

Office of INSPECTOR GENERAL

Audit Report

*Review of Verification of Report
Data in Title VII Investigations*

Report No. IG-04-90



July 1990

Date Issued



UNITED STATES INTERNATIONAL TRADE COMMISSION

WASHINGTON, D.C. 20436

July 3, 1990

REVIEW OF VERIFICATION OF REPORT DATA IN TITLE VII INVESTIGATIONS

In February 1987, the General Accounting Office (GAO) issued a report with an observation that the Commission uses unverified questionnaire data and that investigative fieldwork was limited. As a result of this observation, the Commission expanded their operating procedures to include on-site verification of domestic producers in final investigations.

The Office of Inspector General scheduled this review to evaluate Commission efforts to verify data submitted by domestic companies on Title VII investigations and the procedures used to review Commission reports.

We found that the Commission has conducted at least one on-site verification on virtually all final investigations completed since January 1989. We believe this effort meets the intent of the GAO observation that the Commission should conduct occasional random spot-checks of company records. Furthermore, the review procedures were adequate to ensure that the reports accurately represent data prior to being publicly released.

As discussed in the body of the report, we also found that:

- on-site verifications have been limited to domestic producers in final investigations and, accordingly, reviews have not been conducted on significant segments of the questionnaire respondents (pages 3-6);
- the handbook developed as a guide for conducting on-site verifications was not consistently used and there is a need to clarify the policy regarding the collection of company documents (pages 7-10);

- personnel had adequate qualifications to conduct the verifications, but a review is needed to determine if the positions are properly classified (page 10); and
- office policy and procedures did not specify the functions of all offices involved in report review or contain a provision on retention of documents in the official files (pages 11-14).

Based on the above findings, I have made several recommendations to the Director, Office of Investigations. These are to:

- develop expanded guidelines for selecting companies for on-site verifications (page 7);
- issue guidance on how the handbook should be used in conducting verifications and the collection of company documents (page 10);
- review the position descriptions for the staff performing verifications in cooperation with the Director of Personnel (page 10);
- incorporate the functions of the offices participating in report review into office policy and distribute policies on the retention of documents for the record and the role of the SAS (page 15).

The Chairman and the Director, Office of Investigations have agreed to take actions that implement the recommendations as stated above. Their comments are discussed on pages 7, 10, 11, and 15 of this report. Their responses are presented in their entirety as Appendices A and B.

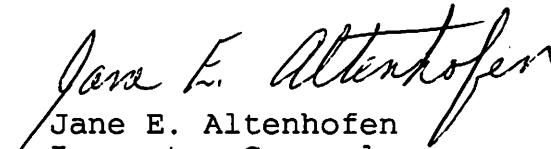

Jane E. Altenhofen
Inspector General

TABLE OF CONTENTS

INTRODUCTION AND SCOPE	1
BACKGROUND	2
FINDINGS AND RECOMMENDATIONS	3
EXTENT OF ON-SITE VERIFICATIONS	3
Selection of Companies	3
Expansion of Guidelines	5
Time Spent On-Site	6
Recommendation	7
Commission Comments.	7
ON-SITE VERIFICATION OF DATA	7
Use of Handbook	8
Obtaining Company Documents	9
Personnel Qualifications	10
Recommendations.	10
Commission Comments.	10
REPORT REVIEW PROCEDURES.	11
Data Input Verification.	11
Senior Review.	12
Retention of Documents	13
Errors in Reports.	14
Recommendations.	15
Commission Comments.	15

Attachments

1. List of On-Site Verifications Completed
2. On-Site Verification Process
3. Producers Visited on Title VII Final Investigations
4. Questionnaire Respondents on Title VII Investigations with no On-Site Verification
5. Personnel Qualifications
6. Verification Handbook (Excerpts)

Appendices

- A - Response to Draft Report from the Chairman
- B - Comments on Draft Report from the Director, Office of Investigations
- C - Memorandum on Draft Report from Commissioner Eckes
- D - Memorandum on Draft Report from Commissioner Newquist

INTRODUCTION AND SCOPE

The Office of Inspector General (OIG) has completed a Review of the Verification of Report Data in Title VII Investigations. The purpose of this review was to evaluate Commission efforts to verify data submitted by domestic companies on Title VII investigations and the procedures used to ensure that report data is supported by source documentation.

Our review was conducted from December 1989 to March 1990. We focused our efforts on interviewing staff in the Office of Investigations, particularly the Financial Analysis and Accounting Division (FAAD) and the Statistical Analysis Section (SAS). We interviewed staff throughout the Commission who were involved in data analysis or senior review, including the Offices of Tariff Affairs, Information Resources Management (IRM) and General Counsel (OGC). We contacted the offices of the Commissioners to obtain any comments they had concerning the verification process.

To evaluate the Commission efforts to verify data submitted by companies, we reviewed a handbook developed as a guide for conducting verifications. We selected four verification reports completed between May and November 1989 and reviewed the verification process with the responsible FAAD staff. We reviewed a Report on Domestic Data Verification prepared by the Office of Investigations in October 1989. We discussed the verification process with personnel from the U.S. General Accounting Office (GAO) who had conducted a review of Commission operations in 1986. We also reviewed the qualifications of FAAD personnel who conduct the on-site verifications.

To evaluate the report review process, we selected a recently completed report and reviewed the procedures used to trace selected figures to supporting worksheets and ensure that questionnaire data presented in the report was accurate. We also determined the extent to which errors appeared in reports.

We reviewed applicable policy and procedures which were primarily set forth in the Office of Investigations' information system maintained on the Commission's automated network. The information system is periodically updated for policy changes and is currently being reviewed for necessary changes.

This review focused on investigations completed from January 1989 through January 1990. During this period, 39 Title VII reports were issued, 16 preliminary and 23 final (excluding remands). Corresponding to these reports, 23 on-site verifications were conducted since November 1988 (see Attachment 1).

This review was performed in accordance with generally accepted government auditing standards. Accordingly, the review included an examination of internal controls and other auditing procedures that were considered necessary under the circumstances.

BACKGROUND

The Commission conducts antidumping and countervailing duty investigations under provisions of the Tariff Act of 1980, and escape-clause investigations under provisions of the Trade Act of 1974. The primary source of information collected during an investigation is a questionnaire that is sent to U.S. producers, importers, and (in all but preliminary investigations) purchasers of the subject commodity. The accuracy of this data is essential in enabling the Commission to make a determination of whether imports of the subject commodity have injured a U.S. industry.

The principal technique used to ensure the accuracy of questionnaire data is a comprehensive staff review of all data submitted by respondents. The staff compare a company's submission with those of others and/or against published data, (the questionnaire includes a request that the company submit, if available, copies of their annual report, audited financial statements, and the latest annual and quarterly reports to the Securities and Exchange Commission.) Staff reconcile deviations or clarify data through telephone contacts.

In February 1987, the GAO issued a report entitled, "INTERNATIONAL TRADE Observations on the Operations of the International Trade Commission", (GAO/NSIAD-87-80). The report stated that the Commission uses unverified questionnaire data and that the investigative fieldwork was limited. The GAO report implied that occasional random spot-checks of company records would guard against getting self-serving industry data and help to assure the reliability of Commission reports.

As a result of this observation, the Commission had an independent consulting firm develop a handbook to be used in verifying financial data provided by domestic producers. The handbook was completed for testing purposes in late 1988, and finalized in March 1989. A description of the on-site verification process is presented in Attachment 2.

After the data has been verified, either through efforts at the Commission or on-site, a staff report is prepared. Each assigned staff member on the investigation is responsible for ensuring that data is presented accurately in their sections of the report. The Office of Investigations has an extensive senior review process that includes multiple levels of supervisory staff. The senior review process also involves offices other than Investigations.

Several external controls on data accuracy also exist. Company officials must certify that the information contained in the submitted questionnaire is correct. In addition, parties to investigations comment on data released to them under Administrative Protective Orders.

FINDINGS AND RECOMMENDATIONS

We found that the Commission has significantly increased the extent of on-site verification since the GAO observed that the Commission should conduct occasional random spot-checks of company records. However, reviews have not been conducted on significant segments of the questionnaire respondents.

The handbook developed for verifications provides good overall guidance that can be adapted to the specific needs of a particular verification. We found that the handbook was not being used consistently and there is a need to clarify the Commission policy regarding the collection of company documents. Personnel had adequate qualifications to conduct the verifications, but a review is needed to determine if the positions are properly classified.

We found that the policy and procedures to review reports did not specify the functions of all offices or contain a provision on retention of documents.

EXTENT OF ON-SITE VERIFICATIONS

We found that the Commission has conducted at least one on-site verification on all but three final investigation reports completed since January 1989. We believe this effort meets the intent of the GAO observation that the Commission should conduct occasional random spot-checks of company records. However, on-site verifications have been limited to domestic producers in final investigations. Accordingly, reviews have not been conducted on significant segments of the questionnaire respondents.

Selection of Companies

Since the GAO report was issued, the Commission has begun to conduct on-site verifications of data in addition to the introductory visits. The Commission's policy, as stated in a staff report, is that normally one company is selected for on-site verification in final Title VII cases, and that company is usually the petitioner and one of the largest producers of the product under investigation. No on-site verifications are done in preliminary investigations and no importers or purchasers are selected for on-site verification in final investigations.

As shown below, on-site verifications were conducted at 23 of the 212 producers who submitted questionnaires on final investigations completed in 1989. No on-site verifications were done on over 300 companies submitting questionnaires on preliminary investigations or 378 importers and 377 purchasers submitting questionnaires on final investigations.

Investigations	Number of Companies*	On-Site Verifications
Preliminary		
Producers	140	0
Importers	172	0
Final		
Producers	212	23
Importers	378	0
Purchasers	377	0

(See Attachments 3 and 4 for details.)

* Many of the same companies submit questionnaires in both the preliminary and final investigations.

The Director of Investigations said that the emphasis to date has been on verifying the financial information submitted by the producers, but that does not mean the process can or should not be expanded to importers and purchasers. He noted that the questionnaires for the importers and purchasers state that the Commission may conduct an on-site verification, although none have been done to date.

The importers and purchasers questionnaires include data that is significant in the Commission's decision-making process. For instance, the pricing data provided is critical to the Commission's decision-making process.

Of the 23 on-site verifications, thirteen of the companies selected were petitioners and the largest producer of the product. Another nine companies were petitioners and/or one of the largest producers. One company was selected because of concerns about the data submitted.

In over half of the cases, 50% or less of the market share was being reviewed. (Market share was estimated by the FAAD staff and was based on entire production rather than questionnaire response on all but one investigation.) The market share reviewed for the 19 investigation reports with on-site verifications is shown below:

Market Share Reviewed	No. of Reports
00-25%	2
26-50%	9
51-75%	0
76-100%	8

The gap in the 51-75% range is indicative of the division of cases into those with one predominant producer and those with multiple producers with smaller market shares. Selecting the

petitioner and/or the largest producer will only result in the verification covering a substantial amount of the market shares in the prior circumstances.

Expansion of Guidelines

We believe the Commission should not limit the on-site verifications to domestic producers in final investigations, but should develop guidelines for selecting companies from all segments of the questionnaire responses, including preliminary investigations. Broader coverage is warranted both because of the positive effects of the verifications and Congressional interest in this issue.

As stated in the staff report on Domestic Data Verification, the net effect on the quality of information has been extremely positive with relatively little cost or adverse impact on the companies being verified. In addition to the direct benefits of the verification, the report stated enhanced quality of information was evidenced in the following ways:

- (1) In several cases, the potential for verification prompted a more complete and accurate initial response on the questionnaire;
- (2) After selection of the company to be verified, in many instances small errors in reported data were corrected prior to verification; and
- (3) The verification process lends a greater degree of validity to the data being utilized, not only for the Commission, but also other parties involved in the process, ranging from the GAO to the respondents.

We recognize that there are some problems to overcome in expanding the coverage of on-site verifications. One would be which staff would conduct the verifications. The FAAD staff has the personnel qualifications and experience in conducting verifications. However, the FAAD staff is not familiar with the importer and purchaser questionnaires because they are not responsible for reviewing this data as they were for the producers questionnaires prior to beginning on-site verifications. Since the importer and purchaser data is different from that in the producer's questionnaire, training would be required if the FAAD staff was to assume this responsibility. Furthermore, the handbook applies specifically to the producers questionnaires and other guidelines would have to be developed applicable to the importer and purchaser questionnaires.

Another problem involves the timing and availability of resources. Now, the FAAD staff team assigned to the case conducts the on-site verification. The FAAD staff also tries to

schedule the investigations after the hearing so any questions raised at that time could be addressed. This presents difficulty in that few staff are available during a limited time to conduct reviews.

Conducting verifications during a preliminary investigation would have the additional problem of severe time constraints as these cases must be completed in 45 days. Accordingly, the criteria for selecting a firm for on-site verification would be very restrictive. Circumstances that may warrant an on-site verification would include inaccurate or potentially fraudulent data submitted by a major firm or an indication that a Commission decision will be in the negative based on certain facts.

We believe these problems are not insurmountable. The primary effect would be that most of the verifications would have to be done prior to the hearings, which already occurs in many of the cases (10 of the 23 conducted).

Time Spent On-Site

The GAO report included an observation that the Commission's investigative fieldwork was limited. GAO discussed the limited amount of time in travel status by staff in the Office of Investigations. They stated that a visit to a company usually lasted one day or less and the purpose was to better understand the product, not to validate company-provided data.

The Commission has significantly increased the time spent on verifying data, but the time on-site is still fairly minimal. Typically, verification visits to the companies were for a period of only about two days. As shown in Attachment 1, the FAAD staff spent 8 to 23 hours on-site per company. According to the FAAD staff, the verification visits are brief because they are usually delayed until after the hearings to ensure that all the issues are identified before making the trip to the company. This does not leave much time to complete the on-site verification, the verification report, and the final staff report which is usually scheduled to be delivered to the Commission in less than a month after the hearing.

Two days is not a great amount of time to review a company's cost accounting system and perform a detailed verification. However, as stated in the handbook, much of the work can be completed before going on-site. For example, some of the items in the handbook can be completed based on the information the companies furnish with the questionnaire. We did not form an opinion on whether the time spent on-site was sufficient due to the lack of documentation for the verifications which is discussed on pages 8-10 of this report.

Recommendation

We recommend that the Director of Investigations develop guidelines for selecting companies for on-site verifications. The guidelines should include criteria for selecting producers, importers and purchasers for on-site verifications during preliminary and final investigations.

Commission Comments

The Chairman has requested that the Director of Investigations prepare and submit to the Commission by July 31, 1990, a set of verification guidelines for preliminary and final investigations that spell out the criteria for determining the extent and scope of the verification efforts in each investigation. Such criteria might include, for example, the size of the case, the availability of staff to conduct their verification, the importance of the information likely to be collected, the proximity of likely verification targets to each other, the cost of the verification, and any other criteria deemed appropriate. The criteria should be used in both preliminary and final investigations and should provide guidance regarding the number of producers, importers, and purchasers to be visited, if any.

Commissioner Eckes provided a comment (see Appendix C) that he believes the number of on-site verifications is excessive in relationship to GAO's observation that occasional random spot checks were not conducted. He believes the selection of a producer for on-site verification has become routine when it should be based on discovery or suspicion of significant data problems. We concur that the Commission does not need to conduct an on-site verification on every investigation. We believe the number of on-site verifications during the past year was due, at least partially, to the lower investigative workload. Guidelines that include criteria on staff availability, cost, and significant data problems could result in on-site verifications being conducted on fewer investigations.

ON-SITE VERIFICATION OF DATA

We found that the handbook provides good overall guidance that can be adapted to the specific needs of a particular verification. However, we found, in some instances, that there was no evidence that the handbook was used in performing the verification. We also found that the policy on obtaining copies of internal company documents is not completely understood by all personnel performing verifications.

Use of Handbook

In addition to serving to assist the FAAD staff during the verification, the handbook is a basis for the documentation of the verification. The handbook states that documentation such as company analysis, ledger copies, employment records, invoices, and other relevant records may be collected to support the verification findings. The handbook specifically provides that when the verification procedures are completed, the handbook should be initialed, dated and referenced to supporting documentation.

The handbook is divided into general sections, with detailed procedures listed for each section. A space is provided by each procedure for the initials of the FAAD staff performing the procedure and for the date completed. An initial step in using the handbook is to determine which sections are applicable to the on-site verification. The detailed steps are only performed for the applicable sections.

In our examination of the supporting documentation for the four verification reports selected for review, we found that two of the FAAD staff did not show evidence that they used the handbook. These staff members indicated they did not use the handbook on other cases either, although one individual said he used an outline in an earlier case which was a condensed version of the handbook.

Of the two individuals who used the handbook, only one initialed the sections completed or indicated that the section was not applicable. The other individual, who showed evidence of using the handbook, used check marks to indicate work completed on certain sections. Neither indicated the date the item was completed. In the cases where supporting documentation was taken, which was not often as discussed in a following section, the handbook was not referenced to the supporting documentation.

The supporting working papers primarily consisted of a copy of the questionnaire and notes from meetings at the on-site verification. Supporting working papers were not prepared on the extent of tests performed. For example, the handbook provides that the quantities, values, and dates of randomly selected sales should be verified to source documents. Since supporting papers were not prepared, the extent of the tests were not shown and it was difficult to independently determine the work that was actually performed.

The Director of Investigations' response to the draft audit report stated that the handbook was developed with the idea that its procedures would be modified or expanded as experience indicated they should be. Documentation of on-site verifications, for example, had evolved with experience. "Initials and dates" specified in the handbook have been replaced by a detailed

verification report that documents both the verification dates and all participants. The verification report indicates the procedures used by the verifier, lists the findings (confirmation or required changes in company data), and indicates the criteria used for selection of the company for verification. In his opinion, the verification report documents in sufficient detail for the particular circumstances of each case both the verification process and its results.

While we agree that the verification reports are useful, we do not think they replace the handbook. The reports are usually two to four pages long. The procedures performed are listed in very broad terms. We believe using the handbook provides significantly more detail on the steps performed, particularly if the staff annotate the results of the steps completed in the margins.

Obtaining Company Documents

Officials said that company documentation could be taken to support the verification. However, as stated in the staff report, in practice, copies of internal company documents were not taken unless there was a particular need to do so other than support for the verification. This practice apparently resulted from the Administrative Protective Order (APO) provision of the Omnibus Trade and Competitiveness Act of 1988, which requires the Commission to make business proprietary information collected in Title VII investigations available to interested parties who are parties to the proceeding under a protective order. Potentially, documents gathered during the on-site verification would have to be released under the APO procedures.

Some FAAD staff said it was an absolute rule that copies of company documents were not taken during a verification. Management personnel, however, stated that staff should request documents they think should be obtained.

This practice to not take documents makes it difficult to evaluate the verification work performed. During the verification, company internal documents are to be reviewed and reconciled with the company's audited statements and the information submitted in the questionnaire. When copies of pertinent documents are not made a part of the working papers, it is difficult to evaluate the adequacy and extent of the verification work performed.

On page five of his response to the draft report, the Director of Investigations offered the following clarification:

"It is the policy of the Office of Investigations that company documents be obtained and placed in the Title VII investigative record (whether in connection with an on-site verification visit or otherwise) when such documents are believed necessary to document contested or questionable information submitted or presented to the Commission. It is

not our policy to collect company documents solely for the purpose of documenting a data check (whether in connection with an on-site verification or otherwise)."

Personnel Qualifications

We found that FAAD personnel had adequate qualifications to perform the verifications. The Office of Investigations has hired a variety of employees to staff the FAAD, including a supervisory financial analyst, two auditors and two accountants. We reviewed the qualifications of these personnel. As shown in Attachment 5, four of the five personnel were certified public accountants, they all had advanced business degrees, and they had extensive work experience, some in both private and public sectors.

Our review of personnel qualifications raised another issue. We observed that all of the personnel were performing basically the same duties even though they were in different job series. Furthermore, the position descriptions for the auditors stated that they were performing audits, even though the handbook clearly states that the verifications are not audits. We discussed this situation with the Office of Personnel Management (OPM). The OPM representative advised us that if the positions are all doing predominately the same duties, they should be classified in a single series. He suggested that the first step should be to review the FAAD position descriptions to ensure they reflect the actual duties of the staff. Then it could be determined whether one or three series are appropriate.

Recommendations

We recommend that the Director, Office of Investigations:

1. Issue guidance to his staff on how the handbook should be used in conducting verifications and the collection of company documents; and
2. Review the position descriptions for the FAAD staff in cooperation with the Director of Personnel, to either standardize the series or justify the basis for differing series.

Commission Comments

The Chairman requested that the Director of Investigations prepare and issue by June 30, 1990, a directive to his staff regarding the proper use of the handbook as a basic tool in their verification process.

The Director of Investigations clarified the policy regarding the collection of company documents on page 5 of his response to this report. He issued a memorandum on June 29, 1990, providing guidance on the use of the handbook and collection of company documents.

The Chairman has also instructed the Director of Operations or the Director of Investigations to work with the Commission's Office of Personnel to ensure that every employee in FAAD is in the proper personnel series. The Director of Investigations has agreed to review the position descriptions for the FAAD staff with the Director of Personnel.

REPORT REVIEW PROCEDURES

We found that the procedures to review reports within the Commission were adequate to ensure that the reports accurately represent the data prior to being publicly released, although some errors were not detected prior to the staff reports being submitted to the Commission. We believe that policies for report review need to be improved by specifying the functions of senior review, clarifying the role of SAS, and establishing a policy on retention of papers.

Data Input Verification

Questionnaire data received from companies is processed on a computer except in cases with very few companies in which a manual worksheet may be used. Investigators are responsible for supplying data and usually retain a master copy of the questionnaire, as well as any revisions to the questionnaires which must be entered. SAS personnel are usually responsible for entering the data although the investigators will enter data in some cases. For most investigations, the data is entered into personal computers (PCs) using Lotus 1-2-3 software. For large investigations, the data is telecommunicated for processing on mainframe computers at the National Institutes of Health (NIH).

The PCs and NIH computers have built-in edit and zero checks. For example, the computers can check the computation of gross profit, operating income, and net income reported by the companies in the completed questionnaires.

The SAS performs essentially two checks or verifications to ensure data has been correctly entered: (1) figures (dollar values and other numbers) in the questionnaires are cross-referenced to the worksheets, and (2) figures in the report are cross-referenced to the worksheets. The investigator assigned to the case decides which figures will be checked and resolves any discrepancies or errors found.

These procedures appear to be adequate although we could not verify that the data was consistently cross-referenced. After checking the worksheet or the report, the workpapers used in checking the data are discarded. Original documentation used to construct the report data is kept in the files but worksheets which indicate the specific report material that was checked or verified is discarded.

Senior Review

The senior review process involves multiple offices in the Commission but is primarily conducted by supervisory staff in the Office of Investigations. For financial data this includes the FAAD chief, the supervisory investigator, and the Director of Investigations; for pricing data it includes the Applied Economics Division (AED) branch chief, the AED division chief, the supervisory investigator, and the Director of Investigations; and for the rest of the data it includes the supervisory investigator and Director of Investigations (as well as branch and division chiefs in the Office of Industries for sections prepared by the assigned commodity-industry analyst).

The written policy and procedures for Senior Review are generally brief, primarily addressing how to incorporate comments received. The only specific functions set forth in the policy are those for IRM and SAS, which are to:

- Check totals, percents, ratios, and all other calculations
- Check tables against each other for consistency
- Check tables against text for consistency
- Check that statements made in text are supported by presented data
- Check that calculations are made using unrounded numbers, and that rounding is done according to Commission's Rules for Tabular Presentation
- When possible, check data described as originating from Census against published figures
- Check table and figure titles for accuracy
- Perform limited editorial checks
- Check TSUSA numbers for accuracy
- Check Table of Contents against body of report

The Senior Review process external to the Office of Investigations was initiated by a transmittal memorandum from the Director, Office of Investigations, to the Directors of the Offices of Industries and Tariff Affairs, IRM, and OGC with copies to multiple staff members. The transmittal memoranda requested that the recipients go over the report carefully, make comments and suggested revisions in the margins as appropriate, and return the report to the responsible investigator. A short turnaround time of about two days was usually requested.

Written responses were not always received from all offices conducting reviews and, except for IRM, responses received did not indicate the specific items reviewed. For example, an OGC attorney said that they review the report for legal sufficiency, conformance with statutory elements, and reference all legal citations. However, there was no indication of which items were specifically reviewed on the draft staff reports returned to the Office of Investigations.

We believe that specifying the functions for each element of the Senior Review process would prevent any misunderstandings of just what kind of review each office performs. It would clarify whether personnel are making a general review of the draft report or are actually verifying or referencing certain information to supporting documents. Also, written procedures would help to ensure that review procedures are not unnecessarily duplicated by the various offices.

Retention of Documents

The Tariff Act of 1930 requires the Commission to keep a record of all Title VII investigations. The law specifically provides that the record shall consist of all information presented to or obtained by the Commission including all governmental memoranda. The purpose of this requirement is to facilitate later judicial review of Commission decisions.

The information system sets forth the types of documents that are required to be maintained and entered into the record. The list is quite comprehensive, including staff notes and work papers.

We found that all documentation to support the investigation was not being made part of the record. For example:

- some of the supporting documentation for the data input verified by SAS are discarded;
- IRM comments on the draft staff report are returned for their files; and
- the supporting working papers for the verification report are not submitted for the record.

We believe supporting working papers and senior review comments belong in the official files maintained by the Commission.

On page six of his response to the draft audit report, the Director of Investigations stated that the policy on retention of documents for the record is as follows:

"All working papers are to be retained that create a paper trail between data obtained by or submitted to the Commission and data presented to the Commission. As a

general rule we do not retain draft material in the record. When questions arise concerning whether or not a particular "working paper" should be retained, they are to be resolved through discussions with, first, the assigned supervisory investigator, and then, if necessary, the Director of Investigations and General Counsel."

Errors in Reports

We did not identify any public reports published in the last year that required an errata message due to an error in the data. However, we did find that errors (not including submission of revised data from companies) occurred in fourteen staff reports that required issuing change memoranda.

The most prevalent reason given by the investigators for the changes (in five cases) was that the SAS found the error after the staff report was sent to the Commission. The SAS review is supposed to be completed before the staff report is issued. However, we were advised that personnel sometimes forget to give the reports to the SAS in time to complete the review. This may be due to confusion in that SAS is not designated as part of the Senior Review process even though they have specified functions to perform.

The other change memoranda involved errors found but not corrected before the staff report was issued, corrections of pricing information, a posting error, and typos and corrections in confidential markings. These errors were all found by the supervisory investigators as they continued their reviews of the staff report. Considering the deadlines involved and the extent of data involved, it is reasonable to expect that not all errors can be detected before the staff report is issued.

On page six of his response to the draft report, the Director of Investigations clarified the role of the Statistical Analysis Division in the report review process. In summary, that role is to ensure that primary-source data (generally from Commission questionnaires) are accurately transferred to worksheets (whether automated or manual) and that worksheet data are accurately transferred to reports. The unit should not duplicate the checks performed by the IRM staff nor is it responsible for the accuracy of the reported information itself. That responsibility rests with the assigned investigator, economist, financial analyst, and commodity analyst. It is also the responsibility of the assigned investigator to ensure that all necessary supporting workpapers are delivered to the Statistical Analysis Division with the draft report for review.

Recommendations

We recommend that the Director, Office of Investigations:

1. Incorporate the specific functions of the offices participating in senior review into office policy; and
2. Distribute the policies on retention of documents for the record and the role of the SAS.

Commission Comments

The Chairman agreed to instruct the appropriate office directors in a separate memorandum to establish policies regarding the role of their staffs in senior review and to establish procedures to ensure that the review is completed. The Director of Investigations agreed to incorporate these policies into the senior review policy.

In his response to this report, the Director of Investigations clarified the policies on retention of documents for the record and the role of the Statistical Analysis Division in the report review process. He agreed to distribute these policies in writing.

LIST OF ON-SITE VERIFICATIONS COMPLETED
(11/88 - 9/90)

<u>Dates</u>	<u>Hours on On-Site</u>	<u>Investigation Number</u>	<u>Commodity</u>	<u>Companies</u>
11/2 - 3/88	16	731-TA-390	Digital Readout Systems and Subassemblies	Anilam Electronics Corp Miami, FL
12/15-16/88	16	731-TA-390	Digital Readout Systems and Subassemblies	ACU-RITE Incorporated Jamestown, NY
2/1 - 2/89	16	731-TA-388	All-Terrain Vehicles	Polaris Industries Plymouth, NM
2/15-16/89	16	731-TA-389	Microdisks and Media	Verbatim Charlotte, NC
2/27-28/89	16	731-TA-411	Calcined Bauxite Proppants	Carbo Ceramics, Inc. Irving, TX
3/10&13/89	16	731-TA-406 and 408	Electrolytic Manganese Dioxide	Chemetals, Inc. Baltimore, MD
3/22/89	8	731-TA-405	Sewn Cloth Headwear	K Products Orange City, IA
3/28/89	8	731-TA-391-399	Antifriction Bearings	New Departure Hyatt Division General Motors Corporation Sandusky, OH
4/4-5/89	15	731-TA-391-399	Antifriction Bearings	The Torrington Company Torrington, CT
4/18&19/89	16	731-TA-412-419 & 701-TA-293 & 295	Industrial Belts	The Gates Rubber Company Denver, CO
4/24-25/89	16	701-TA-296	Steel Wheels	Kelsey-Hayes Company Romulus, MI

<u>Dates</u>	<u>Hours On-Site</u>	<u>Investigation Number</u>	<u>Commodity</u>	<u>Companies</u>
6/29-7/1/89	19	731-TA-238	Motorcycle Batteries	Yuasa Exide Battery Corp Reading, PA
7/10-11/89	15	731-TA-432	Cephalexin Capsules	Biocraft Laboratories Elmwood Park, NJ
7/11/89	10	731-TA-422 and 701-TA-297	Steel Rails	CF&I Steel Corporation Pueblo, CO
7/13-14/89	14	731-TA-424	Martial Arts Uniforms	Century Martial Art Supply, Inc. Midwest City, OK
8/2-3/89	15	701-TA-298	Pork	IBP, Inc. Dakota City, NE
8/2-3/89	14	731-TA-422 and 701-TA-297	Steel Rails	Bethlehem Steel Corporation Steelton, PA
10/25-27/89	23	731-TA-426-428	Telephone Systems and Subassemblies	AT&T General Business Systems Parsippany, NJ
11/2&3/89	16	701-TA-299 and 731-TA-431	Aluminum Sulfate	General Chemical de Puerto Rico, Inc., Bo. Brenas, Vega Alta, PR
11/27-28/89	13	731-TA-432	Drafting Machines and Parts	Vemco Corporation San Dimas, CA
12/12-13/89	15	731-TA-433	Door Locks	Weiser Lock Huntington Beach, CA
12/14-15/89	14	731-TA-433	Door Locks	Kwikset Anaheim, CA
1/8-9/90	15	731-TA-429	Transfer Presses	Verson Division of Allied Products Corp. Chicago, IL

On-Site Verification Process

The stated objectives of a verification are to: (1) understand the methodology used by the company in preparing its response to a questionnaire, (2) review selected information for reasonableness, and (3) establish that the information and data comply with the provisions of law and regulations.

Prior to each verification, the case team defines specific issues, and establishes verification priorities. The FAAD staff considers the relative importance of the data under examination to the overall issues of the verification, and determines the financial information that should be reviewed. Most of the staff's time prior to the on-site verification is spent in analyzing information and identifying areas for verification.

The handbook, which is 68 pages long, begins with an outline that summarizes the verification procedures. As shown in the table of contents, detailed procedures are provided for the review of related trade, employment, financial and price information. The outline and the table of contents of the handbook is presented in Attachment 6.

In most verifications, the financial information section requires the majority of the FAAD staff's time. Typically, the highest priority would be assigned to the income and loss data and the allocation methodology. The procedures in the handbook are extensive and were developed to provide generic guidelines that would apply to virtually every type of industry and situation that would be encountered. It was not anticipated that all or even most of the procedures described in the guide would be performed in a given on-site verification.

After the case team identifies the producer(s) for on-site verification, the FAAD staff prepare a notification letter to the company approximately two weeks before the visit. The letter is signed by the Director of Investigations. A copy of the outline is sent to the companies with the letter.

The on-site verification is usually conducted by the FAAD staff assigned to the case team. During the first year, the contractor went along for training purposes on several of the verifications and the supervisory analyst has accompanied several FAAD staff on visits.

The normal procedures on-site are to start out with a meeting to obtain a general description of the operations followed by a walk-through. The FAAD staff then reviews the company's books and documents as appropriate. An investigative report is prepared after returning to the Commission.

PRODUCERS VISITED ON
TITLE VII FINAL INVESTIGATIONS

<u>Final Investigation Reports (23) a/</u>	<u>Report Number</u>	<u>Number of Responses</u>	<u>Number Visited</u>
Digital Readout Systems/Japan	2150	19	2
Appliance Plugs & Thermostats/Canada	2152	7	0
Japan, Malaysia, and Taiwan			
All-Terrain Vehicles/Japan	2163	2	1
Pipes and Tubes/Taiwan	2169	17	0
Microdisks/Japan	2170	9	1
Calced Bauxite Proppants/Australia	2172	2	1
Electrolytic Manganese Dioxide/ Greece and Japan	2177	4	1
Headwear/China	2183	26	1
Antifriction Bearings/Germany, France, Italy, Japan, Romania, Singapore, Sweden, Thailand & UK	2185	25	2
Pipes and Tubes/Argentina	2187	b/	0
Steel Wheels from Brazil	2193	20	1
Industrial Belts/Israel, Italy, Japan Singapore, Korea, Taiwan, UK, Germany	2194	11	1
Cephalexin Capsules/Canada	2211	7	1
Motorcycle Batteries/Taiwan	2213	3	1
Martial Arts Uniforms/Taiwan	2216	4	1
Steel Rails/Canada	2217	2	2
Pork/Canada	2218	15	1
Telephone Systems/Japan & Taiwan	2237	13	1
Aluminum Sulfate/Venezuela	2242	1	1
Drafting Machines/Japan	2247	1	1
Door Locks/Taiwan	2253	16	2
Telephone Systems/Korea	2254	c/	d/
Mechanical Transfer Presses/Japan	2257	<u>8</u>	<u>1</u>
Total		212	23

a/ Reports issued under remand are not included.

b/ Same questionnaires used in both investigation reports #2169 and 2187.

c/ Same questionnaires used in investigation reports #2254 and 2237.

d/ Verification conducted on investigation report #2237.

QUESTIONNAIRE RESPONDENTS ON
TITLE VII INVESTIGATIONS
WITH NO ON-SITE VERIFICATION

<u>Preliminary Investigations (16)</u>	<u>Report Number</u>	<u>Producers</u>	<u>Importers</u>	<u>Purchasers a/</u>
Hydro. Transmissions/Japan	2149	2	2	
Telephone Systems/Japan, Korea, Taiwan	2156	8	29	
Pork/Canada	2158	16	5	
Transfer Presses/Japan	2160	8	14	
Aluminum Sulfate/Sweden	2174	5	1	
Aluminum Sulfate/Venezuela	2189	1	1	
Drafting Machines/Japan	2192	1	6	
Door Locks/Taiwan	2198	15	21	
Motorcycle Batteries/Korea	2203	3	8	
Steel Pails/Mexico	2205	14	2	
Limousines/Canada	2220	10	1	
Industrial Nitrocellulose/Brazil, Japan, China, Korea, UK, Germany, Yugoslavia	2231	1	13	
Polychloroprene/France, Germany	2233	2	3	
Sweaters/Hong Kong, Korea, Taiwan	2234	17	37	
Cement/Mexico	2235	34	22	
Corrugators/Canada	2246	<u>3</u>	<u>7</u>	
Subtotal		140	172	
<u>Final Investigations (23) b/</u>				
Digital Readout Systems/Japan	2150	19	10	29
Appliance Plugs & Thermostats/Canada Japan, Malaysia, and Taiwan	2152	7	11	<u>c/</u>
All-Terrain Vehicles/Japan	2163	2	4	76
Pipes and Tubes/Taiwan	2169	17	25	12
Microdisks/Japan	2170	9	15	32
Calcined Bauxite Proppants/Australia	2172	2	1	11
Electrolytic Manganese Dioxide/ Greece and Japan	2177	4	6	3
Headwear/China	2183	26	41	30
Antifriction Bearings/Germany, France, Italy, Japan, Romania, Singapore, Sweden, Thailand & UK	2185	25	34	<u>c/</u>
Pipes and Tubes/Argentina	2187	<u>d/</u>	<u>d/</u>	<u>d/</u>
Steel Wheels from Brazil	2193	20	37	5
Industrial Belts/Israel, Italy, Japan Singapore, Korea, Taiwan, UK, Germany	2194	11	45	20
Cephalexin Capsules/Canada	2211	7	8	15
Motorcycle Batteries/Taiwan	2213	3	18	15
Martial Arts Uniforms/Taiwan	2216	4	4	10

	<u>Report Number</u>	<u>Producers</u>	<u>Importers</u>	<u>Purchasers</u>
Steel Rails/Canada	2217	2	7	8
• Pork/Canada	2218	15	18	<u>c/</u>
Telephone Systems/Japan & Taiwan	2237	13	37	42
Aluminum Sulfate/Venezuela	2242	1	1	1
• Drafting Machines/Japan	2247	1	6	17
Door Locks/Taiwan	2253	16	29	21
Telephone Systems/Korea	2254	<u>e/</u>	<u>e/</u>	<u>e/</u>
Mechanical Transfer Presses/Japan	2257	<u>8</u>	<u>21</u>	<u>30</u>
Subtotal		212	378	377

a/ Purchasers questionnaires are usually not sent on preliminary investigations.

b/ Reports issued under remand are not included.

c/ Combined importer/purchaser questionnaire used.

d/ Same questionnaires used in investigation reports #2169 and 2187.

e/ Same questionnaires used in investigation reports #2254 and 2237.

PERSONNEL QUALIFICATIONS
FINANCIAL ANALYSIS AND
ACCOUNTING DIVISION

<u>Job Title</u>	<u>Degrees</u>		<u>Certifications</u>	<u>Experience</u>	
	<u>Bachelors</u>	<u>Masters</u>		<u>Gov't</u>	<u>Private</u>
Supv. Financial Analyst	Economics	BA/Finance Accounting	CPA, MD	18	0
Auditor	Commerce/Accounting	BA/Finance	CPA, MD OH, KY	4	24
Auditor	Business/Audit & Accounting	BA/Accounting	CPA, NC	11	9
Staff Accountant	BA/Accounting	BA/Corporate Financial Analysis	CPA, VA	16	7
Staff Accountant	BA/Economics	BA/Accounting		14	9

**UNITED STATES
INTERNATIONAL TRADE COMMISSION**

**VERIFICATION HANDBOOK
(EXCERPTS)**

TABLE OF CONTENTS

- I. VERIFICATION OUTLINE**
- II. VERIFICATION GUIDE**

UNITED STATES INTERNATIONAL TRADE COMMISSION

VERIFICATION OUTLINE

I. Overview

A. Discussion of company's business including:

1. Nature of overall operations
2. Organization structure
3. Business cycle and seasonal variations
4. Review of products produced/imported/purchased
5. Review of the processing facilities and procedures
6. Factory tour

B. Discussion of company's recordkeeping including:

1. Types of general accounting books and records maintained; frequency of financial statements
2. Internal cost accounting procedures; methodologies used to track the costs of various products
3. Types of production, inventory and shipment records maintained

II. Trade and Related Information

- A. Develop an understanding of the method used to calculate practical capacity.
- B. Review production, purchasing, inventory and shipment records. Tie to submitted questionnaire data.

III. Employment Information

- A. Review company employment records.
- B. Review methodology used to allocate production and related workers to the production of the subject merchandise.
- C. Review large reductions in work force.

IV. Financial Information

- A. Review company's cost accounting system. Review sample documents available from the system.
- B. Review the methods used to prepare submitted questionnaire.
- C. Review overall income and loss data
 - 1. Reconcile net sales to total shipments and company's financial records.
 - test sales to sales ledger
 - review adjustments to gross sales
 - 2. Review cost of goods sold information including specific review of materials, labor and overhead expenses.
 - trace material purchases to source documents
 - review inventory valuation methodology
 - review any standard labor rates and adjustments from gross wages
 - review methods used to capture material and labor variances
 - review overhead cost pool
 - review depreciation methodology used in preparing submitted questionnaire
 - 3. Review general, selling and administrative expenses.
 - 4. Review extraordinary expenses.
- D. Review allocation methodologies
 - 1. Understand and test the allocation methodologies used to prepare the submitted questionnaire data.
 - 2. Trace total costs to individual products to test compliance with allocation methodologies.

V. Prices and Related Information

- A. Review company's pricing programs.
- B. Discuss company's pricing strategy.
- C. Review submitted pricing information.

VI. Records and Documents to be Available During Verification

- A. Financial statements and footnotes.**
- B. Cost accounting records.**
- C. Sales journals.**
- D. Accounts payable and subsidiary journals.**
- E. Purchase invoices and cancelled checks.**
- F. Payroll ledger and other labor summaries.**
- G. Bill of lading file.**
- H. Fixed assets ledger.**
- I. Production/Inventory Records.**
- J. Worksheets used to prepare submitted questionnaire data.**
- K. Other accounting books and source documents.**

INTERNATIONAL TRADE COMMISSION

VERIFICATION GUIDE

PRODUCERS AND IMPORTERS

TABLE OF CONTENTS

1000	Summary Data
1005	Introduction
	VERIFICATION
1010	General
1020	Selection of Companies for Verification
	TRADE AND RELATED INFORMATION
1030	Overview
1031	Practical Capacity
1032	Production Data
1033	Imports and Purchase Data
1034	Shipments
1035	Inventories
	EMPLOYMENT INFORMATION
1040	Overview
1041	Verification Techniques
	FINANCIAL INFORMATION
1050	Overview
1051	Establishment Income and Loss Data
1052	Allocation Methodologies/Product Income and Loss
1053	Unusual or Nonrecurring Expenses
1054	Asset Valuation
1055	Research and Development Expenses
1056	Capital Expenditures
1057	Impact of Imports on Capital and Investment
1058	Unit Cost Data
1059	Additional Information
	PRICES AND RELATED INFORMATION
1060	Overview
1061	Pricing Practices
1062	Transportation Factors
1063	Supply and Demand Factors
1064	Prices

CHAIRMAN



UNITED STATES INTERNATIONAL TRADE COMMISSION

WASHINGTON, D.C. 20436

May 22, 1990

MEMORANDUM

TO: The Inspector General

FROM: Chairman Anne E. Brunsdale *Anne Brunsdale*RE: Response to "Draft Report: 'Review of
Verifications of Report Data in Title VII
Investigations'"

Thank you for submitting the draft report referenced above. Pursuant to Commission procedures, I am transmitting herewith the response to the draft report prepared by the Director of the Office of Investigations. Both the draft report and the Director of Investigations' response raise important issues regarding the verification of the data on which the Commission bases its decision in Title VII (dumping and countervailing duty) cases.

As you are aware, I requested that you report on the Commission's verification program because of my concern that the Commission not only respond to criticism of its prior verification procedures by the General Accounting Office and others but, more important, that it also leave no reasonable stone unturned in its ongoing efforts to ensure the reliability of the data collected in its investigations.

Having reviewed your draft report and the Director of Investigations' response, I am pleased to learn that substantial progress has been made in recent years on the Commission's verification procedures. This progress is the result of hard work by the Commission staff, particularly the

staff in the Office of Investigations, and they are to be commended on their efforts.

With regard to your recommendations for continued improvement in the verification program, my office has consulted with you and with the Director of Investigations regarding the proper steps necessary to shore up the progress made thus far and to enhance the program further. These conversations lead me to the conclusion that you and the Director of Investigations are in agreement that adjustments to current verification procedures are feasible and advisable. With regard to each particular recommendation, therefore, I set forth below my plan for improving the verification program.

Recommendation 1: Expansion of On-Site Verifications.

You cite in your draft report three de facto limitations on verification. First, formal verification procedures have been conducted only in final investigations; second, the companies subject to on-site verification have, in some cases, represented only a limited (e.g., under 25 percent) sample of the domestic industry; and third, to date, no importers or domestic purchasers have been targets of on-site verification, though importer and purchaser questionnaires specifically state that responses to those questionnaires are subject to Commission verification. In addition, your report notes that on-site verification appears to be subject to the limitation that only the petitioner and one other domestic producer are subjected to verification, and then only in final investigations. You recommend that the Director of Investigations develop a plan to expand the coverage of on-site investigations.

The Director of Investigations in his response as well as in conference with my office, properly objects to any suggestion that rigid verification procedures are appropriate for all investigations. He notes, for example, that time may not be available in preliminary investigations to conduct productive on-site verification and that in cases dealing with atomistic domestic industries (especially agriculture) verification of 50 percent or more of the domestic industry may not be practical.

There is, I find, a broad area of agreement between you and the Director of Investigations that rigid rules, be they the de facto rules now in effect or rules designed to expand the verification program, would be inappropriate. Furthermore, you both agree that the verification efforts could be expanded and that greater verification would enhance the reliability of the data collected or, at the very least, the Commission's confidence in the data.

I am therefore requesting, by a copy of this memorandum, that the Director of Investigations prepare and submit to the Commission by July 31, 1990, a set of verification guidelines for preliminary and final investigations that spell out the criteria for determining the extent and scope of the verification efforts in each investigation. Such criteria might include, for example, the size of the case, the availability of staff to conduct the verification, the importance of the information likely to be collected, the proximity of likely verification targets to each other, the cost of the verification, and any other criteria deemed appropriate. The criteria should be used in both preliminary and final investigations and should provide guidance regarding the number of producers, importers, and purchasers to be visited, if any.

Furthermore, I am requesting that the Director of Investigations submit for the Commission's information in final investigations a memorandum setting forth the verification efforts to be conducted in that investigation. The memorandum should be submitted to the Commission as soon as possible following the hearing.

2. Establish Policies regarding Use of the Verification Handbook, Clarify Policies on the Collection of Company Documents, and Review Positions Descriptions and Series for FAAD Staff.

You note in your draft report that members of the audit teams are inconsistent in their use of the procedures outlined in the Commission's verification handbook. In particular, some members of the Financial Analysis and Accounting Division (FAAD) use the handbook's checklist, providing their initials and the date each item on the checklist was completed or an indication that the item was inapplicable to the particular

verification. You recommend that the Director of Investigations establish a policy that the handbook be used in conducting the verification, including the preparation of supporting work papers.

The Director of Investigations states as his office's policy that the handbook provides a generic guideline on the conduct of investigations. He notes that each verification requires different procedures depending on the priorities of that particular verification effort. He also states that the Office of Investigations requires that the verification team produce a verification report specifying in detail the procedures used and the results. He has indicated in conversations with my staff that he believes the preparation of a verification report to be a useful, if not critical, exercise.

I do not believe that the points raised in the draft report and the Director of Investigations' response are mutually inconsistent. The preparation of a verification report is a useful, if not critical, part of the verification process. However, the purpose of the handbook is to ensure that the verification procedures do not, over time, deteriorate into completely random, ad hoc exercises. Nothing in the handbook suggests that it is a straight-jacket limiting the creativity or flexibility of the verification team. It should, however, be used as a baseline for the verification effort. I am therefore requesting by a copy of this memorandum that the Director of Investigations prepare and issue by June 30, 1990, a directive to his staff regarding the proper use of the handbook as a basic tool in the verification process.

With regard to the collection of company documents, you state that the verification teams do not collect company documents on a regular basis, making evaluation of the verification efforts difficult. The Director of Investigations states that, as a matter of policy, staff collects documents only when necessary to support contested or questionable information on the record. It is not the Office of Investigations' policy to collect company documents solely to provide a record of data check.

In light of my instruction to the Director of Investigations regarding proper use of the handbook, I will not ask for any changes in his

policy on this issue. If the handbook is used as recommended, the checklist should indicate satisfactory completion of a particular step in the verification process. In light of the burden that extensive document collection imposes on staff and private companies during routine verifications, I believe that the Director of Investigations' policy is appropriate assuming appropriate use of the handbook.

Concerning the different personnel series and job descriptions among the FAAD staff, my inquiries lead me to understand that the differences have resulted from the fact that the FAAD was built over time as successive Commission chairmen have sought to add skills to that office. Any suggestion that Commissioners intervened to establish different staff members in different series is, to my knowledge, erroneous. I am instructing by a copy of this memorandum that the Director of Operations or the Director of Investigations work with the Commission's Office of Personnel to ensure that every employee in FAAD is in the proper personnel series.

3. Set Forth the Functions of Each Office regarding Senior Review, Clarify the Policy on Retention of Documents for the Record, and Clarify the Role of the Statistical Analysis Division.

You note that many offices are involved in the review of draft staff reports and that no record is kept on the specific that items have been reviewed. I will instruct the appropriate office directors in a separate memorandum to establish policies regarding the role of their staffs in senior review and to establish procedures to ensure that the review is completed.

The Commission policy regarding the retention of documents for the record, as stated by the Director of Investigations, is to retain only those documents that are necessary to establish a trail between the raw data collected by the Commission and the reports and memoranda submitted to the Commission. I find this sufficient, with the addition that documentation regarding the review of staff reports and memoranda by the various offices should be kept by the Office of Investigations even if the reviewing office recommends no changes to the staff report.

The Director of Investigations in his response has clarified the role of the Statistical Analysis Division. I see no need for further action at this time.

In conclusion, I would like to thank you and your staff and the Director of Investigations and his staff for their efforts in this matter. The Commission's verification procedures have, in my view, improved the reliability of the data on which the Commission bases its decision. I believe that ongoing evaluation and improvement of the verification process will improve the credibility of the data underlying Commission determinations and hence the credibility of those determinations.

cc: The Commission
Director of Operations
Director of Investigations



UNITED STATES INTERNATIONAL TRADE COMMISSION

WASHINGTON, D.C. 20436

May 8, 1990

MEMORANDUM

TO: Inspector General

FROM: Director, Office of Investigations

SUBJECT: Comments on Your Draft Report Entitled "Review of
Verification of Report Data in Title VII
Investigations"

Thank you for the opportunity to comment on your draft report on data verification in Title VII investigations. As you note in the draft report, I do not agree with all of your findings and recommendations. However, I appreciate your personal efforts in responding to concerns I raised in our exit briefing on certain statements in the working draft of the report. Two general concerns remain. The first is my feeling that certain of the recommendations in the draft report are so unworkable that they must reflect some misunderstandings about the data collection, compilation, verification, and review activities in the subject investigations. The second is that the draft report focuses almost exclusively on "on-site" data verifications, which constitute only one small part of the Title VII data-checking process.¹ More specific comments on each section of the draft report are presented below; a summary of my responses to each finding and recommendation in the draft report is presented in attachment 1.

¹ Most data "verification" is conducted by the assigned staff at the Commission; in addition, parties to investigations participate in the process by commenting on data released to them under Administrative Protective Orders.

INTRODUCTION AND SCOPE

The stated purpose of the review (page 1, paragraph 1) is "to evaluate Commission efforts to verify data submitted by domestic companies on Title VII investigations and the procedures used to review Commission reports." In the memo announcing the review, however, the purpose was stated to be "to evaluate (1) USITC efforts to verify data submitted by companies, and (2) the procedures used to ensure that report data is supported by source documentation" (see IG-M-074, Dec. 5, 1989).² The change in stated purpose is not especially troubling to me, but it reinforces my feeling that there may have been misunderstandings as to the purpose of the study, as well as the process itself.

BACKGROUND

The reported list of data requested in questionnaires is somewhat simplistic, incomplete for producer questionnaires, and incorrect for importer and purchaser questionnaires (page 2, paragraph 1).

The discussion of historic Commission attempts to ensure the accuracy of questionnaire data (page 2, paragraph 2) is incomplete. It misses the principal technique used, namely a comprehensive staff review of all data submitted by respondents. This is the process that reveals errors, whether done at the Commission or on-site. The statement that the "FAAD staff *attempted* to reconcile any *major* deviations through telephone contacts" (my emphasis) greatly understates the efforts made by all staff to obtain the very best information possible from questionnaire recipients.

The statement that "investigators are the focal point of the review process and bear the primary responsibility for ensuring data is accurately presented in the report" (page 2, paragraph 5) is incorrect. If a single person is to be identified for this responsibility it is the supervisory investigator. More accurately, each assigned staff member is responsible for ensuring the accuracy of data presented in their sections of the report.

ON-SITE VERIFICATIONS

I disagree with the recommendations that the Commission should expand their on-site verifications by "selecting importers and purchasers for visits, conducting verifications during preliminary investigations, and establishing suggested levels for coverage" (page 7, paragraph 6).

² Again, note that neither stated purpose focuses on, or even specifically mentions, "on-site" verifications.

Let me start with preliminary investigations, for which there is no discussion at all in the draft report. These cases must be completed in 45 days and we attempt to develop nearly the same amounts of data that are requested in final investigations.³ We try to mail questionnaires on about day 5, get completed responses on about day 15, and have the draft report to the supervisory investigator on about day 25 (these are calendar days, not "work" days). Questionnaires are normally late and frequently incomplete or inaccurate as submitted, requiring that extensive time and effort be spent with companies to obtain usable data. There is simply no time available to routinely perform on-site data verifications.

Coverage-level goals may sound appealing but are unworkable in practice. To begin with, "coverage" figures are normally not known until all usable questionnaires are tallied and a "total" calculated. More importantly, any rigid coverage guideline would virtually ensure that it couldn't be met in cases with numerous market participants (especially cases involving agricultural products).

On-site verifications for importer and/or purchaser questionnaires could be performed, but not by the FAAD staff. They simply do not have the time. If the Commission decides to implement this recommendation the visits would have to be made by the assigned investigator or economist (barring any staffing level changes). Before implementation, however, consideration should be given to the potential benefits available to the Commission from on-site verifications of the relatively limited data requested in these questionnaires (basically import/purchase volumes and prices). Those benefits should also be weighed against the additional burden that on-site verifications would place on respondents.

The statement that "Congress continues to express an interest in this area" (page 6, last paragraph) is unconvincing to me. I have reviewed the transcript of the exchange between Mr. Guarini and the Chairman (HWM052040, pp. 20-21) that I gather formed the basis for the statement, and find little in it that has anything to do with Title VII data verification.⁴ Further, I would note that Title VII data verifications have long been specifically required by statute for the Department of Commerce and not for the Commission (see 19 U.S.C. § 1677e(a)). I believe that this reflects Congressional understanding of the differences in data collected by the two agencies.

³ See, for example, the checklists for preliminary and final Title VII investigations shown in attachment 2, or the questionnaires used in any such cases.

⁴ Mr. Guarini's question was "Have you complied with all the recommendations of the GAO to update our data bank where the information we get is the latest and the best?"

VERIFICATION OF DATA SUBMITTED BY DOMESTIC PRODUCERS

While the title of this section led me to believe that the discussion would, correctly, deal with the Commission's overall data verification efforts, such was not the case. The entire section deals, improperly in my opinion, only with "on-site" verifications performed by the FAAD staff.

My general reaction to the entire discussion can be summarized by my reaction to the statement on page 9 that "The date is important because it shows which steps were completed prior to or after the on-site verification." I could hardly disagree more. What is important is that the data presented to the Commission be the very best that we can develop. I admit to inflicting many encumbering process requirements on the Title VII staff,⁵ but I am opposed to any such requirements that do not directly help us in reaching this objective.

Specifically, if the Commission directs us to prepare working papers for on-site verifications that have "headings, indexes, cross-indexes, sources, purposes, scope and conclusions, signatures, dates, tick marks, and evidence of supervisory review" (page 9, paragraph 3), we will do so, but the effect will be to take time and effort from the primary task of getting the best information we can.

With respect to the recommendation on page 11 that I "establish a policy that the handbook be used as intended in conducting verifications including the preparation of supporting working papers," I would argue that precisely that policy has been in effect since the handbook was completed. As indicated in the introduction to the handbook, it was developed to provide generic guidelines for Commission verifications. Each case will always require a separate judgement as to the appropriate verification priorities, including, for example, a judgement as to the amount of information that should be sought. Further, the handbook was developed with the idea that its procedures would be modified or expanded as experience indicated they should be. Documentation of on-site verifications, for example, has in fact evolved with our experience. "Initials and dates" specified in the handbook have been replaced by a detailed verification report that documents both the verification dates and all participants. The verification report indicates the procedures used by the verifier, lists the findings (confirmation or required changes in company data), and indicates the criteria used for selection of the

⁵ For example, we have an extensive policy manual, dozens of pages of standardized documents, detailed checklists for conducting investigations (see attachment 2) and reviewing questionnaires (see attachment 3), and multi-level reviews of nearly everything leaving the office.

company for verification. In my opinion, the verification report documents in sufficient detail for the particular circumstances of each case both the verification process and its results. Any changes in reported data resulting from verification visits are documented by the submission of revised questionnaire pages to the Commission.

With respect to the recommendation on page 11 that I "clarify the policy regarding the collection of company documents and notify FAAD staff," I offer the following clarification. It is the policy of the Office of Investigations that company documents be obtained and placed in the Title VII investigative record (whether in connection with an on-site verification visit or otherwise) when such documents are believed necessary to document contested or questionable information submitted or presented to the Commission. It is not our policy to collect company documents solely for the purpose of documenting a data check (whether in connection with an on-site verification or otherwise).⁶

With respect to the recommendation on page 11 that I, "in cooperation with the Director of Personnel, review the position descriptions for the FAAD staff to either standardize the series or justify the basis for differing series," I will be happy to do so, but note that we originally added the financial analyst (1160 series) and auditor (511 series) positions to the FAAD at the specific request of Commissioners.

REPORT REVIEW PROCEDURES

The statement that after the Statistical Analysis Division checks questionnaire data against worksheets and worksheets against reports "the supporting workpapers are thrown away" (page 13, paragraph 3) is incorrect. All questionnaires and all worksheets tabulating such data are retained and placed in the investigative record. As with the policy just discussed concerning company documents, it is not our policy to maintain files whose purpose is solely to document a data check. I again stress, however, that a complete paper trail from questionnaire data to report data is always maintained.

⁶ For information, a copy of the pages of our policy manual (INVinfo on the OINV LAN shared applications menu) that describe materials to be placed in the record in Title VII investigations is shown at attachment 4. I also note Commission rule 207.4(b), which states that "The Director may in his discretion audit completed questionnaires or otherwise verify information received in the course of a proceeding. *To the extent an audit or verification results in new or different information, the Director shall place such information on the record*" (my emphasis).

The discussion of the "senior review" process missed the most important aspect of that process, namely the review conducted by each of the assigned staff members, the assigned supervisory staff in the Office of Investigations, and the Director of Operations (see attachment 5). The primary review is conducted by supervisory staff in the Office of Investigations. For financial data this includes the FAAD chief, the supervisory investigator, and the Director of Investigations; for pricing data it includes the Applied Economics Division (AED) branch chief, the AED division chief, the supervisory investigator, and the Director of Investigations; and for the rest of the data it includes the supervisory investigator and Director of Investigations (as well as branch and division chiefs in the Office of Industries for sections prepared by the assigned commodity-industry analyst). The senior review process provides an important examination of the data presented in reports (especially the reviews done by the Office of Information Resources Management (IRM) and our own Statistical Analysis Division (SAD)), but it is inherently limited in its scope to the information already presented in draft reports. Responsibility for what goes into the draft reports must rest with the authors and their respective first-line supervisors. With the exception of the Statistical Analysis Division, I feel that it is unnecessary to further "set forth the specific functions of the offices participating in senior review" (recommendation on page 15).

With respect to the recommendation on page 15 that I "clarify the policy on retention of documents for the record," that policy is as follows: all working papers are to be retained that create a paper trail between data obtained by or submitted to the Commission and data presented to the Commission. As a general rule we do not retain draft material in the record. When questions arise concerning whether or not a particular "working paper" should be retained, they are to be resolved through discussions with, first, the assigned supervisory investigator, and then, if necessary, the Director of Investigations and General Counsel.

With respect to the recommendation on page 15 that I "clarify" the role of the Statistical Analysis Division in the report review process, I am happy to do so. In summary, that role is to ensure that primary-source data (generally from Commission questionnaires) are accurately transferred to worksheets (whether automated or manual) and that worksheet data are accurately transferred to reports. The unit should not duplicate the checks performed by the IRM staff (see page 13 of the draft report), nor is it responsible for the accuracy of the reported information itself. That responsibility rests with the assigned investigator, economist, financial analyst, and commodity analyst. It is also the responsibility of the assigned investigator to ensure that all necessary supporting workpapers are delivered to the Statistical Analysis Division with the draft report for review. While this

policy is not new, I will put it out in written as well as verbal form as a reminder to our staff.



Lynn Featherstone

Attachments

ATTACHMENT 1

SUMMARY OF RESPONSES TO FINDINGS AND RECOMMENDATIONS

SUMMARY OF RESPONSES TO FINDINGS AND RECOMMENDATIONS

Findings

On-site verifications (page 3, paragraphs 4 and 5)

Findings: On-site verifications have been limited to domestic producers in final investigations and, accordingly, reviews have not been conducted on significant segments of the questionnaire respondents. Selection of domestic producers for on-site verification was in consonance with the criteria shown in the verification handbook but, in over half of the cases, firms accounting for 50 percent or less of domestic shipments were reviewed.

Response: Agree.

Verification of data submitted by domestic producers (page 8, paragraph 4 and page 11, paragraph 1)

Findings: The handbook developed as a guide for conducting on-site verifications provides good overall guidance, but it was not consistently used, supporting working papers were not adequately prepared, and the policy on obtaining internal company documents is not completely understood by FAAD staff. FAAD staff had adequate qualifications to conduct the verifications, but a review is needed to determine if the positions are properly classified.

Response: Disagree that the handbook has not been consistently used, that supporting working papers have not been adequately prepared, and that the policy on obtaining internal company documents is not completely understood by FAAD staff. Agree that personnel have adequate qualifications and do not object to a review of position descriptions with the Director of Personnel.

Report review procedures (page 12, paragraph 4)

Findings: Policies and procedures for review were adequate to ensure data accuracy, but need to be improved by specifying the functions of senior review, establishing a policy on the retention of papers, and clarifying the role of the Statistical Analysis Division.

Response: Disagree that existing policies and procedures are inadequate, but do not object to distributing memoranda concerning the policy on the retention of papers and the role of the Statistical Analysis Division.

Recommendations

On-site verifications (page 7, paragraph 6)

Recommendations: That the Director of Investigations develop a plan to expand the coverage of on-site verifications to include importers and purchasers, conduct verifications in preliminary investigations, and establish suggested levels for coverage.

Response: Disagree.

Verification of data submitted by domestic producers (page 11, paragraph 3)

Recommendations: That the Director of Investigations establish a policy that the verification handbook be used as intended in conducting verifications including the preparation of supporting working papers, that the policy regarding the collection of company documents be clarified, and that the position descriptions for the FAAD staff be reviewed.

Response: Disagree that the verification handbook is not being used as intended. Agree to distribute in writing the policy regarding the collection of company documents and to review the position descriptions for the FAAD staff with the Director of Personnel. The latter two can be accomplished within 60 days.

Report review procedures (page 15, paragraph 4)

Recommendations: That the Director of Investigations set forth the specific functions of the offices participating in senior review, clarify the policy on retention of documents for the record, and clarify the role of the Statistical Analysis Division.

Response: Disagree that more instructions to other offices are needed for senior review. Agree to distribute in writing the policy on the retention of documents for the record and the role of the Statistical Analysis Division. The latter two can be accomplished within 60 days.

ATTACHMENT 2 -

INVESTIGATION CHECKLISTS

CHECKLIST FOR PRELIMINARY TITLE VII INVESTIGATIONS

Investigation(s) No(s). _____ -TA- _____ (Preliminary)

- ___ Check with Dockets to ensure that petition was properly filed (14 copies, certificate of service, public version)
- ___ Check with Commerce to see if petition was received on same day and appears to be acceptable. Review import classifications identified in petition and verify against TSUSA and HTS (consult with industry analyst and Tariff Affairs). Resolve differences.
- ___ Prepare draft work schedule
 - ___ Check with the staff assistant to the Secretary regarding availability of hearing room for conference
 - ___ Clear conference date with Director of Operations
- ___ (Supervisor) Call for team assignments
- ___ Order Net Importer File from Statistical Analysis Section
- ___ Prepare notice of institution and circulate in a Director of Operations action jacket together with the proposed work schedule
- ___ After approval by Director of Operations, take original of institution notice to the hearings coordinator for expedited publication in the Federal Register. She would also like 4 copies of work schedule.
- ___ (Supervisor) Circulate outline of report, noting sections assigned to each team member and date that reviewed sections are due to the investigator
- ___ Draft questionnaires after reviewing petition; consult with Statistical Analysis Section
- ___ Circulate questionnaires in a Director of Operations action jacket
- ___ Verify addresses and contacts with firms to which questionnaires will be sent
- ___ Prepare questionnaire cover letter for Secretary's signature
- ___ Mail questionnaires (include cover letter, copy of signed notice of institution, questionnaire, and self-addressed envelope with investigator's name and room number on it); give copy to Statistical Analysis Section
- ___ Review preliminary legal issues memo for accuracy
- ___ Call questionnaire recipients to confirm receipt and answer any questions
- ___ Foreign industry data:
 - ___ Prepare draft telegram soliciting data from U.S. embassy staff and submit hard copy to Office of Executive and International Liaison, together with WordPerfect diskette
 - ___ Prepare letter requesting data from counsel for foreign producers
- ___ Check for publication of the institution notice in the Federal Register
- ___ Fieldwork
- ___ Conference arrangements:
 - ___ Obtain list of witnesses from parties
 - ___ Prepare tentative calendar of public conference
 - ___ Check with Director of Operations' secretary to ensure that room is properly set up and reporter has been requested
 - ___ Give copies of calendar to the Directors of Operations and Investigations and their secretaries the afternoon prior to the conference and make copies available in hearing room prior to conference
 - ___ (Supervisor) Take exhibit list, 1 copy of each exhibit, and list of witnesses to Dockets after conference
- ___ Team meeting to discuss issues raised at the conference and plan report

- ___ Release business proprietary information (BPI) (principally questionnaires) to APO parties
- ___ Review transcript of conference and postconference briefs
- ___ Review additional written comments on BPI
- ___ Report to supervisory investigator
- ___ Report to senior review:
 - ___ Prepare cover memo
 - ___ Make at least 15 copies (see distribution list)
- ___ Report to the Commission:
 - ___ Prepare cover memo
 - ___ Mark BPI with brackets
 - ___ Make at least 25 copies (see distribution list)
- ___ Review legal issues memo for accuracy
- ___ Briefings with Commissioners
- ___ Public briefing and vote
- ___ Prepare determination and circulate in action jacket for Commission approval
- ___ Take draft of outside/inside front cover to design branch
- ___ Review report with Editorial staff
- ___ Prepare transmittal letter for the Chairman's signature
- ___ Prepare public report:
 - ___ Make editorial changes
 - ___ Delete BPI (macros: ALT A-C) and add note at end of table of contents regarding use of asterisks (macro: ALT I)
 - ___ Single space
- ___ Check views of the Commission for factual accuracy and to eliminate BPI; change cites to conform with single-spaced report
- ___ (Supervisor and Director of Investigations) Review report and views of the Commission for BPI
- ___ Make at least 5 copies of the report (including determination and Commissioners' views) and signed transmittal letter; deliver 4 copies to hearings coordinator for transmittal to Commerce and 1 copy to Dockets
- ___ Distribute 1 complete set of opinions to each Commissioner the morning after the report is due to Commerce
- ___ Take original of public report (including cover, determination, and Commissioners' views) to the Secretary's staff assistant, and complete Graphics request forms, ordering sufficient copies for investigative team (check with team members to see how many copies they want) and O/INV
- ___ Prepare Federal Register version of determination (including additional paragraph) and take to hearings coordinator for publication
- ___ After supervisory review, release business proprietary version of report and opinions and other BPI to APO parties
- ___ Check for publication of the determination notice in the Federal Register
- ___ Enter appropriate documents in the record in Dockets:
 - If the determination was negative, file the appropriate record form and the documents; clearly separate and mark all BPI
 - If the determination was affirmative, file the appropriate record form but retain the documents pending any final investigation

- If the determination was affirmative, make notes of additional information that should be developed in any final investigation

CHECKLIST FOR FINAL TITLE VII INVESTIGATIONS

Investigation(s) No(s). _____ -TA- _____ (Final)

- ___ Prepare draft work schedule
 - ___ Check with the staff assistant to the Secretary regarding availability of hearing room for hearing and prehearing conference (try to schedule hearing for Tuesday or Thursday)
 - ___ Clear prehearing conference date with Director of Investigations
- ___ (Supervisor) Call for team assignments
- ___ Order Net Importer File from Statistical Analysis Section
- ___ Prepare notice of institution and circulate in an action jacket together with the proposed work schedule
- ___ After approval by the Commission, take original of institution notice to the hearings coordinator for publication in the Federal Register. She would also like 4 copies of work schedule.
- ___ (Supervisor) Circulate outline of report, noting sections assigned to each team member and date that reviewed sections are due to the investigator
- ___ Draft questionnaires after reviewing report, completed questionnaires, notes, and Commissioners' opinions from preliminary investigation; consult with Statistical Analysis Section
- ___ Circulate questionnaires in an action jacket for Commission approval
- ___ Update questionnaire mailing lists if necessary
- ___ Prepare questionnaire cover letter for Secretary's signature
- ___ Mail questionnaires (include cover letter, copy of signed notice of institution, questionnaire, and self-addressed envelope with investigator's name and room number on it); give copy to Statistical Analysis Section
- ___ Call questionnaire recipients to confirm receipt and answer any questions
- ___ Foreign industry data:
 - ___ Prepare draft telegram soliciting data from U.S. embassy staff and submit hard copy to Office of Executive and International Liaison, together with WordPerfect diskette
 - ___ Prepare letter requesting data from counsel for foreign producers
- ___ Check for publication of the institution notice in the Federal Register
- ___ Fieldwork
- ___ Prehearing report to supervisory investigator
- ___ Prehearing report to senior review:
 - ___ Prepare cover memo
 - ___ Make at least 14 copies (see distribution list)
- ___ Prehearing report to the Commission:
 - ___ Prepare cover memo
 - ___ Mark business proprietary information (BPI) with brackets
 - ___ Make at least 25 copies (see distribution list)
- ___ Business proprietary version of the prehearing report to APO parties:
 - ___ Give to supervisory investigator to review
 - ___ Release report, along with other BPI (principally questionnaires), to APO parties

- Prehearing report to the public:
 - Replace soft page breaks with hard page breaks. Delete BPI (macros: ALT A-C) and add note at end of table of contents regarding use of asterisks (macro: ALT I). Do not single space.
 - Give to supervisory investigator to review for confidentiality
 - Make 1 copy for each party
- Review prehearing briefs
- Draft and circulate list of questions for use by the Commission at the hearing
- Hearing
- Team meeting to discuss issues raised at the hearing and plan final report
- Release additional BPI (principally questionnaires) to APO parties in time for use in posthearing briefs
- Review transcript of hearing and posthearing briefs
- Review additional written comments on BPI
- Final report to supervisory investigator
- Final report to senior review:
 - Prepare cover memo
 - Make at least 15 copies (see distribution list)
- Final report to the Commission:
 - Prepare cover memo
 - Mark BPI with brackets
 - Make at least 25 copies (see distribution list)
- Review legal issues memo for accuracy
- Review economic issues memos for accuracy
- Briefings with Commissioners
- Public briefing and vote
- Prepare determination and circulate in action jacket for Commission approval
- Take draft of outside/inside front cover to design branch
- Review report with Editorial staff
- Prepare transmittal letter for the Chairman's signature
- Prepare public report:
 - Make editorial changes
 - Delete BPI (macros: ALT A-C) and add note at end of table of contents regarding use of asterisks (macro: ALT I)
 - Single space
- Check views of the Commission for factual accuracy and to eliminate BPI; change cites to conform with single-spaced report
- (Supervisor and Director of Investigations) Review report and views of the Commission for BPI
- Make at least 5 copies of the report (including determination and Commissioners' views) and signed transmittal letter; deliver 4 copies to hearings coordinator for transmittal to Commerce and 1 copy to Dockets
- Distribute 1 complete set of opinions to each Commissioner the morning after the report is due to Commerce

- Take original of public report (including cover, determination, and Commissioners' views) to the Secretary's staff assistant, and complete Graphics request forms, ordering sufficient copies for investigative team (check with team members to see how many copies they want) and O/INV
- Prepare Federal Register version of determination (including additional paragraph) and take to hearings coordinator for publication
- After supervisory review, release business proprietary version of report and opinions and other BPI (including economic issues memos) to APO parties
- Check for publication of the determination notice in the Federal Register
- Enter appropriate documents in the record in Dockets: file the appropriate record form and the documents; clearly separate and mark all BPI

ATTACHMENT 3
QUESTIONNAIRE CHECKLISTS

CHECKLIST FOR PRODUCER'S QUESTIONNAIRE

Cover page

Are all the spaces/boxes completed?

Yes ☐ No ☐

Is the questionnaire signed?

Yes ☐ No ☐

Part I.--GENERAL QUESTIONS

Is the question on public reporting burden (hours and dollars expended) completed?

Yes ☐ No ☐

Is the question on support/opposition to the petition completed?

Yes ☐ No ☐

Question I.6--if an importer is named in the answer to this question, have we sent them an importer's questionnaire?

Yes ☐ No ☐

Question I.9--if the producer indicates that it produces one or more of the subject products in a foreign trade zone or bonded warehouse, make sure that there is no double-counting between such production and imports (FTZs and bonded warehouses are outside the customs territory of the United States, and when products produced in such areas are shipped into consumption channels, they become "imports" and may be reported as such on an importer's questionnaire). Are you certain that production and/or imports from FTZs/bonded warehouses have been properly reported and that there is no double-counting?

Yes ☐ No ☐

Are the other "general questions" completed?
(If so, look over the answers carefully and incorporate anything of note into the report.)
Tabulate the answers accordingly.

Yes ☐ No ☐

Part II.--TRADE AND RELATED INFORMATION

Has the name/telephone number of the company contact person been provided?

Yes ☐ No ☐

II-A.--PRACTICAL CAPACITY

Have all the blanks been completed?

Yes ☐ No ☐

CHECKLIST FOR PRODUCER'S QUESTIONNAIRE--Continued

-2-

Part II.--TRADE AND RELATED INFORMATION--Continued

II-A.--PRACTICAL CAPACITY--Continued

Does end-of-period (or average-of-period) capacity differ from one period to another? If "yes" for a large or major producer, you should call the producer to determine what caused the change in capacity (e.g., installation of new production equipment, opening or closing of facilities), and if appropriate note your findings in the report.

Yes ☐ No ☐

Is reported average-of-period capacity consistent with end-of-period capacity (i.e., for each given period, does average-of-period capacity lie in-between the beginning-of-period capacity and the end-of-period capacity for that period)? If "no," call the producer to find out why not.

Yes ☐ No ☐

Is the reported partial-year 1988 capacity lower than the reported calendar-year capacity for 1988? (Of course, partial-year capacity should be lower than full-year capacity, but sometimes the people filling out the questionnaire get confused and provide "annualized" partial-year data.)

Yes ☐ No ☐

For each product, is each period's reported average-of-period capacity higher than each period's production as reported in Section II-B? (If not, call the producer to find out why reported capacity utilization is equal to or greater than 100 percent.)

Yes ☐ No ☐

II-B.--PRODUCTION, TRADE, AND INVENTORY DATA ON PRODUCTS PRODUCED IN YOUR U.S. ESTABLISHMENT(S)

Have all the blanks been completed?

Yes ☐ No ☐

Are the reported partial-year 1988 data lower than the reported calendar-year data for 1988?

Yes ☐ No ☐

If the reported quantities or values are supposed to be in thousands of units or dollars (or millions of units or dollars or whatever), check to make sure that the reported data are indeed reported as you requested. Are data reported in the correct units and dollars?

Yes ☐ No ☐

CHECKLIST FOR PRODUCER'S QUESTIONNAIRE--Continued

-3-

Part II.--TRADE AND RELATED INFORMATION--Continued

II-B.--PRODUCTION, TRADE, AND INVENTORY DATA ON PRODUCTS PRODUCED
IN YOUR U.S. ESTABLISHMENT(S)--Continued

Divide each period's reported quantities by each period's reported values to obtain the unit values (the SAS program will do this for you, but if you are not using the SAS, make sure that you do it on LOTUS or on worksheets). Eyeball the resulting unit values to make sure that they are reasonably consistent from one period to another and from one questionnaire to another. (Unusually high or low unit values also often indicate incorrect reporting of quantities or values.) Are the unit values reasonably consistent? (If "no," call the producer to find out why not.)

Yes ☐ No ☐

Compare the reported aggregate quantity and value of shipments with the reported quantity and value of shipments in the financial section of the questionnaire. (Often the data will necessarily differ because the financial data may be on a fiscal-year basis or because technically "sales" are different from "shipments;" however, comparisons of shipment and sales data have resulted in major errors being found in questionnaires--the errors resulted from the fact that different people filled out the trade section and the financial section.) Are the data reasonably consistent? If "no," notify the accountant assigned to the investigation.)

Yes ☐ No ☐

Do the reported inventory/production/shipment/inventory data reconcile in each year and period? (The fact that the producer certifies that the data reconcile does not always mean that the data do indeed reconcile.) The SAS program will check this for you.

Yes ☐ No ☐

In section II.B.6 (shipments to distributors and end users), make sure that the total reported U.S. shipments equals the total reported U.S. shipments in the trade section (section II.B.2., etc.) of the questionnaire. Are the totals equal?

Yes ☐ No ☐

CHECKLIST FOR PRODUCER'S QUESTIONNAIRE--Continued

-4-

Part II.--TRADE AND RELATED INFORMATION--Continued

II-C.--TRADE AND INVENTORY DATA ON PRODUCTS NOT PRODUCED IN
YOUR U.S. ESTABLISHMENT(S)

Does the producer indicate in this section that it has imported or purchased the foreign-produced product? (If yes, make sure that it has received an importer's and/or (in final investigations) a purchaser's questionnaire.)

Yes ☐ No ☐

Do the reported inventory/production/shipment/inventory data reconcile in each year and period?

Yes ☐ No ☐

In section II.C.13 (shipments to distributors and end users), make sure that the total reported U.S. shipments of imports equals the total U.S. shipments of imports reported previously. Are the totals equal?

Yes ☐ No ☐

Part III.--EMPLOYMENT INFORMATION

Has the name/telephone number of the company contact person been provided?

Yes ☐ No ☐

Are all the "check-the-box" and narrative questions on employment completed? (If so, look over the answers carefully and note anything of consequence in the employment section of the report.) Tabulate the answers accordingly.

Yes ☐ No ☐

Are the reported partial-year 1988 data (except the number of workers) lower than the reported calendar-year data for 1988?

Yes ☐ No ☐

Are the reported data on "all persons" larger than the reported data on "production and related workers producing--?" If "no," find out why not.

Yes ☐ No ☐

Are the reported data on "hours worked" approximately 2.0 times greater than the corresponding number of workers, assuming that "hours worked" is in thousands (it is usually about 2,000 hours per worker)?

Yes ☐ No ☐

CHECKLIST FOR PRODUCER'S QUESTIONNAIRE--Continued

-5-

Part III.--EMPLOYMENT INFORMATION--Continued

For each year and period, make sure that the data reported for total compensation paid are higher than the data reported for wages paid (some producers mistakenly report the same data for both indicators). Are the data for total compensation higher?

Yes ☐ No ☐

For each period reported, run the following ratios on the employment data (the SAS program will do it for you): (1) Production (in units) divided by hours worked--this is output per hour worked or "productivity." (2) Total compensation divided by production (in units)--this is "unit labor cost." (3) Wages paid divided by hours worked ("average hourly wages"). (4) Total compensation divided by hours worked ("average hourly compensation"). Eyeball the resulting ratios to make sure that they are reasonably consistent from one period to another. Are the ratios reasonably consistent? (If "no," call the producer to find out why not.)

Yes ☐ No ☐

Part IV.--FINANCIAL INFORMATION

IV-B.1.--INCOME AND LOSS DATA ON U.S. ESTABLISHMENT OPERATIONS

Check to see whether the producer completed the question on importing operations at its producing establishments. Is its answer on imports in this section consistent with its answer to section II-C.1 concerning imports?

Yes ☐ No ☐

IV-G.--IMPACT OF IMPORTS ON CAPITAL AND INVESTMENT

Are all the questions in this section completed? (If "no," call the producer in order to complete the questions.)

Yes ☐ No ☐

Tabulate the various responses accordingly, and quote the responses verbatim (or when there is a large number of producers, summarize the responses) in an appendix to the report. Are the responses complete and suitable for quotation or summarization?

Yes ☐ No ☐

CHECKLIST FOR PRODUCER'S QUESTIONNAIRE--Continued

-6-

Final steps

Have I initialed the questionnaire to indicate that it has been reviewed for completeness, accuracy, and consistency?

Yes ☐ No ☐

If the questionnaire is incomplete or inconsistent, have I noted on the questionnaire or on a separate sheet exactly what needs to be completed or checked?

Yes ☐ No ☐

If the questionnaire is incomplete or inconsistent, have I called the person who filled out the questionnaire and committed that person to giving us the completed and accurate data by a given date?

Yes ☐ No ☐

Have I made a copy (or provided the original of) the questionnaire to the accountant and the economist?

Yes ☐ No ☐

ATTACHMENT 4
RECORD GUIDELINES

THE RECORD

Last Update: 9-2-87

BACKGROUND INFORMATION

Pursuant to section 516A(b)(1)(B) of the Tariff Act of 1930 the Commission is required to keep a record in all antidumping and countervailing duty investigations. The purpose of this requirement is to facilitate judicial review of Commission decisions under section 516A of the Act. Section 516A(b)(2)(A) provides that the record shall consist of:

- (i) a copy of all information presented to or obtained by the . . . Commission during the course of the administrative proceeding including all governmental memoranda pertaining to the case and the record of ex parte meetings required to be kept by section 777(a)(3); and
- (ii) a copy of the determination, all transcripts or record of conferences or hearings, and all notices published in the Federal Register.

Sections 207.2(j), 207.4, and 201.6 of the Commission's Rules deal with the record requirement. In practice, the following types of documents are required to be maintained and entered into the record:

1. All pleadings filed.
2. Protective orders and all comments and communications pertaining to such orders.
3. Summaries of ex parte contacts prepared pursuant to section 207.5 of the Commission's Rules.
4. Staff reports and final versions of questionnaires used.
5. Progress reports prepared pursuant to section 207.6 of the Commission's Rules.
6. All witness statements and exhibits received during Commission conferences and hearings.
7. Transcripts of all conferences and hearings related to the investigation.
8. Pre- and posthearing briefs and accompanying exhibits.
9. Records of Commission votes pertaining to the investigation.
10. Memoranda and other communications received from other government agencies.
11. All material received from Commerce or Treasury pertaining to the investigation.
12. All notices, orders, and opinions issued by the Commission or Commerce pertaining to the investigation.
13. All statements or other correspondence received from any source regarding the investigation.
14. Staff memoranda reducing information received orally or by telephone to a writing for the record.

DOCUMENTS TO BE FILED BY THE INVESTIGATIVE STAFF

The following documents should be submitted by the investigative staff (the investigator is primarily responsible for seeing that the record is complete):

1. Staff notes and work papers.
2. Questionnaires.
3. Import statistics and other non-questionnaire data used.
4. Any submission that may have been given directly to the staff from Commerce, a party, or any other source and NOT originally given to Dockets.

The following documents should NOT be submitted:

1. Petitions.
2. Pre- and posthearing briefs.
3. Notices.
4. Transcripts.
5. Staff reports.
6. Memoranda (unless a copy was not previously provided to the Secretary)
7. Any document with a Docket stamp.

For all documents submitted, confidential information must be separated from nonconfidential information and clearly marked.

TIMING OF SUBMISSIONS

In general, all materials should be put on the record prior to the Commission's vote. Where this is not possible (e.g., for questionnaires about which there may be last-minute questions) the materials should be entered into the record as soon as possible after the case is completed. A buff-colored Docket form should be used to describe the records.

For affirmative preliminary investigations, a blue Docket form should be completed and submitted to Dockets describing the documents, but the documents themselves should be retained by the staff pending any final investigation.

The official Docket Section business hours are 8:45 a.m. to 5:15 p.m.

OTHER MATTERS

No record, Docket or public, may be taken from the Docket Section without a receipt form being signed.

SOURCES: Office of the Secretary memoranda, July 22, 1986, Aug. 9, 1985, Jan. 31, 1980, and Jan. 23, 1980; Office of Investigations memorandum, May 31, 1983; General Counsel memorandum GC-D-059, Feb. 14, 1980.

ATTACHMENT 5
REPORT DISTRIBUTION

DISTRIBUTION OF REPORTS

Senior Review

Investigator.....	1
Industry analyst.....	1
Economist.....	1
Financial analyst.....	1
Attorney.....	1
Supervisory investigator.....	1
Lynn.....	1
Charles Ervin.....	1
Supervisory financial analyst..	1
Supervisory statistician	
(except prehearing reports)..	1 *
Supervisory economist (Bobby)..	1
Supervisory attorney.....	1
Office of Industries.....	1
Office of Data Systems.....	1
Office of Tariff Affairs.....	<u>1</u>
	15

Commission

Investigator.....	1
Industry analyst.....	1
Economist.....	1
Financial analyst.....	1
Attorney.....	1
Supervisory investigator.....	1
Lynn.....	1
Charles Ervin.....	1
Supervisory financial analyst..	1
Supervisory economist (Bobby)..	1
Supervisory attorney.....	1
Editorial.....	1
The Secretary.....	1
The Commission.....	<u>12</u>
	25

* Except in the case of prehearing reports, also give the supervisory statistician all questionnaires (including foreign industry data) and worksheets for checking. This information should be submitted as early as possible, but no later than senior review.

COMMISSIONER



UNITED STATES INTERNATIONAL TRADE COMMISSION

WASHINGTON, D.C. 20436

April 11, 1990
CO59-N-014

MEMORANDUM

TO: Inspector General

FROM: Commissioner Eckes *AEK*

SUBJECT: Draft Report, "Review of Verification of
Report Data in Title VII Investigations."

In reviewing this draft report, I find that in an effort to further expand and refine the verification process, the fundamental purpose of data verification has been obscured. I fear the Commission already may be focusing more on form than function in this area, as evidenced by the fact that Investigations staff now conduct at least one on-site verification for every final investigation.

In my view, Commission staff and resources should be committed to on-site verification primarily in those investigations where a significant data problem is discovered or suspected that cannot be resolved satisfactorily by other means. In most cases, this would involve only one aspect of the data collected, and the few firms (producers, importers, or in rare instances, purchasers) whose answers to questionnaires proved unsatisfactory.

Additionally, GAO has called for occasional random spot-checks of report data. The value of this procedure is questionable, but presumably the possibility of an on-site inspection provides a strong incentive for firms to submit complete and accurate responses. In actual fact, I believe the examination of report data by counsel to opposing parties under APO (a procedure not followed when GAO made its recommendation) probably serves as a more effective spur to accurate reporting. Nevertheless, I expect random checks will continue to be performed.

A random spot-check probably would be more comprehensive in scope than the problem-specific verifications discussed above. However, I can see no practical reason for such a spot-check to be performed in every investigation. Nor should we direct either type of verification to cover firms controlling 50% (or any specified percentage) of the market. Appropriate coverage depends on the nature of the investigation and the nature of any data problem.

In no case should on-site verification be attempted in preliminary investigations. There is too little time after questionnaires are returned to verify data within the 45-day limit for preliminaries.

Finally, I agree with you that data verification should be properly documented. However, documentation does not necessarily require checking off every section of a handbook intended as a general guideline. For instance, such a checkoff might be inappropriate for a problem-specific data verification. The verification working papers and report should be complete, however, and retained as part of the investigation record.

I look forward to reading the comments of my colleagues and the Director of Investigations on this draft report.

cc: The Commission
Director of Investigations
Secretary

COMMISSIONER



UNITED STATES INTERNATIONAL TRADE COMMISSION


WASHINGTON, D.C. 20436

April 25, 1990

CO67-N-029

MEMORANDUM

TO: Inspector General

FROM: Commissioner Don E. Newquist 

SUBJECT: Draft Report, "Review of Verification of
Report Data in Title VII Investigations"
(IG-N-027)

I agree with the comments of Commissioner Eckes (CO59-N-014) and the Director of the Office of Investigations (INV-N-030) regarding your Draft Report on the verification of questionnaire data in Title VII investigations. I gather from Attachment 1 to INV-N-030 that the Director of the Office of Investigations will proceed to clarify, and reemphasize the importance of adhering to, existing verification procedures. I do not believe, however, that the case has been made for revamping those procedures.

cc: The Commission
Director, Office of Investigations
General Counsel
Secretary

