

Office of
INSPECTOR GENERAL

Semiannual Report

October 1, 1991 — March 31, 1992



April 1992

Date Issued



UNITED STATES INTERNATIONAL TRADE COMMISSION

WASHINGTON, D.C. 20436

April 30, 1992

**OFFICE OF INSPECTOR GENERAL
SEMIANNUAL REPORT**

TO THE COMMISSION AND THE UNITED STATES CONGRESS

It is my pleasure to submit this Semiannual Report which summarizes the major activities and accomplishments of the Office of Inspector General (OIG), U.S. International Trade Commission for the period October 1, 1991, through March 31, 1992. The submission of this report is in accordance with the Inspector General Act of 1978, as amended. Section 5 of the Act requires that the Chairman transmit this report to the appropriate committees or subcommittees of the Congress within 30 days of its receipt.

During this period, the OIG issued one audit report on property management. The auditors identified two material weaknesses as defined by AICPA standards and could not conclude that information regarding all items in the property management system is appropriately recorded and that all property is accounted for. Unaccounted for property was extensive including one list of 42 computer pages of equipment and another list of items valued at over \$1 million. Management officials generally agreed with the findings and recommendations about the property system although they did not concur with our concern about the severity of the problem. The corrective actions were scheduled to be completed in February 1992 but have been deferred due to other priorities. We believe the problems will only be exacerbated by delay as more property is acquired and/or moved and urge that our recommendations be implemented as expeditiously as possible.

The OIG also completed seven inspections this period and issued reports. Three of the inspections, those on the Federal Managers' Financial Integrity Act, Lobbying Activities, and Advisory and Assistance Services, are reviews that must be done in the first half of every fiscal year. The timing of these inspections may result in a pattern of a large number of inspection reports in relationship to audit reports in the first semiannual report of each fiscal year.

A significant amount of time was devoted to conducting investigations this period. In addition to the criminal investigation carried forward from the last period, five new investigations were initiated. We appreciate the Commission's support in approving the hire of an attorney-advisor to assist in conducting these investigations as well as providing legal advice.

Efforts continued this period to obtain timely completion of agreed upon actions. Actions were completed on two of the oldest reports and more attention and advance planning is being devoted to other reports with open recommendations. With continued diligence this period, we may not have to identify any reports as having open recommendations for over a year as of September 30, 1992.

The Commission has experienced several staffing changes this reporting period. As a result of the changes, we would like to acknowledge the new Chairman of the Commission and welcome aboard the three new Commissioners who were confirmed in November 1991.

As always, I look forward to working with the Commissioners and the Commission staff in the future.

A handwritten signature in cursive script, reading "Jane E. Altenhofen".

Jane E. Altenhofen
Inspector General

COMMISSION PROFILE

The Commission is a quasi-judicial, independent, nonpartisan agency established by Congress with broad investigative powers on matters of trade. The Commission has a unique mission to develop factual, objective research and information on a wide variety of matters pertaining to international trade. Major Commission activities include: determining whether U.S. industries are materially injured by imports sold at less than fair value or benefiting from subsidies; conducting studies on tariff and trade issues; and participating in the development of uniform statistical data on imports, exports, and domestic production and the establishment of an international harmonized commodity code.

The Commission conducts investigations under several statutory provisions, generally upon petition or complaint, with respect to the impact of imports on U.S. industries. The Commission also provides advice and information, upon request, to the President and the Congress on tariff and trade matters. When appropriate, the Commissioners conduct public hearings and evaluate testimony and other information in making findings and recommendations. Decisions of the Commissioners under certain statutory provisions administered by the Commission are binding and subject to judicial review.

The Commission has six Commissioners, appointed by the President and confirmed by the Senate, who serve one term of nine years, unless appointed to fill an unexpired term. The Chairman is designated by the President and serves a two-year statutory term. No more than three Commissioners may be of the same political party and the term of a Chairman shall not be succeeded by a Chairman of the same political party.

During this period, several changes in the composition of the Commission occurred. In November 1991, the Senate confirmed the appointments of three individuals to become Commissioners. Commissioner Carol T. Crawford will serve the remainder of the term expiring June 16, 1999. Commissioner Janet A. Nuzum will serve the remainder of the term expiring June 16, 1996. Commissioner Peter S. Watson will serve a term expiring December 16, 2000. The Commission said farewell to Commissioner Seeley G. Lodwick whose term expired in December. Finally, a new Chairman, Don E. Newquist, was designated. All six positions on the Commission are filled, for the first time since June 14, 1990.

The Commission has a single salaries and expense appropriation in the amount of \$42,434,000 for Fiscal Year (FY) 1992. Approximately 70% of the Commission's appropriation is allocated to personnel compensation and benefits, reflecting the labor intensive nature of the Commission's mission. In addition, approximately 16% of the appropriation was allocated for space rental. The balance of expenses consisted primarily of communications, travel, supplies, equipment, and other services.

The Commission has an approved staffing level of 502 permanent positions in FY 1992. All of its employees are located in one building at 500 E Street, S.W., Washington, D.C.

THE OFFICE OF INSPECTOR GENERAL

The Commission established the OIG pursuant to the Inspector General Act Amendments of 1988 (P.L. 100-504). The Inspector General reports directly to the Chairman as head of the agency, subject to the limitations of section 331 of the Tariff Act of 1930 (19 U.S.C. 1331). The Inspector General is responsible for directing and carrying out audits, investigations and inspections relating to Commission programs and operations; and for recommending and commenting on proposed legislation, regulations and procedures as to their economy, efficiency and effectiveness. Certain information and statistics that are required by section 5(a) of the Inspector General Act to be included in the Semiannual Reports are summarized in Attachment A.

RESOURCES

FY 1992

The OIG was allocated four staff years and \$450,000. This provided funding for three full-time permanent positions - the Inspector General, a staff auditor and a staff assistant. The fourth staff year is reserved for temporary staffing needs.

The staff assistant assigned to the OIG accepted a promotion to a Commissioner's office effective January 13, 1992. A new staff assistant was hired effective March 16, 1992. In the interim, contract labor from a temporary help service was utilized. The Chairman approved the hire of a part-time temporary attorney-advisor to assist in OIG investigations and provide independent legal advice to the OIG. An attorney-advisor was hired effective February 18, 1992.

The OIG's budget allocation includes \$50,000 for contract audit services. An audit firm was awarded funds to conduct two reviews during FY 1992.

The Inspector General continues to receive support from the Offices of General Counsel (on a limited basis) and Personnel in accordance with the Memoranda of Understanding.

AUDIT ACCOMPLISHMENTS

Audits and Reviews One report was issued during this period on an Audit of Property Management. The audit report is summarized in the following section on significant findings and in Attachment B.

Efforts ongoing as of March 31, 1992, included:

- Review of the Commission's Workers' Compensation Program;
- Review of Harmonized System and Other Nomenclature and Classification Activities;
- Review of Space Utilization Charges; and
- Review of USITC's Local Area Network Administration and Controls.

Significant Findings

An audit of the Commission's property management was conducted to evaluate property management policy and procedures to identify any areas of non-compliance, improvements to internal controls, or increased efficiency. We found that the Commission's property management policy and procedures generally provide adequate guidance. However, the implementation of the policy and procedures was lacking to such an extent that the auditors could not conclude that information regarding all items in the property management system is appropriately recorded and that all property is accounted for.

The findings of material weaknesses in accordance with AICPA standards were:

1. A large amount of property, over \$1 million, is recorded on the master property list with location codes that do not represent actual physical locations. These location codes are assigned when there is disagreement about the location of an item of property. The accountability trail for these items has been broken and their exact locations are unknown.
2. Property pass procedures are not always followed. Some property passes did not identify to whom the pass was issued and others were not signed by the authorized individuals. Furthermore, the security guards at the main entrance to the Commission do not always inspect packages or request to see property passes.

In addition to the above weaknesses, the auditors identified numerous other conditions in the inventory process, property transfer and disposal, and general property management that require management's attention.

Although the property management system has serious internal control weaknesses, the auditors did not believe they constitute a material weakness as defined by the Federal Managers' Financial Integrity Act. This opinion is consistent with the auditors' conclusion that the entire property management system was not inadequate and the clean opinion in the auditors' report on the FYs 1989 and 1990 financial statements.

Recommendations regarding the findings of material internal control weaknesses are, in part:

- o Verify the existence and exact location of all property on the master property list, update the list, and ensure accountability is established; and
- o Ensure that all personnel authorized to sign property passes are aware of how to properly complete the pass and that guards are following established procedures.

Management generally agreed with the findings and recommendations although they did not concur with our concern about the severity of the problem. The corrective actions were scheduled to be completed in February 1992 but have been deferred due to other priorities. We believe this problem will only be exacerbated by delay as more property is acquired and/or moved and urge that our recommendations be implemented as expeditiously as possible.

**Audit
Followup**

The prior Semiannual Report identified four audit reports for which the agreed upon actions had not been completed for over a year. The agreed upon actions were completed on three of these reports during the current period.

Action has still not been completed on the fourth report entitled, Review of Personnel Management Functions and Activities, Report No. IG-06-90, dated September 21, 1990. This report has numerous recommendations and required an extensive revision of Commission policy and procedures. Management is actively working on the agreed upon actions which are scheduled to be completed in the current reporting period.

One additional report, review of Budget Formulation, Report No. IG-01-91, dated November 20, 1990, has some recommendations for which the agreed upon actions have not been completed for over a year. Similar to the prior report, the agreed upon actions require that policies and procedures be revised and this process is taking significantly longer than expected.

Looking ahead to the next reporting period, there are two reports that require policies and procedures to be revised in order for action to be completed within a year. These are the Audit of Procurement Policies and Procedures within the USITC, Report No. IG-08-91, and the Review of USITC Equal Employment Opportunity Program, Report No. IG-07-91. The revised policies and procedures have been drafted for both reports. However, based on the past two years experience, the drafts need to be aggressively pursued now in order to be issued by September 30, 1992.

INSPECTIONS

Reports Issued

During this period, seven inspections were completed and the following reports were issued:

1. Cash Counts of USITC Imprest Funds
2. Compliance with Requirements of P.L. 101-121 on Lobbying Activities
3. Quarterly Review of Travel Expenditures
4. Review of USITC's Compliance with the Federal Managers' Financial Integrity Act of 1982
5. Advisory and Assistance Services and Data Provided to the Federal Procurement Data System
6. Cash Counts of USITC Imprest Funds
7. Quarterly Review of Travel Expenditures

The inspections had no significant findings, although various suggestions were made to improve internal controls. See Attachment C for a summary of the inspection findings.

FRAUD, WASTE AND ABUSE

Investigations A summary of investigative activity is presented below:

Open 9/30/91	1
Initiated	<u>5</u>
Total	6
Closed	<u>1</u>
Open 3/31/92	5

The investigation of a contractor initiated in a prior period and referred to the Department of Justice and the U.S. Attorney's Office for action is still under investigation by the Federal Bureau of Investigation.

An investigation was initiated concerning the Leave Without Pay (LWOP) status of an employee. Even though the circumstances of the LWOP did not meet the guidelines issued by the Office of Personnel Management, we concluded the LWOP was properly approved because the circumstances met the very broad Commission policy. This case is open pending the revision of Commission policy to reflect the guidelines.

Three other investigations were initiated and are ongoing. One concerns the destruction of confidential business information submitted to the Commission. Another is a complaint concerning the classification review process and possible discrimination. The third case concerns the provision of technical assistance to a business.

We also initiated and closed an investigation of a security breach in which a facility storing confidential business information and sensitive material was left unlocked. No compromise or loss of material was identified. The individual responsible, his supervisor and his organization were immediately censured and sensitized to the seriousness of the breach.

Hotline

The OIG designed posters to publicize the Hotline. Copies of the OIG Hotline poster were placed on bulletin boards located in the galleys on floors 1 through 7 and also in the lunch room on the 4th floor on November 18, 1991. A copy of the poster is located on the last page of this report.

**Review of
Legislation,
Regulations,
Directives**

As set forth in the Inspector General Act, a duty and responsibility of the Inspector General is to review existing and proposed legislation and regulations relating to programs and operations of the Commission. The OIG reviewed draft legislation concerning the Trade Remedy Assistance Office documents and liability. The OIG did not have any recommendations based on this review concerning the impact of such legislation or administration of programs and operations administered or financed by the Commission or the prevention and detection of fraud and abuse in such programs and operations.

The Inspector General also has the responsibility to review all proposed Commission directives to evaluate the impact new or revised procedures will have on the efficiency of operations and to minimize the potential for fraud or abuse. Ten directives were reviewed during this period.

The Inspector General also revised the OIG's office directive on audit and inspection policies and procedures. The directive was revised to strengthen existing policy and procedures for the OIG to conduct audits and inspections of Commission organizational elements.

LIAISON ACTIVITIES

PCIE The President's Council on Integrity and Efficiency (PCIE) was established in 1981 to coordinate and implement Government-wide activities to combat fraud and waste in Federal programs and operations and to promote economy and efficiency. The Inspector General has been an active member of the PCIE Designated Inspectors General. She is currently a member of the PCIE Joint Task Force of Agency Head and Presidentially appointed Inspectors General to identify and analyze issues of concern to the 34 agencies with designated Inspectors General.

General Accounting Office The Inspector General Act states that each Inspector General shall give particular regard to the activities of the Comptroller General of the United States with a view toward avoiding duplication and ensuring effective coordination and cooperation. A summary of the General Accounting Office (GAO) reviews that include Commission activities follows:

Ongoing Reviews 10/01/91	4
Reviews Initiated	<u>2</u>
Total	6
Reviews Completed	<u>2</u>
Ongoing Reviews 3/31/92	4

Two reviews were initiated during this period. These are entitled:

- Review of Patent and Trademark Protection for U.S. Products in Japan; and
- Study of the Current Status of Ukrainian Energy Exports.

GAO issued reports on two reviews completed during this period. These are:

- INTERNATIONAL TRADE COMMISSION Administrative Authority is Ambiguous; and
- INTERNATIONAL TRADE Priority Trade Damage Estimates Could Have Been Developed.

These reports included no recommendations to the Commission. The first report did present options to Congress for consideration.

**INFORMATION REQUIRED BY SECTION 5(a)
OF THE INSPECTOR GENERAL ACT**

Certain information and statistics that are required by section 5(a) of the Inspector General Act to be included in the Semiannual Reports are set forth below:

- The OIG identified significant problems and deficiencies in the Audit of Property Management. The significant findings and recommendations for corrective action are discussed in the section on audit accomplishments.
- The one audit report issued during this period included no recommendations on questioned costs or funds that could be put to better use.
- Corrective action has not been completed on all significant recommendations which were described in the previous semiannual reports. Recommendations were made to address material internal control weaknesses related to time and attendance and payroll processing. The status of these recommendations are discussed in the section on audit followup.
- There were no prosecutions or convictions.
- No reports were made to the Chairman that information or assistance requested by the Inspector General were unreasonably refused or not provided.

SUMMARY OF THE AUDIT REPORT

TITLE: AUDIT OF PROPERTY MANAGEMENT

REPORT NUMBER: IG-01-92

REPORT DATE: November 27, 1991

FINDINGS: The objectives of this audit were to evaluate property management policy and procedures to identify any areas of non-compliance, improvements to internal controls, or increased efficiency. The auditors found two conditions in the system of internal accounting control over property management that they considered to be material weaknesses in accordance with AICPA standards. The findings of material weaknesses were:

- A large amount of property is recorded on the master property list with location codes that do not represent actual physical locations. These location codes are assigned when the Property Management Officer (PMO) and the Accountable Officer (AO) disagree about the location of an item of property. The property, valued at over \$1 million, includes computer equipment currently in use as well as outmoded word processors scheduled for disposal. The accountability trail for these items has been broken and their exact locations are unknown.
- Property pass procedures are not always followed. Some property passes, primarily for property used as exhibits in cases, did not identify to whom the pass was issued and others were not signed by authorized individuals. Furthermore, the security guards at the main entrance to the Commission do not always inspect packages or request to see property passes.

In addition to the above weaknesses, the auditors identified numerous other conditions in the inventory process property transfer and disposal, and general property management, that require management's attention.

Although the property management system has serious internal control weaknesses, the auditors did not believe they constitute a material weakness as defined by the Federal Managers' Financial Integrity Act. This opinion is consistent with the auditors' conclusion that the entire property management system was not inadequate and the clean opinion in the auditors' report on the FYs 1989 and 1990 financial statements.

RECOMMENDATIONS: We recommended that the Director, Office of Administration implement the report recommendations, giving priority to the actions needed to correct the material weaknesses identified. Recommendations regarding the findings of material internal control weaknesses, are:

- The PMO should verify the existence and exact location of all property on the master property list, update the list, and ensure that AOs are knowledgeable of procedures and should establish a schedule for timely entry of all property-related transactions into the property management system.
- The Chief, Operations Branch, Office of Management Services should ensure that all personnel authorized to sign property passes are aware of how to properly complete the pass and that guards are following established procedures.

The Director, Office of Administration agreed to take corrective action on all recommendations.

SUMMARY OF INSPECTION REPORTS

INSPECTION REPORT:

FINDINGS:

No. 1-92
**Cash Counts of USITC
Imprest Funds**
October 23, 1991

The imprest funds were in balance with the exception of two foreign coins.

No. 2-92
**Compliance with Requirements
of Public Law 101-121 on
Lobbying Activities**
November 1, 1991

Adequate steps had been taken to implement the law on lobbying activities and recommendations from the prior year's audit report.

No. 3-92
**Quarterly Review of
Travel Expenditures**
December 20, 1991

Travel was properly recommended, approved and authorized by the appropriate officials. However, the signatures were frequently in the wrong blocks on the authorizations.

No. 4-92
**Review of USITC's Compliance
with the Federal Managers'
Financial Integrity Act
of 1982**
December 30, 1991

The evaluation of the system of internal control was carried out in a reasonable and prudent manner in the Commission for fiscal year ended September 30, 1991.

No. 5-92
**Advisory and Assistance
Services and Data Provided
to the Federal Procurement
Data System**
January 8, 1992

The Commission followed management and accounting controls over advisory and assistance services.

No. 6-92
**Cash Counts of USITC
Imprest Funds**
January 16, 1992

The imprest funds were in balance.

No. 7-92
**Quarterly Review of Travel
Expenditures**
March 12, 1992

Nearly half of the vouchers reviewed had no justification for use of non-contract carriers. An additional 20% of the vouchers did not use the required form to justify the use of non-contract carriers.

If you suspect fraud, abuse, or other misconduct at the USITC, please call:

OFFICE OF INSPECTOR GENERAL

HOTLINE

202-205-2217



**This number is available 24 hours a day. The Hotline is answered by
OIG staff during duty hours and during nonduty hours a recorder is
used. If you prefer, you may send written complaints to:**

**U.S. International Trade Commission
Office of Inspector General
Room 220
500 E Street, S.W.
Washington, D.C. 20436**

Anyone submitting information may remain anonymous.

