Office of
INSPECTOR GENERAL

Audit Report

Audit of the USITC Financial Statements for Fiscal Years 1989 and 1990

Report No. IG-06-91

UNITED STATES INTERNATIONAL TRADE COMMISSION

July 1991

Date Issued

INSPECTOR GENERAL

UNITED STATES INTERNATIONAL TRADE COMMISSION

WASHINGTON, D.C. 20436

July 12, 1991

AUDIT OF THE USITC FINANCIAL STATEMENTS
FOR FISCAL YEARS 1989 AND 1990

The Budget and Accounting Procedures Act of 1950 states that agencies must establish and maintain systems of accounting and reporting that provide for: complete disclosure of the agency's financial results; adequate financial information for agency management and for formulation and execution of the budget; and effective control over revenue, expenditure, funds, property, and other assets.

In accordance with a Federal requirement that a detailed evaluation of agency financial systems shall be conducted on a cyclical basis, an audit of the USITC financial statements was conducted. The objectives of this audit were to issue an opinion as to the fairness of the USITC financial statements for the fiscal years ending September 30, 1990, and 1989 in presenting the financial condition and results of operations; a statement on the adequacy of internal controls; and a statement on compliance.

The audit was conducted by Cotton & Company in accordance with the Government Auditing Standards issued by the Comptroller General of the United States. The auditors expressed the following opinions.

- The balance sheets of the USITC as of September 30, 1990, and 1989, and the related statements of operations and changes in invested capital and changes in financial position for the years then ended, present fairly, in all material respects, the financial position of the USITC as of September 30, 1990, and 1989, and the results of its operations and changes in its financial position for the years then ended, in conformity with generally accepted accounting principles for Federal agencies (Attachment 1).

- No matters involving the internal control structure and its operation were considered to be material weaknesses, although certain matters involving the internal control structure and its operation are reported to USITC management in a separate letter (Attachments 2 and 4).

- For the items tested, USITC complied in all material respects with the provisions of applicable laws and regulations that could have a material effect on the financial statements. For the items not tested, nothing came to their attention that caused the auditors to believe that USITC had not complied, in all material respects, with such provisions (Attachment 3).

As a result of their review, the auditors suggested that the Office of Management Services 1) exclude from the fixed asset listing it furnishes to the Office of Finance and Budget all items valued at less than $5,000 (unless properly included in accordance with Federal guidance pertaining to grouped assets), and 2) prepare and retain a master property list of items on hand as of September 30, in addition to the fixed asset list to facilitate the financial audit and provide for ease of reconciliation in preparing the financial statements.

The Director of Administration concurred with the findings and suggestions. He recommended and we concur that implementation action on the first suggestion be deferred until the review of the property management system is completed. The Director's comments are presented in their entirety as an appendix to the report.

Jane E. Altenhofen

Jane E. Altenhofen
Inspector General

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UNITED STATES INTERNATIONAL TRADE COMMISSION

FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORT FOR THE YEARS ENDED SEPTEMBER 30, 1990, AND 1989

Prepared by:

Cotton & Company
Certified Public Accountants

UNITED STATES INTERNATIONAL TRADE COMMISSION
FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORT
FOR THE YEARS ENDED SEPTEMBER 30, 1990, AND 1989

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COTTON & COMPANY
CERTIFIED PUBLIC ACCOUNTANTS

100 SOUTH ROYAL STREET • ALEXANDRIA, VIRGINIA 22314 • (703) 836-6701 • TELECOPIER: (703) 836-0941

DAVID L. COTTON, CPA
CHARLES HAYWARD, CPA
BRENDA N. BURZENSKI, CPA
MICHAEL W. GILLESPIE, CPA
ROBERT L. FLESHER, CPA
KEVIN P. MCFADDEN, CPA
CATHERINE L. NOCERA, CPA
ELLEN P. REED, CPA

April 12, 1991

INDEPENDENT AUDITOR'S REPORT

The Commissioners
United States International Trade Commission

We have audited the accompanying balance sheets of the United States International Trade Commission (ITC) as of September 30, 1990, and 1989, and the related statements of operations and changes in invested capital and changes in financial position for the years then ended. These financial statements are the responsibility of ITC management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards and *Government Auditing Standards* (1988 revision), issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance that the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. It also includes assessing the accounting principles used and significant estimates made by management and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the United States International Trade Commission as of September 30, 1990, and 1989, and the results of its operations and changes in its financial position for the years then ended, in conformity with generally accepted accounting principles for Federal agencies.

This report is intended solely for the information and use of ITC management. This restriction is not intended to limit the distribution of the report, which, upon ITC acceptance, is a matter of public record.

COTTON & COMPANY

By: Ellen P. Reed for
Kevin P. McFadden, CPA

mbp

MEMBER: AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS, DIVISION FOR FIRMS

725 PELLISSIPPI PARKWAY • PELLISSIPPI CENTER • KNOXVILLE, TENNESSEE 37922 • (615) 675-5775 • TELECOPIER: (615) 675-5779
104 CARNEGIE CENTER • SUITE 214 • PRINCETON, NEW JERSEY 08543-7787 • (609) 951-9415

UNITED STATES INTERNATIONAL TRADE COMMISSION
BALANCE SHEETS
AS OF SEPTEMBER 30, 1990, AND 1989

ASSETS

	1990	1989
Current assets		
Obligated funds with U.S. Treasury	$ 3,449,084	$ 2,783,592
Receivables	28,607	27,354
Total current assets	$ 3,477,691	$ 2,810,946
Furniture, equipment, and leasehold improvements	9,094,077	8,593,944
Total assets	$12,571,768	$11,404,890

LIABILITIES AND U.S. GOVERNMENT EQUITY

	1990	1989
Current liabilities		
Accounts payable	$ 590,003	$ 508,920
Accrued payroll and benefits	1,460,752	1,416,864
Accrued unfunded annual leave and benefits	1,935,365	1,759,146
Total liabilities	$ 3,986,120	$ 3,684,930
Commitments and contingencies (Notes 4 and 6)		
U.S. Government equity		
Unexpended appropriations	$ 1,426,936	$ 885,161
Invested capital	7,158,712	6,834,799
Total U.S. Government equity	$ 8,585,648	$ 7,719,960
Total liabilities and U.S. Government equity	$12,571,768	$11,404,890

The accompanying notes are an integral part of these balance sheets.

UNITED STATES INTERNATIONAL TRADE COMMISSION
STATEMENTS OF OPERATIONS AND CHANGES IN INVESTED CAPITAL
FOR THE YEARS ENDED SEPTEMBER 30, 1990, AND 1989

	1990	1989
Appropriations expended and revenues	$37,034,057	$35,822,933
Expenses		
Salaries	$21,390,761	$20,052,715
Personnel benefits	3,674,629	3,294,629
Travel expenses	530,516	618,851
Rental and communications services	7,193,475	7,190,778
Other services	2,616,759	2,671,095
Printing and reproduction	193,444	228,073
Supplies and materials	639,696	760,501
Equipment	470,864	790,392
Total expenses	$36,710,144	$35,607,034
Appropriations expended and revenues in excess of expenses	$ 323,913	$ 215,899
Invested capital, beginning of fiscal year	6,834,799	6,618,900
Invested capital, end of fiscal year	$ 7,158,712	$ 6,834,799

The accompanying notes are an integral part of these statements.

UNITED STATES INTERNATIONAL TRADE COMMISSION
STATEMENTS OF CHANGES IN FINANCIAL POSITION
FOR THE YEARS ENDED SEPTEMBER 30, 1990, AND 1989

	1990	1989
Obligated funds with U.S. Treasury, beginning of fiscal year (Note 2)	$2,783,592	$4,480,873
Sources of funds:		
Excess of revenues over expenses	$ 323,913	$ 215,899
Increase in accounts payable	81,083	
Increase in accrued payroll	43,888	113,725
Increase in accrued leave	176,219	134,000
Increase in unexpended appropriations	541,775	
Decrease in receivables and advances		28,407
Total sources of funds	$1,166,878	$ 492,031
Use of funds:		
Increase in furniture, equipment, and leasehold improvements, net	$ 500,133	$ 349,897
Decrease in unexpended appropriations		1,631,076
Increase in receivables and advances	1,253	
Decrease in accounts payable		208,339
Total use of funds	$ 501,386	$2,189,312
Obligated funds with U.S. Treasury, end of fiscal year	$3,449,084	$2,783,592

The accompanying notes are an integral part of these statements.

UNITED STATES INTERNATIONAL TRADE COMMISSION
NOTES TO FINANCIAL STATEMENTS
AS OF SEPTEMBER 30, 1990, AND 1989

1. ORGANIZATION

The United States International Trade Commission (ITC) is an independent agency of the executive branch of the Federal Government created by an act of Congress. ITC conducts investigations and, where appropriate, makes determinations and recommendations or takes action in cases where trade practices are deemed unfair or injurious to United States industries. ITC is headed by six commissioners appointed by the President and confirmed by the U.S. Senate for 9-year terms. From among the commissioners, the President designates the chairman and vice chairman, who each serve 2-year terms.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

ITC's financial statements are presented on the accrual basis of accounting and prepared in accordance with Title 2, *GAO Policy and Procedures Manual for Guidance of Federal Agencies*, which is substantially equivalent to generally accepted accounting principles established by the Financial Accounting Standards Board and Government Accounting Standards Board, except for the nondepreciation and nonamortization of furniture, equipment, and leasehold improvements. ITC's fiscal year is October 1 to September 30.

Revenue Recognition--Expended and Unexpended Appropriations

Appropriations expended are recognized when expenses are incurred. Unexpended appropriations are recorded as equity of the U.S. Government.

Obligated Funds with the U.S. Treasury

Obligated funds with the U.S. Treasury represent all funds in the custody of the U.S. Treasury that are available for payment of items for which ITC has obligated itself. ITC's obligated balances are carried forward until goods or services are received and payment is made or until such time as the funds are deobligated.

Property and Equipment

Property and equipment additions are recorded at cost. Property and equipment transferred to ITC from other Federal agencies is stated at original cost in accordance with Title 2. Assets are carried at original cost until ITC disposes of them. Depreciation is not provided over the useful lives of the fixed assets.

Assets with no documentation supporting the original purchase price have been recorded at an estimate of their original cost.

Leasehold Improvements

As discussed in Note 4, ITC leases its office and storage facilities under cancelable agreements from the General Services Administration (GSA). The costs of leasehold improvements performed by GSA but financed by ITC are capitalized.

Accrued Unfunded Annual Leave and Benefits

Annual leave is accrued as it is earned, although it is not funded until taken. The accrual is relieved as leave is taken. Sick leave and certain other types of leave, which do not vest, are expensed as taken. Unfunded benefits represent the accrual for unfunded workers' compensation liability.

Invested Capital

Invested capital represents U.S. Government resources invested in furniture, equipment, and leasehold improvements, net of the accrued unfunded annual leave and benefits.

3. ACCOUNTING FOR INTERGOVERNMENTAL ACTIVITIES

Certain Federal agencies make financial decisions and report certain financial matters on behalf of the U.S. Government as a whole, including matters to which individual agencies may be an indirect party in interest. However, Federal agencies record or report only those Government-wide financial matters for which they are directly responsible and seek to identify financial matters with the department or agency that has been granted budget authority and resources to manage them.

The following summarizes financial matters that are either maintained or reported by other Federal agencies in which ITC is indirectly involved:

- Although ITC funds a portion of pension benefits for its employees under the Civil Service Retirement System (CSRS) and the Federal Employees Retirement System (FERS) and makes the necessary payroll withholdings, it is not responsible for contribution refunds, employee pensions, or the system's assets. It therefore does not disclose the assets of the CSRS or the FERS in its financial statements nor does it disclose actuarial data with respect to accumulated plan benefits or the unfunded pension liability relative to its employees. Reporting such amounts is the responsibility of the U.S. Office of Personnel Management.

- Certain legal matters to which ITC may be a named party are administered and, in some instances, litigated by other Federal agencies, and amounts to be paid under any decision settlement or award pertaining thereto are generally funded by those agencies. In most cases, tort claims, including personal injury claims, are administered and resolved by the U.S. Department of Justice, and any amounts necessary for resolution are obtained from a special fund maintained by the U.S. Treasury. Similarly, legal actions that may have a material effect on the financial statements brought by employees of ITC are covered by the Federal Employees Compensation Act, which is administered by the U.S. Department of Labor. The cost of administering, litigating, and resolving these legal matters, including payment of any damages, has not been allocated to individual Federal agencies.

4. LEASING ARRANGEMENTS

All office and storage space is leased through GSA, which is also a Federal agency. GSA charges ITC for the cost of the lease plus an administrative charge. Expenses for office space during 1990 and 1989 were $6,090,139 and $6,082,473, respectively.

All equipment leases in existence during 1990 and 1989 are cancelable annually. Lease terms run concurrent with ITC's fiscal year.

5. EMPLOYEE BENEFIT PLANS

ITC's employees are covered by the CSRS or the FERS. Under CSRS, ITC withholds 7 percent of the employees' gross earnings for retirement and 1.45 percent for Medicare. The employees' contribution is then matched by ITC. The 7 percent and ITC-matching funds are transferred to the Civil Service Retirement Fund, from which this employee group will receive retirement benefits; the 1.45 percent and matching funds are transferred to the Social Security Administration (SSA) from which employees will receive Medicare coverage.

Federal employees first hired on or after January 1, 1984, are covered by full Social Security and the FERS. ITC withholds full Social Security in addition to FERS withholdings described here; ITC also matches the employees' withholding, except for the limitation explained below for the Thrift Savings Plan. ITC withheld approximately 0.94 percent of gross earnings for FERS contributions to the Basic Benefit Plan in 1989; the withholding percentage was reduced to 0.83 percent for 1990. The FERS also has a tax-deferred savings plan, the Thrift Savings Plan, in which employees may participate. This allows employees to defer up to 10 percent of their salaries; ITC matches contributions up to 5 percent. Amounts withheld and matched by ITC are forwarded, as appropriate, to SSA, the FERS (managed by the Office of Personnel Management), or the Federal Retirement Thrift Investment Board.

6. COMMITMENTS AND CONTINGENCIES

ITC is committed under obligations incurred for goods or services ordered but not yet received. Aggregate orders not received at September 30, 1990, and 1989, reflected as unexpended appropriations in the accompanying financial statements, amounted to approximately $1.4 million and $0.9 million, respectively.

7. APPROPRIATIONS FOR 1991

Congress appropriated $38,477,000 and $35,958,000 to ITC for general operations for 1990 and 1989, respectively. Congress has appropriated $40,299,000 to ITC for Fiscal Year 1991.

8. RECONCILIATION TO BUDGET REPORTS

The Statement of Reconciliation to Budget Reports that follows is designed to serve two purposes. It reconciles expenses on the accrual basis to outlays reported to the U.S. Treasury by eliminating the impact of accrual transactions (i.e., through adjustments for increases or decreases in asset and liability accounts) and by adding or subtracting other transactions that impact outlays. The reconciliation also shows the relation of obligations and offsetting collections to outlays together with the impact of changes in the obligated fund balance. This format is designed to coincide with the budget activity reported by the U.S. Office of Management and Budget.

STATEMENT OF RECONCILIATION TO BUDGET REPORTS
FOR THE YEARS ENDED SEPTEMBER 30, 1990, AND 1989

	1990	1989
Relation of Expenses to Outlays		
Expenses	$36,710,144	$35,607,034
Adjustments		
Capital expenditures and increase in accounts receivable	205,497	548,960
Increase in liabilities, net of deposit funds	(301,190)	(39,386)
Transactions included/excluded from budget reports	375,058	10,744
Total cash outlays	$36,989,509	$36,127,352
Offsetting collections credited	27,923	0
Net outlays, per budget report	$36,961,586	$36,127,352
Relation of Obligations to Outlays		
Obligations incurred	$37,665,854	$35,410,921
Offsetting collections	(27,923)	0
Obligations incurred, net	$37,637,931	$35,410,921
Obligated funds with U.S. Treasury, October 1, 1989, and 1988	$ 2,783,592	$ 4,480,873
Obligated funds with U.S. Treasury, September 30, 1990, and 1989	(3,449,084)	(2,783,592)
Adjustments to unexpired accounts	(10,853)	(980,850)
Net outlays, per budget report	$36,961,586	$36,127,352

COTTON & COMPANY
CERTIFIED PUBLIC ACCOUNTANTS

100 SOUTH ROYAL STREET • ALEXANDRIA, VIRGINIA 22314 • (703) 836-6701 • TELECOPIER: (703) 836-0941

DAVID L. COTTON, CPA
CHARLES HAYWARD, CPA
BRENDA N. BURZENSKI, CPA
MICHAEL W. GILLESPIE, CPA
ROBERT L. FLESHER, CPA
KEVIN P. MCFADDEN, CPA
CATHERINE L. NOCERA, CPA
ELLEN P. REED, CPA

April 12, 1991

INDEPENDENT AUDITOR'S REPORT ON THE INTERNAL CONTROL STRUCTURE

The Commissioners
United States International Trade Commission

We have audited the financial statements of the United States International Trade Commission (ITC) for the years ended September 30, 1990, and 1989, and have issued our report thereon dated April 12, 1991.

We conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards* (1988 revision), issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance that the financial statements are free of material misstatement.

In planning and performing our audit of ITC's financial statements for the years ended September 30, 1990, and 1989, we considered its internal control structure to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control structure.

ITC's management is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles. Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

For the purposes of this report, we classified the significant internal control structure policies and procedures into the following categories:

MEMBER: AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS, DIVISION FOR FIRMS

725 PELLISSIPPI PARKWAY • PELLISSIPPI CENTER • KNOXVILLE, TENNESSEE 37922 • (615) 675-5775 • TELECOPIER: (615) 675-5779
104 CARNEGIE CENTER • SUITE 214 • PRINCETON, NEW JERSEY 08543-7787 • (609) 951-9415

purchasing, payroll, property management, and financial reporting. For all of these internal control structure categories, we obtained an understanding of the design of relevant policies and procedures, determined if they had been placed in operation, and assessed control risk.

Our consideration of the internal control structure would not necessarily disclose all matters that might be material weaknesses under standards established by the American Institute of Certified Public Accountants. A material weakness is a reportable condition in which the design or operation of one or more of the specific internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control structure and its operation, however, that we consider to be material weaknesses as defined above.

We did, however, note certain matters involving the internal control structure and its operation that we have reported to ITC management in a separate letter.

This report is intended solely for the information and use of ITC's management. This restriction is not intended to limit the distribution of the report, which, upon ITC acceptance, is a matter of public record.

COTTON & COMPANY

By: Ellen P. Reed for
Kevin P. McFadden, CPA

COTTON & COMPANY
CERTIFIED PUBLIC ACCOUNTANTS
100 SOUTH ROYAL STREET • ALEXANDRIA, VIRGINIA 22314 • (703) 836-6701 • TELECOPIER: (703) 836-0941

DAVID L. COTTON, CPA
CHARLES HAYWARD, CPA
BRENDA N. BURZENSKI, CPA
MICHAEL W. GILLESPIE, CPA
ROBERT L. FLESHER, CPA
KEVIN P. MCFADDEN, CPA
CATHERINE L. NOCERA, CPA
ELLEN P. REED, CPA

April 12, 1991

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH LAWS AND REGULATIONS

The Commissioners
United States International Trade Commission

We have audited the financial statements of the United States International Trade Commission (ITC) for the years ended September 30, 1990, and 1989, and have issued our report thereon dated April 12, 1991.

We conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards* (1988 revision), issued by the Comptroller General of the United States. These standards require that we plan and perform the audit to obtain reasonable assurance that the aforementioned financial statements are free of material misstatement.

Compliance with applicable laws and regulations is the responsibility of ITC management. As part of obtaining reasonable assurance that the financial statements are free of material misstatement, we performed tests of ITC's compliance with certain provisions of laws and regulations. Our objective was not, however, to provide an opinion on overall compliance with such provisions.

The results of our tests indicate that, for the items tested, ITC complied in all material respects with the provisions of applicable laws and regulations that could have a material effect on the financial statements. For the items not tested, nothing came to our attention that caused us to believe that ITC had not complied, in all material respects, with such provisions.

This report is intended solely for the information and use of ITC management. This restriction is not intended to limit the distribution of the report, which, upon ITC acceptance, is a matter of public record.

COTTON & COMPANY

By: Ellen P. Reed for
Kevin P. McFadden, CPA

MEMBER: AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS, DIVISION FOR FIRMS
725 PELLISSIPPI PARKWAY • PELLISSIPPI CENTER • KNOXVILLE, TENNESSEE 37922 • (615) 675-5775 • TELECOPIER: (615) 675-5779
104 CARNEGIE CENTER • SUITE 214 • PRINCETON, NEW JERSEY 08543-7787 • (609) 951-9415

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CERTIFIED PUBLIC ACCOUNTANTS

100 SOUTH ROYAL STREET • ALEXANDRIA, VIRGINIA 22314 • (703) 836-6701 • TELECOPIER: (703) 836-0941

DAVID L. COTTON, CPA
CHARLES HAYWARD, CPA
BRENDA N. BURZENSKI, CPA
MICHAEL W. GILLESPIE, CPA
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ELLEN P. REED, CPA

April 12, 1991

The Commissioners
United States International Trade Commission

In planning and performing our audits of the United States International Trade Commission's (ITC) financial statements for the years ended September 30, 1990, and 1989, we considered its internal control structure in determining our audit procedures for the purpose of expressing our opinion on the financial statements. Although our purpose was not to provide assurance on the internal control structure, certain matters came to our attention that we want to report to you for your consideration. These matters, together with our suggestions, are described on the accompanying page.

These matters were discussed with the appropriate ITC management personnel. Their written comments are included as an attachment to this letter.

This letter is intended solely for the information and use of ITC management.

We would like to express our appreciation to ITC representatives who assisted us in completing our audits. As always, they were courteous and professional in their dealings with our staff.

Very truly yours,

COTTON & COMPANY

By: Ellen P. Reed for
Kevin P. McFadden, CPA

Fixed Asset Reporting

ITC maintains a fixed asset list to support capitalized asset amounts included in the financial statements. This listing is generated from a data base that also includes personal property being accounted for as part of ITC's property management system. The fixed-asset listing includes items valued at well below the $5,000 capitalization threshold included in Title 2, *GAO Policy and Procedures Manual for Guidance of Federal Agencies*.

ITC staff advised us that the agency currently recognizes the GAO criteria, but includes items valued at less than $5,000 on the fixed-asset listing, because they were added in the past when a lower criterion was followed. Many of these items should be included in the property management system, because they exceed ITC's $300 property accountability threshold. It is neither necessary nor cost effective, however, to continue to include these items on the fixed-asset listing.

We suggest that the Office of Management Services (OMS) exclude from the fixed asset listing it furnishes to the Office of Finance and Budget (OFB), all items valued at less than $5,000 (unless properly included in accordance with GAO Title 2, Section P40.08 pertaining to grouped assets).

Reconciliation of Fixed Asset List to Master Property List

As described above, ITC maintains a data base as part of its property management system. Shortly after the close of the fiscal year, OMS provides OFB with a list of capitalized fixed assets on hand as of September 30. As part of our audit, we were provided a master property list to test the September 30, 1990, fixed-asset list for completeness; this master list was dated January 10, 1990. This comparison would be easier and more meaningful if the master property list coincided with the fixed-asset list.

This practice did not cause the account balance to be misstated. To facilitate the financial audit and provide for ease of reconciliation in preparing the financial statements, however, we suggest that OMS prepare and retain a master property list of items on hand as of September 30, in addition to the fixed-asset list.

Commission Comments

The Office of Administration concurred with the above suggestions. With respect to fixed asset reporting, it recommended that implementation action be suspended pending the results of the Inspector General's property management system review.

Appendix

AD-O-393

UNITED STATES INTERNATIONAL TRADE COMMISSION

WASHINGTON, DC 20436

June 17, 1991

MEMORANDUM

TO: Inspector General

FROM: Director, Office of Administration

SUBJECT: Draft Report: "Audit of the USITC Financial Statements for Fiscal Years 1989 and 1990"

As requested by your memorandum dated May 20, 1991 (IG-O-048), submitted herewith is the Office of Administration's response to the subject draft audit report issued in May 1991. In accordance with Section 11 of the USITC Directive 1701, the Commissioners have had an opportunity to comment on the response and the Acting Chairman has approved it.

Our response is attached. Please call me at 252-1131 if you have any questions.

Attachment

cc: Commission
Director, Office of Finance and Budget
Director, Office of Management Services

Audit of the Financial Statements for Fiscal Years 1989 and 1990"

(DRAFT Inspector General report dated 5/20/91)

The audit's Attachment 4, constituting a management letter to the USITC Commissioners, contains two suggestions from the firm Cotton & Company. The Office of Administration's comments on these suggestions are as follows:

1. Fixed asset reporting: "We suggest that the Office of Management Services (OMS) exclude from the fixed asset listing its furnishes to the Office of Finance and Budget (OFB), all items valued at less than $5000 (unless properly included in accordance with GAO Title 2, Section P40.08 pertaining to grouped assets)."

   The Office of Administration concurs with this suggestion. However, it is recommended that implementation action be postponed until the results of Inspector General's review of the ITC Property Management System has been completed (the final report is currently scheduled for 9/25/91). We expect that further observations will be made in that audit concerning the manner in which property should be tracked.

2. Reconciliation of fixed asset list to master property list: "...the master property list (should) coincide (d) with the fixed asset list."

Agree. The two lists will be prepared as of September 30 of each year in the future.