identified during the reviews performed for FY 1987, 1988, and 1989.

OBJECTIVES

We conducted this study and evaluation of the ITC budget formulation and execution internal control systems to: (1) evaluate the adequacy and effectiveness of internal controls and procedures and (2) determine compliance with applicable laws, regulations, and guidelines.

The specific audit objectives were to:

- Evaluate the preparation of budget estimates, including the appropriateness of assumptions, such as the lapse rate, and reporting statistics, such as the caseload figures.
- Determine if ITC budget practices comply with the applicable provisions of OMB Circulars No. A-11 and No. A-34.
- Review and evaluate the cost center management program to determine if the program's policy and procedures are being followed.
- Review the ARS to determine if it is functioning as intended and to what extent it assists in budget preparation and execution activities.
- Evaluate computer system controls as they relate to the budget formulation and execution processes.

SCOPE

We conducted our review at ITC headquarters in Washington, DC, between July 9 and August 9, 1990. The review focused on the budget processes that resulted in the preparation of the FY 1990 budget and the FY 1991 expenditure plan.

We interviewed selected cost center and office managers to determine:

- The amount of guidance received from OFB in the preparation of budget estimates.
- How planning factors and budget estimates are developed.
- The cost categories for which expenditure levels are received and how reprogramming is effected.
- If cost center managers suballocate their allocated funds and, if so, the extent and authority provided.
- Delegation procedures when cost center managers are absent.
- Who certifies funds for transactions to obligate or expense ITC funds.
- What reports cost center managers are provided with and how they use them to manage their funds and prepare budget estimates.
- How inputs to the ARS are generated and what use they make of the ARS reports.

METHODOLOGY

We gathered data for review through structured interviews, questionnaires, sample tests, and analysis of documents and reports identified as being critical to the budget formulation and execution system.

The major guidelines and operating regulations we used to determine the adequacy of internal controls and procedures and to assess the degree of ITC's compliance with the relevant requirements were:

- ITC Policy Directives
    - 2100 Budget Policies and Procedures
    - 2101 Funds Control Regulations
    - 2102 Financial Management System Policies
    - 2103 Cost Center Managers
    - 3601 Contracting and Procurement Policy and Procedures
    - 3601A Advance Procurement Planning System
    - 4304 Compensatory Time and Overtime
- OMB Circular No. A-11, Preparation and Submission of Budget Estimates
- OMB Circular No. A-34, Instructions on Budget Execution
- GAO *Standards for Internal Controls in the Federal Government*

This audit was conducted in accordance with the Comptroller General's *Government Auditing Standards* (1988 revision).

REPORT ON THE
INTERNAL CONTROL REVIEW OF THE
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PART II: AUDIT RESULTS

In this part, we present findings, conclusions, and recommendations. We also discuss other matters for management's consideration.

FINDINGS

We noted certain conditions in the internal accounting control system that are not individually considered material weaknesses; collectively, however, they warrant management's attention and corrective action. A weakness in internal accounting control is a condition in which the specific control procedure, or the degree of compliance with the procedure, is not sufficient to achieve a specific control objective; that is, errors or irregularities may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. These conditions are discussed in the following sections.

Budget Formulation

The budget provides a systematic process through which (1) management can articulate its plans, policies, and priorities; (2) offices can articulate what resources they believe will be needed to implement plans; and (3) management can control operations by periodically comparing planned and actual expenditures.

ITC offices are instructed to respond to separate calls for budget information concerning requirements for library items, data automation, procurement, training, and budget estimates. This multiplicity of requests for budget information does not result in an effort that is as coordinated as it should be and causes concern among cost center and other ITC managers. Controls over ITC's budget formulation can be improved, if budget requests are consolidated.

Budget Execution and Funds Control

Budget execution provides a basis for measuring both program and financial performance which includes measuring the cost--dollars, staff, equipment, supplies, and facilities--of ITC's programs. The information developed in this phase of the financial management process is perhaps the most crucial, because it becomes the basis, at least in part, for decisions made in the other three phases--planning and programming, budgeting, and audit and evaluation. Accurate information and effective internal controls are necessary to ensure that expenditures remain within the limits of the ITC appropriation, that maximum benefit is derived from funds expended, and that funds are expended in accordance with management's desires.

Controls over ITC's budget execution and funds control system can be improved in the following areas:

1. The current accounting system does not formally incorporate commitments (proposed obligations) and, therefore, does not provide reports showing the total amount of uncommitted funds. Certain off-line manual tracking procedures do, however, provide the capability for insight into committed funds for services, supplies, and equipment. The systematic accumulating of commitments in the accounting records in advance of their becoming valid obligations provides for more effective financial planning, including fund control (GAO Manual, Title 7, Chapter 2, Paragraph 3.4.E). This commitment procedure is particularly useful when a significant delay exists between the initial prevalidation and the later actual obligation of funds. For example, personnel actions (SF-52) to fill vacant positions are currently processed through OFB in the initial phase of the accession process; however, no further coordination exists with OFB before the accession is made.

   [NOTE: ITC is scheduled to convert its accounting system to the Federal Financial System (FFS) in FY 1991. One of the features of this new system is the capability to record commitments.]

2. Cost center managers did not certify fund availability on 4 of 36 overtime forms (GSA 544) we sampled nor was documentation on file to indicate that the cost center managers' responsibility had been delegated to an alternate. USITC Directive 2103 (Cost Center Managers), paragraph 5b, requires cost center managers to sign overtime requests certifying fund availability. Paragraph 4 of the same directive permits temporary delegations of cost center manager responsibility, but delegation must be in writing. OFB processes overtime forms if they are signed by someone they know to be in a management position but who is not necessarily a cost center manager or someone delegated cost center manager responsibility. Obligating documents should not be processed without a certification from a cost center manager or his/her delegatee. Failure to do so could result in overtime being worked and paid for when funds are not available. This situation also applies to other types of obligating documents that should only be processed when they contain the proper certification.

3. Travel authorizations (ITC Form 005) for Commissioner travel are, on occasion, charged to travel funds allotted to the Office of Operations, without the appropriate cost center manager's certification. USITC Directive 2103, paragraph 5c, and the Travel Handbook (USITC Directive 2301.1, paragraph A1), require cost center manager certification of travel authorizations. Three of 40 travel authorizations tested were for Commissioner travel charged to the Office of Operations funds with no indication on the authorization form that the applicable cost center manager had been notified. Cost center managers must have control over

the funds they have been allotted. Without this control, the authorizations to expend funds could exceed the fund balance. This procedure could result in overexpenditure of funds appropriated to ITC.

4. Budget allocations are not always entered into the accounting system in a timely manner. Changes are allowed to accumulate until a "sufficient" amount are ready for entry into the accounting system. The resulting cost center reports then reflect budget allocations that do not agree with previously issued budget reports. The overall goal of accounting and financial reporting in the Federal Government is to provide information that is useful. One of the qualities of useful information that provides maximum benefit is that it be timely. Financial data should be recorded as soon as practicable after the occurrence of a transaction (GAO Manual, Title 2, Appendix I, page 8).

5. OFB does not have a formalized process for a periodic review of obligations by coordinating with cost center managers to determine if recorded obligations are still valid and if billings are anticipated for goods or services. Cost center managers should be required to advise OFB at specified times of the status of unliquidated obligations so that determinations can be made concerning whether the obligation should continue to be reflected, or if the funds committed for the transaction can be deobligated. This action by OFB would involve all unliquidated obligations relating to travel, training, and other types of goods and services (GAO Manual Title 7, Chapter 3, Paragraph 3.7.A).

   We observed large amounts of deobligations occurring one and two years after the close of the fiscal year for which the funds were obligated. For example, the annual appropriations for FYs 1986, 1987, and 1988 were deobligated by $378,827, $224,858, and $224,977, respectively. These deobligations occurred one year after the end of the fiscal year for which the funds were appropriated. Also, FY 1986 and 1987 funds of $113,786 and $126,194 were deobligated at the end of the second fiscal year for which the funds were appropriated. We recognize that, of necessity, certain funds will be deobligated in years subsequent to the year for which the funds were appropriated. We believe, however, that if ITC should be placed in a more restrictive budget situation, it would find it beneficial to periodically, and specifically in the fourth quarter of the fiscal year, have the cost center managers scrutinize the status of all recorded obligations for the purpose of identifying funds that can be deobligated and be made available for other uses.

   In a limited sample of unliquidated obligations from prior years, we observed a need for better coordination among those responsible for the procurement activity, receiving goods and services, and OFB. In one instance, OFB estimated the amount of an obligation for a publication order from the Government Printing Office to be more than 100 times the total actual price. (The amount of the obligation was $10,000 and the actual cost of the publication would have been $75). The order was never processed, but at the time of our review, the obligation had remained on the record for 22 months. We also observed numerous instances of the deobligation of funds for travel orders and training commitments in years subsequent to the year for which the funds were appropriated. The cancelation of these travel and training commitments should have been known at the close of the fiscal year in which the funds were obligated and should not have remained in the records. Cost center managers should inform OFB in a more timely manner of the status of obligations, especially at fiscal yearend.

CONCLUSIONS

Our conclusions follow:

Budget Formulation

No material findings were discovered during this audit. The budget formulation system appears to be functioning properly with the exception of one recommendation for improvement.

Budget Execution and Funds Control

No material findings were discovered during this audit. The budget execution and funds control system is meeting the needs of ITC management. As noted in this report, we did observe certain minor areas where the process could be improved.

RECOMMENDATIONS

Our recommendations to strengthen ITC's internal controls are presented below. These recommendations parallel the findings in Part II.

Budget Formulation

OFB should consolidate the five budget calls into a reduced number of requests for budget information. This consolidation should result in all budget information being processed in a more compressed timeframe; this will more appropriately meet the needs of cost center and other ITC managers. It will also assist in the timely preparation of the ITC annual budget.

Budget Execution and Funds Control

1. OFB should incorporate, where appropriate, fund commitments into the accounting system in advance of their becoming valid obligations. We further recommend that after personnel selections are made, but before an offer of a position at ITC is made, the Office of Personnel coordinate with OFB to ensure funds are still available.

2. Overtime forms and other obligating documents should be processed only when they contain certification by a cost center manager or by a designated alternate for whom a written delegation is on file within OFB.

3. The Commissioners' offices should coordinate the processing of travel authorizations with the appropriate cost center manager. This coordination would apprise the cost center manager of planned travel and would ensure that funds are available before travel is initiated.

4. OFB should enter all current budget allocation information into the accounting system in a more timely manner so that the most current and accurate data are disseminated to ITC management.

5. OFB should coordinate with cost center managers on a scheduled and timely basis (especially during the fourth quarter) to reduce obligated funds that are not expected to be needed to the extent originally anticipated. The Procurement Division and those ITC organizational units requesting goods and services should determine the estimated cost of those goods and services in lieu of OFB occasionally being required to estimate the costs for other units' procurements.

   To provide assurance that funds committed for staff travel and training are deobligated, when it becomes apparent that the travel or training will not occur or will not occur to the extent anticipated, OFB should require the following:

   - A travel order amendment (OFB to determine the form) indicating that a trip has been canceled or reduced in scope.

   - Notification by cost center managers when funds obligated for training will not be expended to the extent anticipated.

   Processing these notifications in a timely manner will provide a basis for deobligating the unneeded travel and training funds, provide appropriate documentation for the action taken, and result in more current accounting records.

COMMISSION COMMENTS

The Office of Administration (Office) responded to each recommendation we made for the findings and each observation we made for other conditions we identified; its complete comments are in the appendix. Although the Office agreed with most recommendations and observations, it did not agree with all of them. When it did not agree, we cited the section to which the recommendation or observation applied, summarized the disagreement, and provided our additional comments. The Office has initiated certain improvements in its budget formulation and execution system in response to our discussions and recommendations.

Budget Formulation

The Office disagreed with our recommendation that OFB should consolidate the five budget calls into a reduced number of requests for budget information. The Office stated that four of the five items we referred to as "budget calls" (requests for information on the needs for training, books, subscriptions and periodicals, and advance procurement planning) are data requests and not budget calls in the same sense as the one issued by OFB. We are aware of the nature of these requests and the use that cost center managers make of this information in arriving at their fund requests. It is our view that a consolidation of the requests for budget information would not adversely impact the nature and use of the information, but would compress the timeframe for obtaining the necessary budget information, allow ITC managers to consider all funding needs and their relationships at one time, and assist in the timely preparation of the budget.

We based our recommendation on comments we received from certain ITC managers who were concerned about the number and timing of budget calls and our view that a reduced number of requests for budget information would simplify and expedite the process. We encourage OFB to consider our recommendation for streamlining the process.

Budget Execution and Funds Control

The Office agreed with four of the five recommendations and with one portion of the remaining recommendation. It only partially agreed with our suggestion that the Office of Personnel coordinate with OFB to ensure fund availability after personnel selections are made, but before an offer of a position at ITC is made. The Office reiterates the existing responsibilities of the cost center managers and OFB as they relate to functioning within the resources made available to them. It is our view, however, that these procedures do not require the necessary coordination at the time the offer of a position is made. It agreed that the Office of Personnel should coordinate new offers of positions with OFB, and stated that procedures to accomplish this will be developed between the OFB, the Office of Personnel, and cost center managers.

The procedures that the Office stated will be developed should provide for the necessary element of coordination.

OTHER MATTERS FOR MANAGEMENT'S CONSIDERATION

The following sections detail matters identified during the review that we consider important enough to be brought to management's attention, because they represent areas for improving ITC's system of internal control.

Budget Formulation

1. The FY 1990 budgeted vacancies (lapse rate) differed significantly from both the expenditure plan and actual experience to date for FY 1990; this also occurred in FYs 1987, 1988, and 1989. (We did not obtain information for fiscal years prior to 1987.) Cost center managers are allotted funds for personnel salaries (OFB determines the amount based on the approved staffing plan). If a cost center does not maintain its staff at the approved level, the cost center accumulates excess funds that can be reprogrammed. More precise fund control would exist if ITC management would allocate only a specified number of positions to each cost center manager and have OFB be responsible for fund control. If the positions are not filled, OFB can more readily reallocate funds to maximize fulfillment of ITC's overall requirements. This approach would require ITC management to determine and include in the expenditure plan the number of positions to be allotted by cost center managers.

2. Caseload data are used in support of budget submissions to Congress. The ITC caseload, as a factor for deriving budgets, does not provide the most appropriate or meaningful basis on which to base an appropriation request. Cases vary greatly in length, complexity, and staff years to complete and are difficult to forecast. While the caseload figures contained in the budget requests are finite in number, they are estimates at best. Because the disparity in staff years devoted to individual cases varies so greatly, they do not provide the most meaningful basis to request staff years for appropriation purposes or for allocating resources within ITC. If ITC management would begin to emphasize staff years as a measure of effort, a basis for requesting appropriations, and as the method for allocating resources to cost center managers, we think it would provide a more appropriate basis for identifying levels of effort and for comparing emphasis in program areas over periods of time.

   We fully recognize the long-standing practice of using caseload information in the budget justification process and the familiarity Congress has with this method. Accordingly, consideration should be given to relating the caseload volume produced by the allocated staff years for information purposes. This would assist in the transition to using the more meaningful measure of staff years for appropriation requests and internal ITC management purposes.

Budget Execution and Funds Control

1. The organizational level designated as cost centers throughout ITC does not appear consistent with the level at which funds are expended. Although the current cost center arrangement is effective, consideration should be given to designating lower organizational units, such as the office director level as cost center managers. As a minimum, Office of Operations funds should be suballocated to those at the office director level, who have the responsibility for authorizing the use of ITC resources and, correspondingly, should have the authority to administer the funds related to this responsibility.

2. The accuracy of certain of the data being reported in the ARS is questionable. As noted in the Personnel and Payroll system audit, we found inconsistent data between the time and attendance and ARS systems. During interviews with cost center managers and office managers, they commented on problems that exist with the ARS and indicated that they do not rely on the output from ARS. Problems included:

   - The options for recording direct time are too detailed. Staff members often do not track their hours in as much detail as is provided. Instead, they often report their time on the first line item of a section as opposed to delineating the direct time as provided.

   - We were informed that personnel in at least one office work many more hours than they are permitted to report. Thus, unreported direct hours worked affects the reported results.

   The accuracy and completeness of the reporting of staff member's direct and indirect time in the time and attendance system and in the ARS would be enhanced if it were combined into one reporting system for each 80-hour pay period. This combined reporting would provide ITC management with greater assurance that all time is accounted for. Consideration should also be given to having the OFB director, with the assistance of ITC management, evaluate the ARS coding system to provide a system that will be informative, easy to identify where time should be assigned, and reduce the number of options to which time charges can be assigned. These changes should result in the ARS being a more useful document for ITC management.

3. The mission and function statement for OFB (ITC Directive 1021, Office of Finance and Budget, paragraph 10) states that OFB is responsible for maintaining position controls. OFB's role in this significant area is not clear in light of the responsibilities delegated to cost center managers. Consideration should be given to more clearly defining what is expected of the OFB Director in discharging his duties related to position controls.

COMMISSION COMMENTS

The Office responded to each of the other matters we identified for management's consideration. When it disagreed, we cited the section to which our observation applied, summarized the disagreement, and provided our additional comments.

Budget Formulation

The Office disagreed with our first observation that more precise fund control would exist if ITC management were to allocate only a specified number of positions to each cost center manager and have OFB be responsible for fund control. The Office stated that the Commission's management philosophy is to allocate resources to cost center managers to the maximum degree possible. It also stated that it is the responsibility of the cost center managers and OFB to jointly ensure responsible fund control.

We made our observation with the intent of providing OFB with a means for more control over funds and to facilitate any required fund reallocation. Although the Office does not think fund allocation is a problem at this time, it may want to keep this observation in mind should the situation change.

Budget Execution and Fund Control

The Office disagreed with our first observation that it should consider designating as cost center managers lower organizational units (such as, the office director level) than is currently the practice. The Office stated that the Commission believes that the decision to suballocate resources is an individual management decision and should be determined by the responsible official (i.e., the cost center manager).

We based our observations on comments we received from certain ITC managers who believe that a more effective practice would be to designate responsibility for fund management consistent with the level at which funds are expended. It is also our view that ITC managers responsible for authorizing use of ITC funds should have responsibility for adminstering the funds.

Because, as we mentioned, the current cost center arrangement is effective, we encourage ITC management to consider our observation should any future management action involve any evaluation of the present system for allocating funds.

Appendix

AD-N-659

UNITED STATES INTERNATIONAL TRADE COMMISSION

WASHINGTON, DC 20436

November 2, 1990

MEMORANDUM

TO: Inspector General

FROM: Director, Office of Administration Lorin L. Goodrich

SUBJECT: Draft Report, "Review of Budget Formulation and Execution"

As requested by your memorandum dated September 21, 1990 (IG-N-098), submitted as an attachment to this memorandum is the Office of Administration's response to the subject draft audit report issued on September 1990. In accordance with Section 11 of the USITC Directive 1701, the Commissioners have had an opportunity to comment on the response and the Chairman has approved it.

Please call me at 252-1131 or Bill Stuchbery at 252-1135 if you have any questions.

Attachment

cc: Director, Office of Finance and Budget

Office of Administration's Comments on the Draft Audit Report "Review of Budget Formulation and Execution"

We have reviewed the draft budget audit report dated September 21, 1990, and believe the audit acknowledges the soundness of the Commission's budget formulation, execution and funds control processes. No material weaknesses were found. Specific comments with regard to each audit recommendation and other matters for management's consideration are as follows.

Audit Recommendations

Budget Formulation

Recommendation

OFB should consolidate the five budget calls into a reduced number of requests for budget information. This consolidation should result in all budget information being processed in a more compressed timeframe; this will more appropriately meet the needs of cost center and other ITC managers. It will also assist in the timely preparation of the ITC annual budget.

Response

DISAGREE

While it may be possible to prepare one consolidated request for information, each of these areas is unique and the process is simpler and more responsive if the information is discussed with and submitted directly to the responsible agency-wide cost center manager. Also the preparation of individual requests for information allows for different due dates which is important in that it enables agency-wide cost center managers time to prepare a consolidated budget request.

The five "budget calls" cited in the draft audit report include: (1) an office-by-office and/or cost center budget request which enables the Office of Finance and Budget and the Commission to evaluate the requirements of each office and each program in determining a overall agency budget; (2) an estimate of group training requirements which enables the Director, Office of Personnel to determine an agency-wide training budget request; (3) an estimate of book and subscription requirements which enables the Director, Library Services to determine an agency-wide book and periodical budget; (4) an estimate of automated data systems requirements which enables the Director, Office of Information Resources Management and the Information Resources Steering Committee to recommend an agency-wide information resources management budget; and (5) advance procurement planning documents for the Procurement Division of the Office of Management Services, which enables them to plan the procurement process for the coming year. This is required by ITC Directive 3601.

These data requests for training, books, subscriptions, and periodicals, automated information services, and advance procurement planning are not considered "budget calls" in the same sense as the one issued by the

Office of Finance and Budget, but requests for information by cost-center managers with agency-wide responsibilities. By collecting information directly, agency-wide cost center managers are available to discuss requirements with applicable office directors, and better understand each office's specific needs. These agency-wide cost center managers are responsible for evaluating the data collected, and the preparation of a complete and timely response to the OFB "budget call" that meets the needs of the entire Commission in an organized, planned, and fiscally responsible manner.

Budget Execution and Funds Control

1.a. Recommendation

OFB should incorporate, where appropriate, fund commitments into the accounting system in advance of their becoming valid obligations.

Response

AGREE

The Commission's in-house accounting system, which does not include a commitment system, was approved by the General Accounting Office when it was installed several years ago. Subsequently, in lieu of commitments being included as part of the accounting system a separate dbase commitment system was developed and implemented within the Office of Finance and Budget.

In May, 1990, the Commission approved the conversion of its accounting operation to a new system for fiscal year 1991. The new accounting system now being implemented, the Federal Financial System, includes a commitment module which the Commission intends to implement as soon as it is practicable.

Estimated completion date - during FY 1991.

1.b. Recommendation

We further recommend that after personnel selections are made, but before an offer of a position, the Office of Personnel should coordinate with OFB to ensure funds are still available.

Response

PARTIALLY AGREE

The Commission allocates full staffing levels to cost center managers based upon the authorized level of 502 positions, however funding for these positions is allocated at a lower than full staffing level. Commission cost center managers are responsible for remaining within the resources allocated to them, therefore it is incumbent upon cost center managers to ensure funds are available prior to the offering of a position. It is also incumbent upon the Office of Finance and Budget to ensure that the overall agency remains within its available level of resources. In addition, the mission and function statement for the Office of Finance and Budget states that it is responsible for maintaining position controls. To ensure that the meeting of these responsibilities are met the Office of Personnel should coordinate new offers of positions with the Office of Finance and Budget. Procedures will be developed between the Office of Finance and Budget, the Office of Personnel, and cost center managers. **Exceptions to this procedure will be when Schedule C appointments are made by Commissioners.**

Estimated completion date - September 30, 1991.

2. Recommendation

Overtime forms and other obligating documents should be processed only when they contain certification by a cost center manager or by a designated alternate for whom a written delegation is on file within OFB.

Response

AGREE

Revised procedures on the processing of overtime documents are being implemented as part of the audit of personnel management functions. Revised processing procedures for other obligating documents will be included in desk procedures for the operation of the new accounting system.

Estimated completion date - September 30, 1991.

3. Recommendation

The Commissioners' offices should coordinate the processing of travel authorizations with the appropriate cost center manager. This coordination would apprise the cost center manager of planned travel and would ensure that funds are available before travel is initiated.

Response

AGREE

Office of Finance and Budget desk procedures for the accounting technicians will be updated to include instructions to ensure that staff from Commissioners' Offices are reminded of this responsibility when they charge travel to another cost center. This will also be emphasized when the Travel Directive is updated.

However, it is noted that the Director, Office of Operations feels that special circumstances exist with respect to his responsibility as a cost center manager. In the attached memorandum of October 3, 1990, (OP-N-063), he states: "The General Counsel has advised me that I have no authority to deny a Commissioner or a Commissioner's staff assistants the right to charge the Office of Operations' travel funds account for travel if the Commissioner determines the travel is important in the conduct of the Commissioner's responsibilities." The General Counsel has confirmed the Director, Office of Operation's position in her memorandum of October 11, 1990 (see attached memorandum GC-N-265).

Estimated completion date - September 30, 1991.

4. Recommendation

OFB should enter all current budget allocation information into the accounting system in a more timely manner so that the most current and accurate data are disseminated to ITC management.

Response

AGREE

Budget allocation and reallocation information is currently being entered in the accounting system on a timely basis and in accordance with current approval authorities. We plan to continue this process. As cited in the audit report, "Financial data should be recorded as soon as practicable after the occurrence of a transaction (GAO Manual, Title 2, Appendix I, page 8)". We feel that we are meeting the criteria of "as soon as practicable".

Estimated completion date - completed.

5. Recommendation

OFB should coordinate with cost center managers on a scheduled and timely basis (especially during the fourth quarter) to reduce obligated funds that are not expected to be needed to the extent originally anticipated. The procurement activity and those ITC organizational units requesting goods and services should determine the estimated cost of those goods and services in lieu of OFB occasionally being required to estimate the costs for other units' procurements...

Response

AGREE

As part of implementing the new accounting system, daily, monthly, and quarterly operating procedures will be developed to include appropriate review of open commitments and obligations.

Estimated completion date - September 30, 1991.

Other Matters For Management's Consideration

Budget Formulation

1. Recommendation

...More precise fund control would exist if ITC management would allocate only a specified number of positions to each cost center manager and have OFB be responsible for fund control. If the positions are not filled, OFB can more readily reallocate funds to maximize fulfillment of ITC's overall requirements. This approach would require ITC management to determine and include in the expenditure plan the number of positions to be allotted by cost center managers.

Response

DISAGREE

The Commission's management philosophy is to allocate resources to cost center managers to the maximum degree possible. It is the responsibility of the cost center managers and the Office of Finance and Budget to jointly ensure responsible fund control.

2. Recommendation

...Because the disparity in staff years devoted to individual cases varies so greatly, they do not provide the most meaningful basis to request staff years for appropriation purposes or for allocating resources within ITC. If ITC management would begin to emphasize staff years as a measure of effort, a basis for requesting appropriations, and as the method for allocating resources to cost center managers, we think it would provide a more appropriate basis for identifying levels of effort and for comparing emphasis in program areas over periods of time...

Response

AGREE

The Commission does, and has for many years, emphasized workyears and work activities in its Congressional budget justifications. Caseload is used only as part of the workload justification. We feel we already have a proper balance of caseload and workyear data in our justifications.

Estimated completion date - completed.

Budget Execution and Funds Control

1. Recommendation

The organizational level designated as cost centers throughout ITC does not appear consistent with the level at which funds are expended. Although the current cost center arrangements is effective, consideration should be given to designating lower organizational units, such as the

Operations funds should be suballocated to those at the office director level, who have the responsibility for authorizing the use of ITC resources and, correspondingly, should have the authority to administer the funds related to this responsibility.

Response

DISAGREE

Several years ago when the Commission moved from having all funds centrally controlled to the cost center responsibility concept the Commission determined that allocation to those office directors reporting directly to the Commission was an appropriate level for mandatory allocation of funds. These office directors were given the authority to reallocate funding to subordinate offices within their organization, however, this suballocation would not relieve the primary office director from overall responsibility and control of funds allocated to them. In addition, agency-wide cost centers were established for planning, monitoring, and centrally controlling certain costs.

The Commission believes that the decision to suballocate resources is an individual management decision and should be the determination of the responsible official (ie. the cost center manager). The Director of Operations states in his October 3, 1990, memorandum (OP-N-063) that: "The suballocation of resources would further weaken the information system that I need for the general management of the Office of Operations. I currently review and approve all funds that relate to new positions, hiring, promotions, travel, and training. Through this review and approval process, I ensure to the degree feasible a fairness in the conduct of personnel policies within the Office of Operations, determine reasonable levels of effort in respect to the conduct of Commission's work plans and reallocate on a temporary basis personnel, travel, and training funds where necessary. Were all of the funds subdelegated to the operating offices, some of the directors would feel the necessity to consume all the funds available in order to avoid sharing unspent funds with other operational units. Further, some subordinate offices would put excessive focus on the management of funds rather than on the completion of assigned studies."

2. Recommendation

The accuracy of certain of the data being reported in the ARS is questionable. As noted in the Personnel and Payroll system audit, we found inconsistent data between the time and attendance and ARS systems.. The accuracy and completeness of the reporting of staff member's direct and indirect time in the time and attendance system and in the ARS would be enhanced if it were combined into one reporting system for each 80-hour pay period. This combined reporting would provide ITC management with greater assurance that all time is accounted for. Consideration should also be given to having the OFB director, with the assistance of ITC management, evaluate the ARS coding system to provide a system that will be informative, easy to identify where time should be assigned, and reduce the number of options to which time charges can be assigned. These changes should result in the ARS being a more useful document for ITC management.

Response

AGREE

While we disagree with the statements questioning the accuracy of the Activity Reporting System (ARS), we do agree that the ARS code structure should be revised and updated to meet current needs. This decision was made by the Office of Finance and Budget over a year ago. However, due to staff shortages and other workload requirements this revision could not be accomplished. A review of the coding structure is now scheduled as the first Total Quality Management project in the Office of Finance and Budget. This is scheduled to be accomplished in time to be implemented at the beginning of fiscal year 1992.

Estimated completion date - September 30, 1991.

3. Recommendation

The mission and function statement for OFB (ITC Directive 1021, Office of Finance and Budget, paragraph 10) states that OFB is responsible for maintaining position controls. OFB's role in this significant area is not clear in light of the responsibilities delegated to cost center managers. Consideration should be given to more clearly defining what is expected of the OFB Director in discharging his duties related to position controls.

Response

AGREE

While cost center managers are responsible for remaining within the resources allocated to them, the mission and function statement for the Office of Finance and Budget states that OFB is responsible for maintaining position controls. The mission and function statement for the Office of Finance and Budget will be reviewed and revised, if applicable, to be in agreement with the directive on cost center manager responsibilities.

Estimated completion date - September 30, 1991.

OP-N-063

UNITED STATES INTERNATIONAL TRADE COMMISSION

WASHINGTON, D.C. 20436

October 3, 1990

MEMORANDUM

TO: Director, Office of Administration

FROM: Director, Office of Operations

SUBJECT: Comments on the Inspector General's Draft Report, "Review of Budget Formulation and Execution"

In your memorandum (AD-N-567) of September 25, 1990, concerning the draft report, you invited my comments on two issues of the Inspector General's plan and recommendations as they apply to the Director of Operations.

"FINDING #3 (Page 6) and Item #3 (Page 9). Travel authorizations (ITC Form 005) for Commissioner travel are, on occasion, charged to travel funds allotted to the Office of Operations, without the appropriate cost center manager's certificaton. USITC Directive 2103, paragraph 5c, and the Travel Handbook (USITC Directive 2301.1, paragraph A1), require cost center manager certification of travel authorizations. Three of 40 travel authorizations tested were for Commissioner travel charged to the Office of Operations funds with no indication on the authorization form that the applicable cost center manager had been notified. Cost center managers must have control over the funds they have been allotted. Without this control, the authorizations to expend funds could exceed the fund balance. This procedure could result in overexpenditure of funds appropriated to ITC."

"3. The Commissioners' offices should coordinate the processing of travel authorizations with the appropriate cost center manager. This coordination would apprise the cost center manager of planned travel and would ensure that funds are available before travel is initiated."

Comment. I concur with the thrust of the finding that the Director of Operations be informed of the decisions of each Commissioner and/or the Commissioner's staff assistants to travel on fund accounts allocated to the Director of Operations. This, however, does not prevent the threat of overexpenditure of travel funds allocated to the Director of Operations. The General Counsel has advised me that I have no authority to deny a Commissioner or a Commissioner's staff assistant the right to charge the Office of Operations' travel funds account for travel if the Commissioner determines the travel is important in the conduct of the Commissioner's responsibilities. The implication of the Inspector General's finding is that I have a degree of control of the funds that are allocated (in respect to Commissioners), which I do not. If such authority were nominally granted to me, including the right to deny a Commissioner or his/her staff travel on my account if I felt funds were unavailable or the trip was not relevant to the work of the Office of Operations, it is clear I would not have the support of the Chairman, the General Counsel, or any Commissioner for such action.

My position in respect to Commissioners' travel, therefore, is not a question of control but a question of information. That is, I could inform a Commissioner if I knew of his/her travel plans, of the risks that his travel expenses might jeopardize the conduct of other important work which might be considered by him in making a decision whether to travel or not.

"Budget Execution and Funds Control, Item #1 (Page 10). The organizational level designated as cost centers throughout ITC does not appear consistent with the level at which funds are expended. Although the current cost center arrangement is effective, consideration should be given to designating lower organizational units, such as the office director level as cost center managers. As a minimum, Office of Operations funds should be suballocated to those at the office director level, who have the responsibility for authorizing the use of ITC resources and, correspondingly, should have the authority to administer the funds related to this responsibility."

Comment. I do not concur with the draft finding. The Inspector General's recommendation gives no benefits for this proposed delegation of authority. I see several costs. The subdelegation would further weaken the information system that I need for the general management of the Office of Operations. I currently review and approve all funds that relate to new positions, hiring, promotions, travel, and training. Through this review and approval process, I ensure to the degree feasible a fairness in the conduct of personnel policies within the Offices of Operations, determine reasonable levels of effort in respect to the conduct of the Commission's work plans, and reallocate on a temporary basis personnel, travel, and training funds where necessary. Were all the funds subdelegated to the operating offices, some of the directors would feel the necessity to consume all the funds available in order to avoid sharing unspent funds with other operational units. Further, some subordinate offices would put excessive focus on the management of the funds and budget process, rather than focusing on the completion of the assigned studies. Such a delegation could lead to the allocation of even larger portions of our staff service to manage a decentralized budget system. The work products of the Office of Operations are, in many cases, the result of team efforts. I need to have the budget authority to create teams and to control travel, training, and personnel actions to ensure swift corrections of problems when they occur. The Inspector General's comment that the office directors reporting to me have the responsibility of authorizing the use of ITC resources is not completely true. They have the authority to propose actions; I have the authority to dispose for my office, subject to the overall authority of the Chairman and the Commission. This relationship should continue without change.

Charles Ervin

Charles W. Ervin

AD-N-592

UNITED STATES INTERNATIONAL TRADE COMMISSION

WASHINGTON, DC 20436

October 4, 1990

MEMORANDUM

TO: The General Counsel

FROM: Director, Office of Administration

SUBJECT: Review of Inspector General's draft report "Review of Budget Formulation and Executive"

Contained in the subject draft report is a finding and recommendation that the Commissioners should not change travel expenses to a cost center which has been assigned to the Director, Office of Operations (see pages 6 and 9 of the attached draft report). In preparation of a reply to the Inspector General (after review by the Commission and the Acting Chairman) I asked Charles Ervin to comment on this finding and recommendation. His reply is attached (Memorandum OP-N-063) which in part references advice you have given to him on this matter (see top of page 2). Before incorporating Charles' comments into a reply for the Commission's review I would like to have your confirmation that he has "no authority to deny a Commissioner or a Commissioner's staff assistant the right to charge the Office of Operations' travel funds account for travel if the Commissioner determines the travel is important in the conduct of the Commissioner's responsibilities."

I would appreciate your response by the close of business October 9, 1990. Please call me if you have any questions.

Attachments

cc: Director of Operations
Director, Office of Finance and Budget

PRIVILEGED

MEMORANDUM

October 11, 1~~980~~ 90
GC-N-265

TO: DIRECTOR, OFFICE OF ADMINISTRATION

FROM: GENERAL COUNSEL LMS

RE: INQUIRY ABOUT INSPECTOR GENERAL'S DRAFT BUDGET REPORT

You have sought my advise concerning a statement contained in Charles Ervin's comments on the Draft IG Budget Report.

I vaguely recall a conversation with Charles in which we discussed whether he could refuse to authorize Commissioner travel in connection with a Section 332 investigation. I do not recall the exchange going to the specific question of expenditure of Operations' travel funds account.

It is likely that I made several points to Charles. First, the Commissioners are the ultimate finders of fact and decision makers in all Commission investigations. It is up to the individual Commissioners to determine the appropriate content of an investigative record. While the Commission has delegated much of the fact-gathering authority to the Office of Operations, each Commissioner has the right to request the information he or she believes to be necessary to render his or her judgement. This may entail the Commissioner meeting with members of the public or touring facilities.

Because a Commissioner's choice of information upon which to base his or her decision is a matter of substance, it would certainly be difficult for a member of the Senior Staff to tell a Commissioner that he or she cannot gather certain information. Thus, it has been the practice of the Senior Staff to be responsive to requests for information from individual Commissioners unless such request is inconsistent with some general rule of the agency. (An example of information-gathering which would violate some other rule would be request by a Commissioner for the staff to gather information after the Staff Report has been approved and the record closed. In such cases, the Commission as a whole would have to vote to reopen the record, as it has done upon occasion.) It follows that it would also be difficult for a member of the Staff to decline to permit a Commissioner to tour a facility or to travel in order to question industry representatives.

Moreover, Commissioners alone approve their own travel and that of their staffs. See 19 U.S.C. 1331(c). If the Chairman cannot disapprove Commissioner travel, it follows that a member of the Senior staff is not empowered to disapprove Commissioner travel. Unresolved is the question of whether a majority of the Commission, in adopting the budget, could affirmatively decline to provide any funds or to limit funds for Commissioner investigative travel. This question need not be answered here; the Commission majority has attempted to impose no such limitation on the Commission budget to date.

This does not answer the question of whether funding for Commissioner investigative travel necessarily must come from the Operations travel budget.

In the past, it has been the practice of Commissioners to draw on the Office of Operations travel funds when their travel was directly related to the conduct of a specific investigation. By reason of that practice, it could be said that the funds allocated by the Commission budget to that fund were understood to include funds for Commissioner investigative travel. The most that could be said is that the Commission was aware of the use of those funds for this purpose and did not object to that use in allocating money to the Office of Operations travel fund in the current budget.