

Office of INSPECTOR GENERAL

Semiannual Report

April 1 – September 30, 1990



October 1990

Date Issued

INTRODUCTION

This Semiannual Report summarizes the major activities and accomplishments of the Office of Inspector General (OIG), U.S. International Trade Commission for the six-month period from April 1 through September 30, 1990. It is issued pursuant to the Inspector General Act of 1978, as amended, (hereafter referred to as the IG Act).

COMMISSION PROFILE

Mission 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.

The Commission conducts investigations under several statutory provisions, generally upon petition or request, 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. The Commission is headed by six Commissioners, nominated by the President and confirmed by the Senate, who serve 9-year terms. When appropriate, the Commissioners conduct public hearings and evaluate testimony and other information in making findings and recommendations. Decisions of the Commissioners under certain of the statutory provisions administered by the Commission are binding and subject to judicial review.

Activities Commission activities include:

- Making recommendations to the President regarding relief for industries seriously injured by increasing imports;
- Determining whether U.S. industries are materially injured by imports sold at less than fair value or benefiting from subsidies;
- Directing actions, subject to Presidential disapproval, against unfair trade practices such as patent infringement;



UNITED STATES INTERNATIONAL TRADE COMMISSION

WASHINGTON, D.C. 20436

October 31, 1990

OFFICE OF INSPECTOR GENERAL
SEMIANNUAL REPORT

TO THE COMMISSION AND THE UNITED STATES CONGRESS

I am pleased to submit this Semiannual Report which summarizes the major activities and accomplishments of the Office of Inspector General (OIG), U.S. International Trade Commission from April 1 through September 30, 1990. Section 5 of the Inspector General Act of 1978, as amended, 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 conducted several audits of major Commission functions and an extensive investigation. One audit, the Review of Personnel Management Functions and Activities, identified a material weakness in the time and attendance and payroll systems of controls. Corrective action has been taken or planned on many of the weaknesses identified.

I would like to acknowledge the Commission's support in providing resources necessary for the OIG to accomplish its mission. In addition to the two permanent full-time staff, the Commission provided authorization and funding for several temporary employees and for contract services in Fiscal Year (FY) 1990. A third permanent full-time position for an auditor was approved by the Commission in the FY 1992 budget request.

I would also like to express my appreciation to the members and employees of the Commission for their support and cooperation in the conduct of audits and investigations. I look forward to working with them in the future in our mutual efforts to improve the Commission's programs and operations.


Jane E. Altenhofen
Inspector General

- Advising the President whether imports interfere with agricultural price-support programs;
- Conducting studies on trade and tariff 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.

Resources

The Commission had a single salaries and expense appropriation in the amount of \$38,477,000 for Fiscal Year (FY) 1990. Approximately 70% of the Commission's appropriation was dedicated 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 had an approved staffing level of 502 permanent positions in FY 1990. 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 (or Acting Chairman) as head of the agency, subject to the limitations of section 331 of the Tariff Act of 1930 (19 U.S.C. 1331). An organization chart for the Commission as of December 31, 1989, which shows the relationship of the OIG to the other offices, is presented as Attachment A.

The Inspector General is responsible for directing and carrying out audits and investigations relating to Commission programs and operations; and for recommending and commenting on proposed legislation, regulations and procedures as to their economy, efficiency and effectiveness. The functions of the OIG are listed in Attachment B.

RESOURCES

FY 1990

The OIG was allocated three staff years and \$199,500. This provided funding for two full-time permanent positions - the Inspector General and a staff assistant. The third staff year was for hiring temporary staff.

Various temporary staff members have been hired to supplement the OIG resources. An auditor from the Department of Commerce was assigned on November 27, 1989, for a six-month reimbursable detail which terminated on May 26, 1990. An attorney-advisor was hired for a temporary assignment from March 5 to September 30, 1990. A graduate-level student was employed as an audit assistant from May 21 through August 17, 1990. An auditor was hired for six months beginning July 23, 1990, and is currently the only temporary staff on board.

The OIG's budget allocation included \$52,000 for contract audit services. A contract was awarded on February 16, 1990, to an audit firm capable of performing financial and performance audits. The firm conducted two reviews during the current reporting period.

The Inspector General has also signed Memoranda of Understanding (MOUs) with the General Counsel and Director of the Office of Personnel to record and

codify the working relationships between their Offices. These agreements recognize the independence of the Inspector General, while providing the OIG with the means to obtain competent and timely legal advice from the General Counsel's Office upon request, and to obtain services from the Office of Personnel. Both offices provided support to the OIG in FY 1990 by responding to requests for advice and assistance.

FY 1991

In the current budget process, the OIG requested total resources of \$302,000 for FY 1991. This would provide funding for:

- three full-time permanent positions - the Inspector General, a staff assistant and an auditor position;
- temporary staff to perform legal and investigative functions as needed;
- contract services for audits; and
- travel and training.

At this time, the Commission has not approved a FY 1991 expenditure plan.

AUDIT ACCOMPLISHMENTS

Audits and Reviews

The FY 1990 Audit Work Plan provided for a mix of programmatic, financial, and administrative audits.

Four audits were completed and the reports issued during this period. These were:

1. Review of Verification of Report Data in Title VII Investigations;
2. Review of the Use of Copy Machines by Non-USITC Personnel;
3. Review of Personnel Management Functions and Activities; and
4. Review of USITC's Information Security Program.

Each of these audit reports is summarized in Attachment C.

Efforts ongoing as of September 30, 1990, included:

- Review of Budget Formulation and Execution; and
- Review of Controls in the Development of Section 332 Reports.

Significant Findings

For the purposes of the Semiannual Report, the Inspector General has defined significant findings as those findings that are classified as material weaknesses. As defined in guidance for the Federal Managers' Financial Integrity Act, a material weakness is a violation of statutory or regulatory requirements or conditions which significantly weaken safeguards against waste, loss, unauthorized use or misappropriation of funds. Only one report issued this period included a significant finding of a material weakness.

A Review of Personnel Management Functions and Activities was scheduled because approximately 70% of the Commission's appropriation is dedicated to personnel compensation and benefits annually. The auditors' findings fell into three broad categories: personnel - involving the employment of an individual, payroll - involving the overall agency process, and time and attendance - reporting the time worked and absences for an employee. The results of their review are presented in more detail in Attachment C, pages 4 and 5 of this report.

In brief, the auditors found that the system of internal accounting control was sufficient to meet the objectives of the personnel system but the systems of internal accounting control related to time and attendance and payroll processing were not sufficient. In their opinion, the conditions identified constituted a "material weakness".

The findings concerning time and attendance include: time sheets did not accurately reflect actual time charges and sometimes were not properly signed by employees; complete supporting documentation was not always maintained for court and military leave; overtime was occasionally not properly documented, authorized or reported; and compensatory time and credit hours were not always properly recorded or

controlled. Findings on the payroll process include: maintenance of supporting documentation at the payroll processing center rather than at the Commission; inadequate separation of time and attendance duties in some cases; and a need for improved policies and procedures and more coordination with the payroll processing center.

Multiple recommendations to improve the controls over time and attendance and the payroll processes, also presented in Attachment C, pages 4 and 5, were discussed at the exit conference and included in the draft audit report. The Director of Administration immediately began to take action on some of the recommendations. His plans to implement corrective action for the other recommendations with which he agreed were submitted with his response to the draft audit report.

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

- The OIG identified significant problems and deficiencies in the Review of Personnel Management Functions and Activities relating to time and attendance and payroll policies and procedures. The significant findings and recommendations for corrective action are discussed in the prior section.
- The four audit reports issued during this period include no recommendations on questioned costs or funds that could be put to better use.
- There are no significant recommendations which have been previously described in earlier Semiannual Reports and on which corrective action has not been completed.
- No matters were referred to prosecutive authorities, nor were there any prosecutions or convictions, in the reporting period.
- No reports were made to the Chairman that information or assistance requested by the Inspector General was unreasonably refused or not provided.

FRAUD, WASTE AND ABUSE

Resources The OIG does not have any full-time investigators at this time. The OIG had hired an attorney-advisor, on a temporary appointment that terminated on September 30, 1990, who assisted in defining the roles and responsibilities of the OIG regarding investigations under the IG Act. This attorney-advisor also assisted in conducting investigations.

Policies The OIG recently developed and implemented policies and procedures for investigations. These procedures were issued to all Commission employees in the form of a directive which sets forth the mechanisms through which the OIG will detect and prevent fraud, waste and abuse and report on its findings.

At the Inspector General's request, guidance governing the issuance of Commission directives was revised to require review and clearance by the OIG. As a result, the OIG has reviewed ten directives during the reporting period to determine their impact on the Commission's programs and operations.

The Inspector General also established policies, in an internal office document, for the issuance of subpoenas. The policies include criteria for determining when such issuances will be necessary and appropriate.

Privacy Act The Inspector General determined that it was necessary to create two systems of records compiled for the purpose of enforcing criminal and civil laws in the course of investigations. Both systems of records would be subject to the requirements of the Privacy Act of 1974, as amended. The process of creating the systems, notifying the public of their existence and establishing certain exemptions from the Act was completed in September and the Final Notice and Rule were published in the Federal Register on October 3, 1990.

**Investiga-
tions** The OIG initiated two investigations during the reporting period. The first investigation was initiated as a result of findings developed during the Review of Personnel Management Functions and Activities concerning claims for overtime and compensatory time. The investigation has been closed with no recommendation for prosecutive or administrative action.

The second investigation was initiated after receiving a written complaint of possible fraud, waste or abuse. The case concerns travel and is ongoing.

**Review of
Legislation
and
Regulations**

As set forth in the IG 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. On June 13, 1990, the Chairman issued an Administrative Order requiring all offices to provide copies of any proposed amendments to the Commission's Rules of Practice and Procedure and any proposed legislative amendments or legislative language to Congress to the OIG for review and comment. The OIG established internal policies and procedures for the review of legislation and regulations.

During the reporting period, the OIG did not have any recommendations based on these reviews concerning the impact of such legislation or regulations on the economy and efficiency in the 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.

AUDIT RELATED 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 to promote economy and efficiency. The Inspector General has been an active member of the PCIE's Coordinating Conference. The Inspector General is the representative for the Coordinating Conference to the PCIE Standards Subcommittee of the Audit Committee; and is a member of the Coordinating Conference's Task Force developing an Audit Manual for use by the 33 designated agencies.

General
Accounting
Office

The IG 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 is presented below.

Ongoing Reviews 3/31/90	5
Reviews Initiated	<u>6</u>
Total	11
Reviews Completed and Reports Issued	<u>4</u>
Ongoing Reviews 9/30/90	7

The six reviews initiated during this reporting period are:

- Information on Inspector General Vacancies and Previous Experience;
- Review of Activities Which Collect Information on Foreign Economies and Foreign Trade;
- Study of the Structure and Operations of the ITC (which focuses on the powers and responsibilities of the Office of the Chairman in making administrative decisions);
- Review of Energy Trade and Investment Liberalization Measures in the Soviet Union;
- Review of USTR Compliance with Data Requirement Section 310 of the Trade Act of 1974; and
- Comparison of the Antidumping Procedures of Key GATT Signatories.

The four reports GAO issued during this period on Commission functions and activities are:

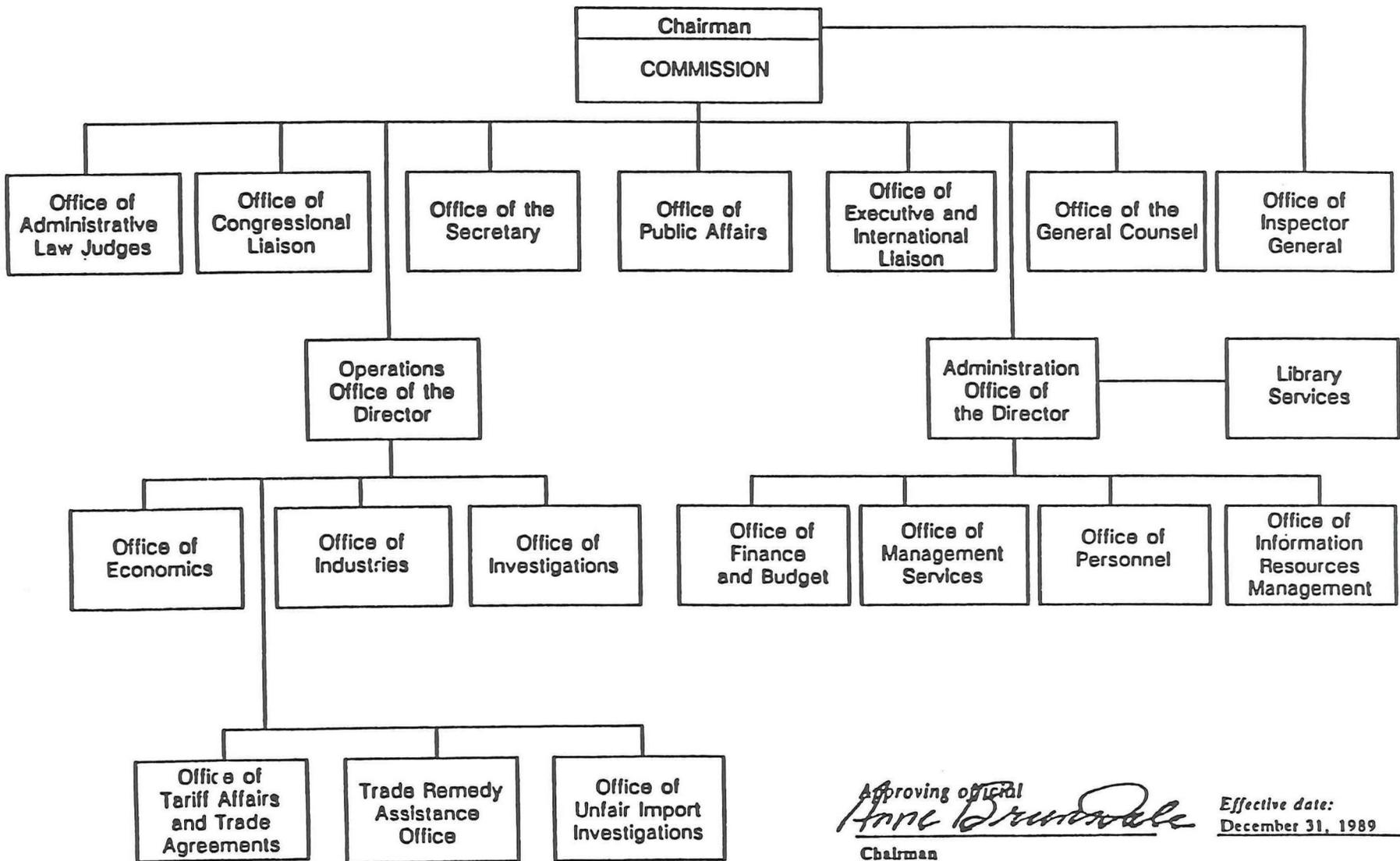
- INSPECTORS GENERAL Progress in Establishing OIGs at Designated Federal Entities (GAO/AFMD-90-46);
- U.S. CUSTOMS SERVICE Merchandise Processing Fee: Examination of Costs and Alternatives (GAO/GGD-90-91BR);

- COMPUTERS AND PRIVACY How the Government Obtains, Verifies, Uses, and Protects Personal Data (GAO/IMTEC-90-70BR); and
- INTERNATIONAL TRADE Use of the GATT Anti-dumping Code (GAO/NSIAD-90-238FS).

None of these reports included recommendations to the Commission.



U.S. International Trade Commission



Approving official
Anne Bruner
Chairman

Effective date:
December 31, 1989

FUNCTIONS OF THE OFFICE OF INSPECTOR GENERAL

1. Conduct, supervise, and coordinate audits and investigations relating to the programs and operations of the Commission.
2. Review existing and proposed legislation and regulations relating to programs and operations and report semiannually to the Chairman (or Acting Chairman) as head of the agency, subject to the limitations of section 331 of the Tariff Act of 1930 (19 U.S.C. 1331) concerning the impact of such legislation or regulations on the economy and efficiency in the administration of the Commission's programs and operations or the prevention and detection of fraud and abuse in such programs and operations.
3. Recommend policies for and conduct, supervise, or coordinate other activities carried out or financed by the Commission for the purpose of promoting economy and efficiency in the administration of, or preventing and detecting fraud and abuse in its programs and operations.
4. Recommend policies for and conduct, supervise, or coordinate relationships between the Commission and other Federal agencies, and other entities as appropriate, with respect to all matters relating to the promotion of economy and efficiency in the administration of, or the prevention and detection of fraud and abuse in, programs and operations administered or financed by the Commission, or the identification and prosecution of participants in such fraud or abuse.
5. Select and appoint personnel necessary to carry out the functions of the OIG in accordance with the IG Act.
6. Keep the Chairman, the Commission, and the Congress, as appropriate, fully and currently informed, by means of statutory and non-statutory reports, concerning fraud and other serious problems, abuses, and deficiencies relating to the administration of programs and operations administered or financed by such establishment, recommend corrective action concerning such problems, abuses, and deficiencies, and report on the progress made in implementing such corrective action.
7. Establish guidelines for determining when it shall be appropriate to use non-Federal auditors; and take appropriate steps to assure that any work performed by non-Federal auditors complies with the standards established by the Comptroller General.
8. Report expeditiously to the Attorney General whenever the Inspector General has reasonable grounds to believe there has been a violation of Federal criminal law.
9. Report annually to the Chairman on the adequacy of the Commission's system of internal controls as required by the Federal Managers' Financial Integrity Act.

SUMMARY OF AUDIT REPORTS

TITLE: REVIEW OF VERIFICATION OF REPORT DATA IN TITLE VII INVESTIGATIONS

REPORT NUMBER: IG-04-90

REPORT DATE: July 3, 1990

FINDINGS: The objective 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.

We found that the Commission's efforts and procedures were adequate to ensure that the reports issued accurately represented data prior to being publicly released. 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; the handbook for conducting such verifications was not consistently used; personnel had adequate qualifications to conduct the verifications, but the positions may not have been properly classified; 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.

RECOMMENDATIONS: The recommendations in the report included that the responsible agency officials were to:

- develop expanded guidelines for selecting companies for on-site verifications;
- issue guidance on how the handbook should be used in conducting verifications and the collection of company documents;

- review the position descriptions for the staff performing verifications in cooperation with the Director of Personnel;
- 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 Statistical Analysis Section.

Agency officials generally concurred with these recommendations. Appropriate changes are being made.

TITLE: REVIEW OF THE USE OF COPY MACHINES BY NON-USITC PERSONNEL

REPORT NUMBER: IG-05-90

REPORT DATE: July 5, 1990

FINDINGS: The objective of this review was to evaluate the applicable Commission policies and practices concerning the use of copy machines by non-USITC personnel in order to identify any areas of non-compliance with Federal laws or regulations and any ways to improve internal controls or increase efficiency.

We found that several offices in the Commission have routinely allowed members of the public to use the copy machines at no charge and that prior to the implementation of certain security measures in the Commission, control over public access to copy machines was minimal. We also found that a proposed purchase of a copy machine for Library Services had been approved without complete justification.

RECOMMENDATIONS: The recommendations in the report included that the responsible agency officials were to:

- develop a policy on the appropriate use of copy machines which should be distributed to all employees;
- review the various options available and select the most efficient, economical and effective method or methods of providing copy service to the public; and
- defer purchase of a copy machine for Library Services until adequate justification is developed.

The Director, Office of Administration agreed with our findings and recommendations, and has begun to take appropriate actions.

TITLE: REVIEW OF PERSONNEL MANAGEMENT FUNCTIONS AND ACTIVITIES

REPORT NUMBER: IG-06-90

REPORT DATE: September 21, 1990

FINDINGS: The objectives of this review were to: evaluate the adequacy and effectiveness of internal controls and procedures; statistically test the accuracy and validity of payroll system data; and determine compliance with applicable laws, regulations, and guidelines.

The auditors found that the system of internal accounting control was sufficient to meet the objectives of the personnel system insofar as those objectives pertain to the prevention or detection of material errors or irregularities. The auditors also identified several conditions where internal controls could be improved.

The auditors also found certain conditions in the internal accounting control related to time and attendance (T&A) and payroll processing that constituted material weaknesses. In these instances, the specific control procedures (or compliance with them) were not sufficient to achieve a specific internal control objective.

Findings related to T&A included time sheets that did not accurately reflect actual time charges; absence of proper signatures by employees; lack of complete documentation for military or court leave; improper documentation, authorization and reporting of overtime; failure to document or control compensatory time earned and used. Findings related to the payroll system included the lack of supporting documentation at the Commission; inadequate separation of T&A duties in some cases; and a need for improved policies and procedures and more coordination with the payroll processing center.

RECOMMENDATIONS: The recommendations in the report included that the responsible agency officials were to:

- assign sufficient staff resources to verify T&A forms; and review supporting documentation;
- strengthen internal controls to ensure that overtime is authorized only when necessary and is properly documented;
- provide for the reporting of compensatory time earned and used on the T&A forms;
- require that T&A clerks not be allowed to maintain their own T&A forms, except in unusual cases, and that someone other than the T&A clerk forward the T&A records to Finance and Budget;
- develop a system to account for, report, and control credit hours;
- develop a policy and procedures manual for timekeepers;
- require an internal control review of the entire T&A process;
- maintain supporting documentation for all payroll deductions;
- coordinate with the payroll servicing center concerning certification and availability of management reports; and
- establish test procedures to verify that the payroll dollar amount is correct and that individual employee payroll records are properly calculated.

The Director of Administration agreed with some but not all of the recommendations. For those with which he agreed, he has already implemented or plans to implement corrective action. The Director disagreed with several recommendations concerning payroll and time and attendance procedures. His response to the final report is due in November 1990.

TITLE: REVIEW OF USITC'S INFORMATION SECURITY PROGRAM

REPORT NUMBER: IG-07-90

REPORT DATE: September 28, 1990

FINDINGS: The objective of this review was to evaluate the Commission's compliance with Executive Order 12356, National Security Information, and the implementing directives issued by the National Security Council and Information Security Oversight Office (ISOO). The Executive Order requires each agency to establish controls to ensure that classified information is protected from access by unauthorized persons.

We found that the Commission has developed an information security program with policies and procedures generally consistent with the Executive Order and implementing ISOO regulations. In some instances, compliance is substantial, while in other areas policies and procedures need to be refined and compliance increased.

RECOMMENDATIONS: The recommendations in the report included that the responsible agency officials were to:

- Institute new procedures on issuing identification badges;
- Implement various controls over physical security addressing combinations, accountability, and destruction of classified documents;
- Adopt the use of standard forms prescribed for National Security Information;
- Familiarize Commission employees with current guidance on classification;
- Evaluate and revise the security education program;

- Develop an emergency plan in cooperation with the Information Security Committee; and
- Improve oversight of the Commission's information security program by developing and implementing a self-inspection program and revising Commission policies on information security.

The Director, Office of Administration agreed with our findings and recommendations, and has begun to take appropriate actions.

