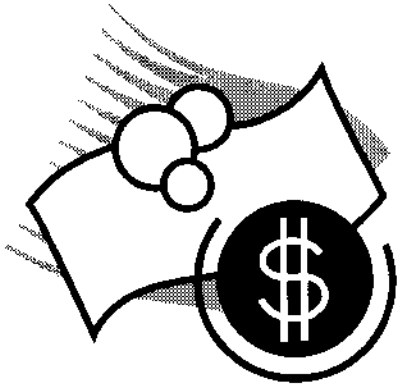
Audits
Inspections
Investigations
Office of Inspector General
United States
International Trade Commission

AUDIT REPORT

OIG-AR-03-00

Audit of the USITC Financial Statements for Fiscal Years 1998 and 1999

March 24, 2000



INSPECTOR GENERAL

UNITED STATES INTERNATIONAL TRADE COMMISSION

WASHINGTON, D.C. 20436

March 24, 2000

TO: THE COMMISSION

I hereby submit an *Audit of the USITC Financial Statements for Fiscal Years 1998 and 1999, Report No. IG-03-00.* The Federal Financial Management Improvement Act of 1996 states that agencies are to implement and maintain financial management systems that comply substantially with federal financial systems requirements, applicable federal accounting standards, and the U.S. Government Standard General Ledger at the transaction level. The financial management systems designs are to support agency budget, accounting and financial management reporting processes by providing consistent information for budget formulation, budget execution, programmatic and financial management, performance measurement and financial statement preparation.

The Commission is not subject to the Chief Financial Officers Act of 1990 or guidance issued by the Office of Management and Budget (OMB) on procedures for preparing and auditing federal financial statements. However, the Commission has decided voluntarily to follow that guidance in the interest of prudent financial management. Historically, we have evaluated the agency's financial systems on a cyclical basis, by conducting a biennial audit of the Commission's annual financial statements for the preceding two years. Commission financial statements have been prepared and audited on this basis annually since FY 1989.

The objectives of this audit were to issue: (1) an opinion as to the fairness of the USITC financial statements for the fiscal years (FYs) ending September 30, 1998, and 1999, in presenting the financial condition and results of operations; (2) a statement on the adequacy of internal controls; and (3) a statement on compliance with laws and regulations.

The audit was conducted by Leon Snead and Company, P.C. in accordance with the Government Auditing Standards issued by the Comptroller General of the United States. The auditors expressed the following opinions in the auditor's report:

-- The financial statements present fairly, in all material respects, the balance sheets and statement of budgetary resources of the USITC as of September 30, 1998 and 1999, and the related statements of net cost, changes in net position, and financing for the year ended September 30, 1999, in conformity with generally accepted accounting principles.

-- Only one material weakness in internal controls was noted in the audit. This was a need for improved controls over the recording of accounts receivable.

-- Test results disclosed no instances of noncompliance with laws and regulations applicable to the Commission that would have a material effect on the financial statements.

The auditors found other weaknesses in the Commission's financial management operations, which are set forth in the management letter transmitted as part of this report. Five recommendations were made to the Director, Office of Administration:

1. Issue instructions requiring that a copy of all documents advising of moneys to be paid to USITC be sent to OFB.
2. Standardize the form and content of blanket purchase agreement call records and make them available on the local area network for read only access by contract specialist and finance personnel.
3. Require the call records be reviewed by contract specialists on a regular basis to ensure compliance with FAR and terms of the blanket purchase agreements.
4. Direct OFB to use call records as the basis for recording obligations for blanket purchase agreements and other indefinite delivery agreements upon implementing the previous two recommendations.
5. Issue instructions requiring that Cost Center Managers review unliquidated obligations on a regular basis and inform OFB of adjustments and de-obligations in a timely manner.

An exit conference was held with the Directors of Administration and OFB, and their staff, on February 29, 2000. The Director of Administration also submitted written comments on the draft report. He generally agreed with the findings and recommendations. His comments are presented in their entirety as Appendix II of this report.

Dev Jagadesan
Acting Inspector General

Audit Report No. OIG-AR-03-00

Audit of the USITC Financial Statements for Fiscal Years 1998 and 1999

March 24, 2000

Office of Inspector General
U.S. International Trade Commission

CONTENTS

Independent Auditor's Report on Financial Statements

Independent Auditor's Report on Compliance with Laws and Regulations

Independent Auditor's Report on Internal Controls over Financial Reporting

Additional Recommendations to Management

Appendix I: Financial Statements and Management's Discussion and Analysis

Appendix II: Memorandum from the Director of Administration to the Acting Inspector General, dated March 14, 2000

LEON SNEAD
& COMPANY, P.C.

Certified Public Accountants
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Independent Auditor's Report on Financial Statements

Office of the Inspector General, United States International Trade Commission and The Commissioners

We have audited the accompanying balance sheets of the United States International Trade Commission (USITC) as of September 30, 1998 and 1999; the related statements of budgetary resources for the years then ended, and the related statements of net cost, changes in net position, and financing for the year ended September 30, 1999. These financial statements are the responsibility of USITC management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards; the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States; and the Office of Management and Budget (OMB) Bulletin No. 98-08, *Auditing Requirements for Federal Financial Statements.* Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the balance sheets and statement of budgetary resources of the USITC as of September 30, 1998 and 1999, and the related statements of net cost, changes in net position, and financing for the year ended September 30, 1999, in conformity with generally accepted accounting principles.

Our audit was conducted for the purpose of forming an opinion on USITC's financial statements, taken as a whole. The information in the overview sections is not a required part of the financial statements, but is supplementary information required by OMB Bulletin No. 97-01, *Form and Content of Agency Financial Statements.*

We have considered whether this information is materially inconsistent with the principal financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the financial statements, and, accordingly, we express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued reports dated February 22, 2000 on our consideration of USITC's internal controls and on its compliance with certain provisions of laws and regulations.

Leon Snead & Company, P.C.
February 22, 2000

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Independent Auditor's Report on Compliance with Laws and Regulations

Office of the Inspector General, United States International Trade Commission and The Commissioners.

We have audited the financial statements of the United States International Trade Commission (USITC) as of and for the years ended September 30, 1998 and 1999, and have issued our report thereon dated February 22, 2000.

We conducted our audits in accordance with generally accepted auditing standards and *Government Auditing Standards*, issued by the Comptroller General of the United States; and the Office of Management and Budget (OMB) Bulletin No. 98-08. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

The management of the USITC is responsible for complying with laws and regulations applicable to the agency. As part of obtaining reasonable assurance about whether the agency's financial statements are free of material misstatements, we performed tests of its compliance with certain provisions of laws and regulations, noncompliance with which could have a direct and material effect on the determination of financial statement amounts.

The USITC is not required to produce financial statements in accordance with OMB Bulletin 97-01, *Form and Content of Agency Financial Statements*, and is not required to conform to the audit requirements of OMB Bulletin 98-08, *Audit Requirements for Federal Financial Statements,* but has elected to do so. While compliance with the Federal Financial Managers Integrity Act is not required, we found that the system of accounting does conform to the United States Government Standard General Ledger at the transaction level, and generally complies with other requirements of OMB Circular A-127, *Financial Management Systems.*

The results of our tests disclosed no instances of noncompliance that are required to be reported herein under *Government Auditing Standards*.

Providing an opinion on compliance with certain provisions of laws and regulations was not an objective of our audit, and accordingly, we do not express such an opinion.

This report is intended solely for the information and use of the Commissioners and management of the United States International Trade Commission and is not intended to be and should not be used by anyone other than those specified parties. This restriction is not intended to limit the distribution of this report, which is a matter of public record.

Leon Snead & Company, P.C.

Leon Snead & Company, P.C.
February 22, 2000

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Independent Auditor's Report on Internal Controls over Financial Reporting

Office of the Inspector General, United States International Trade Commission and The Commissioners

We have audited the financial statements of the United States International Trade Commission (USITC) as of September 30, 1998 and 1999, and have issued our report thereon dated February 22, 2000. We conducted our audit in accordance with generally accepted auditing standards; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) bulletin No 98-08, *Audit requirements for Federal Financial Statements*.

The management of USITC is responsible for establishing and maintaining internal controls. 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 objective of internal controls is to provide management with reasonable, but not absolute, assurance that (1) transactions, including those relating to obligations and costs, are executed in compliance with applicable laws and regulations that could have a direct and material effect on the financial statements, and any other laws and regulations that OMB or USITC management have identified as being significant and for which compliance can be objectively measured and evaluated; (2) funds, property, and other assets are safeguarded against loss from unauthorized use or disposition; (3) transactions are executed in accordance with management's authorization, are properly recorded and accounted for to permit the preparation of reliable financial reports in conformity with generally accepted accounting principles, and to maintain accountability over the assets; and (4) data that support reported performance measures are properly recorded and accounted for to permit preparation of reliable and complete performance information. Because of inherent limitations in internal controls, misstatements due to error or fraud may nevertheless occur and not be detected. Also, projection of any evaluation of internal controls 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.

In planning and performing our audit, we considered USITC's internal control over financial reporting by obtaining an understanding of the agency's internal controls, dete rmined whether those internal controls had been placed in operation, assessed control risk, and performed tests of controls in order to determine our auditing procedures for the purposes of expressing our opinion on the financial statements and not to provide assurance on the internal controls over financial

reporting. Consequently, we do not provide an opinion on internal controls.

Our consideration of the internal controls over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be reportable conditions. Under standards issued by the American Institute of Certified Public Accountants, reportable conditions are matters coming to our attention relating to significant deficiencies in the design or operation of the internal control that in our judgment, could adversely affect the agency's ability to record, process, summarize and report financial data consistently with assertions by management in the financial statements. Material weaknesses are reportable conditions in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements 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 one matter which is discussed in the following paragraphs involving the internal control structure and its operation that we consider to be a material weakness.

Repeat Finding - Controls over the recording of accounts receivable need to be improved.

USITC does not have adequate procedures to ensure that accounts receivable are recorded at the time they occur. This condition was reported in the report of the Audit of the USITC Financial Statements for Fiscal Years 1998 and 1997 (IG report 04-99), and the Director of Administration did request that the Office of General Counsel notify the Office of Management and Budget (OFB) when civil penalties are assessed. However, the Finance Division (FD) of OFB still does not receive information about amounts due to the government at the time the receivables come into existence. In addition, there are other types of transactions which give rise to accounts receivable about which FD should be notified, such as costs related to responding to requests under the Freedom of Information Act and indebtedness by employees for various reasons.

The recording of accounts receivable is a significant element in the controls to ensure that amounts due are in fact collected. Normally, some form of written communication is sent to anyone owing money that USITC will collect. OFB should be provided a copy of all such communications in order to be able to record accounts receivable on a timely basis.

We recommend that:

> (IC-1) The Director, Office of Administration issue instructions requiring that a copy of all documents advising of moneys to be paid to USITC be sent to OFB.

Management response: Agree,Target completion date: May 1, 2000

No other reportable conditions were noted during the audit. However, we noted certain matters involving internal controls and their operations that we have reported to the management of USITC in a separate letter dated February 22, 2000.

This report is intended solely for the information and use of the Commissioners and management of the United States International Trade Commission and is not intended to be, and should not be used by anyone other than those parties. This restriction is not intended to limit the distribution of this report, which is a matter of public record.

Leon Snead & Company, P.C.
February 22, 2000

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Additional Recommendations to Management

To the Inspector General and the
The Commissioners
United States International Trade Commission
Washington, D.C.

We have audited the financial statements of the United States International Trade Commission (USITC) for the years ended September 30, 1998 and 1999, and have issued our reports thereon.

We conducted our audits in accordance with generally accepted auditing standards and *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatements.

One condition noted during the audit which we consider a material weakness has been reported separately in the Independent Auditor's Report on Internal Controls.

In planning and performing our audit of the financial statements we also noted certain areas wherein we believe improvement is needed in operating policies and procedures. The noted conditions are summarized below.

BLANKET PURCHASE AGREEMENTS

The following deficiencies were noted in the administration and accounting for blanket purchase agreement and other indefinite delivery orders:

Obligating funds: The Office of Finance and Budget (OFB)was recording obligations in the official accounting records based on dollar limits placed on blanket purchase agreements at the time they were issued. The government is not obligated until a definitive order is placed under these agreements. Obligations should be recorded when orders for specific goods and services are placed, but OFB is not provided information on the orders placed.

Documentation of delivery orders placed under blanket purchase agreements: There is no consistency of form and content of call records kept of orders placed under blanket purchase agreements. The identity of the person placing an order was not always shown. In some cases, the estimated cost of the order was not recorded on the call record. Some

records indicate receipt of invoices from vendors, others do not.

Orders exceeding limitations: Instances were noted of delivery orders placed which exceeded the individual order limits specified in the blanket purchase agreements.

Monitoring by contract specialists: The administration of blanket purchase agreements was not being monitored by contract specialists to ensure compliance with Federal Acquisition Regulations and terms of the blanket purchase agreements. Requests by contract specialists for copies of call records generally have been unheeded.

We recommend that the Director, Office of Administration:

1) standardize the form and content of blanket purchase agreement call records and make them available on the local area network for read only access by contract specialists and finance personnel.

Management Response: Agree. Target completion date: June 1, 2000

2) require that call records be reviewed by contract specialists on a regular basis to ensure compliance with the FAR and terms of the blanket purchase agreements.

Management response: Agree. Target completion date: June 1, 2000

3) once recommendations 1 and 2 have been implemented, direct OFB to use call records as the basis for recording obligations for blanket purchase agreements and other indefinite delivery agreements.

Management response: Agree. Target completion date: June 1, 2000

REVIEW OF UNLIQUIDATED OBLIGATIONS

As a part of the mid-year review process, and at other times when deemed appropriate, OFB provides Cost Center Managers with listings of unliquidated obligations, and requests that they verify that the obligations are still valid and should remain on the accounting records. If no response is received, which apparently is not infrequent, OFB assumes the obligations should remain on the records. Over $40,000 of unliquidated obligations on the records as of September 30, 1999 which did not represent amounts that would have to be paid were removed as a result of our audit, but should have been removed from the records as much as a year or more earlier. In addition, the mid-year review conducted in FY1999 resulted in de-obligations of prior year funds totaling about $930,000. To the extent that those de-obligations could have been identified during the prior years, USITC could have made more effective use of its funds.

We recommend that the Director, Office of Administration:

4) issue instructions requiring that Cost Center Managers review unliquidated obligations on a regular basis and inform OFB of adjustments and de-obligations in a timely manner.

Management response: Agree. Target completion date: June 1, 2000

This report is intended solely for the information and use of the management of the United States International Trade Commission and is not intended to be and should not be used by anyone other than those specified parties. This restriction is not intended to limit the distribution of this report, which is a matter of public record.

Leon Snead & Company, P.C.

Leon Snead & Company, P.C.
February 22, 2000

APPENDIX I

United States International Trade Commission

Financial Statements and Management's Discussion and Analysis (MD&A)

Fiscal Year 1999

Commissioners

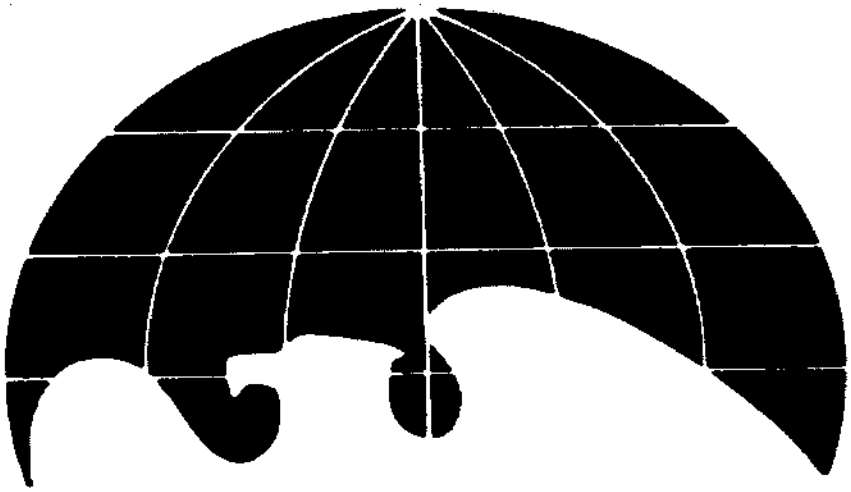
Lynn M. Bragg, Chairman
Marcia E. Miller, Vice Chairman
Carol T. Crawford
Jennifer A. Hillman
Stephen Koplan
Thelma J. Askey

PREFACE

The ***Management's Discussion and Analysis (MD&A)*** is an important element of the United States International Trade Commission's (ITC) annual financial statements*, and is intended to provide an overview of the linkages between ITC program performance and financial performance.

The MD&A is designed to complement other existing ITC management and accountability reports by consolidating agency program and financial information to provide a concise, balanced presentation of the ITC's operations, achievements, and challenges. The information in the MD&A is drawn from key ITC planning and budgeting documents and is based on the progress of ITC's continuous performance improvement efforts.

As a required section in the ITC's audited financial statement, the MD&A is prepared annually in a joint effort between program offices and the Director, Office of Finance and Budget (OFB).



** ITC Annual Financial Statements are prepared in accordance with the requirements contained in Office of Management and Budget (OMB) Bulletin 97-01 "Form and Content of Agency Financial Statements" and Statements of Federal Financial Accounting Concepts and Standards recommended by the Federal Accounting Standards Advisory Board (FASAB) and approved by the Department of the Treasury, OMB, and Comptroller General.*

CONTENTS

Preface i

Introduction - *The Management's Discussion and Analysis (MD&A)* . . . 1

Mission and Organizational Structure - *The Commission* 2

Performance Goals and Results 6

Financial Performance and Limitations of the Financial Statements 12

Performance Improvements and Major Challenges Ahead 15

Financial Statements 17

Notes to Financial Statements 23

INTRODUCTION

Management's Discussion and Analysis (MD&A)

The ***Management's Discussion and Analysis (MD&A)*** is designed to provide a high level overview of the United States International Trade Commission (ITC), what the ITC does, and how well the ITC is meeting its goals and objectives. This FY 1999 MD&A provides a brief narrative of the ITC's mission, activities, program and financial results, and overall financial condition for the period ending September 30, 1999. It is intended to reflect the linkages and relationships between the ITC's planning, budgeting, and program performance over the 1999 Fiscal Year.

The ITC's FY 1999 MD&A contains several important elements:

- *Mission and Organizational Structure* - This section highlights the agency's mission and depicts its roles and responsibilities. It defines and summarizes ITC's primary activities. It also provides an overview of the ITC's organization and the structural relationships between its various offices. Finally, this section lays out the duties of each of the ITC's offices.

- *Performance Goals and Results* - This section provides a discussion of the current status of the ITC strategic planning and management process. It outlines the five major operations of the agency and explains the ITC's continuing efforts to improve data collection and measurement processes in order to provide tangible linkages between mission goals and performance measures.

- *Financial Performance and Limitations of the Financial Statements* - This section provides an understanding of the significant balances and conditions reflected on the financial statements, status of ITC's budgetary resources, and the limitations of the financial statements.

- *Performance Improvements and Major Challenges* - This section presents a summary of the ITC's business and improvement initiatives, and of the major challenges the agency expects to face in the coming fiscal year.

MISSION AND ORGANIZATIONAL STRUCTURE

The Commission

The mission of the Commission is twofold: Administer U.S. trade remedy laws in a fair and objective manner; and provide the President, U.S. Trade Representative, and the Congress with independent, quality advice and information on matters of international trade and competitiveness. In so doing, the Commission contributes to the development and implementation of sound and informed U.S. trade policy.

Established in 1916 as the United States Tariff Commission, and renamed in 1974, the U.S. International Trade Commission (ITC) is an independent, nonpartisan, quasi-judicial federal agency established by Congress with a wide range of trade-related mandates.

Under its fact-finding authority, the ITC exercises broad investigative powers on matters of trade. In its adjudicative role, the ITC makes determinations with respect to unfair trade practices.

The ITC is a national resource where trade data are gathered and analyzed. Information and analysis are provided to the President and the Congress to assist them in developing U.S. trade policy.

As the role of international trade in the U.S. economy has expanded, the ITC has become increasingly important to the economic well-being of the country as a whole. With this trend in mind, the Commission recognizes the importance of striving for excellence in all aspects of its mission, particularly objectivity, timeliness, thoroughness, and clarity of analysis in the performance of its investigative duties.

ITC activities include-

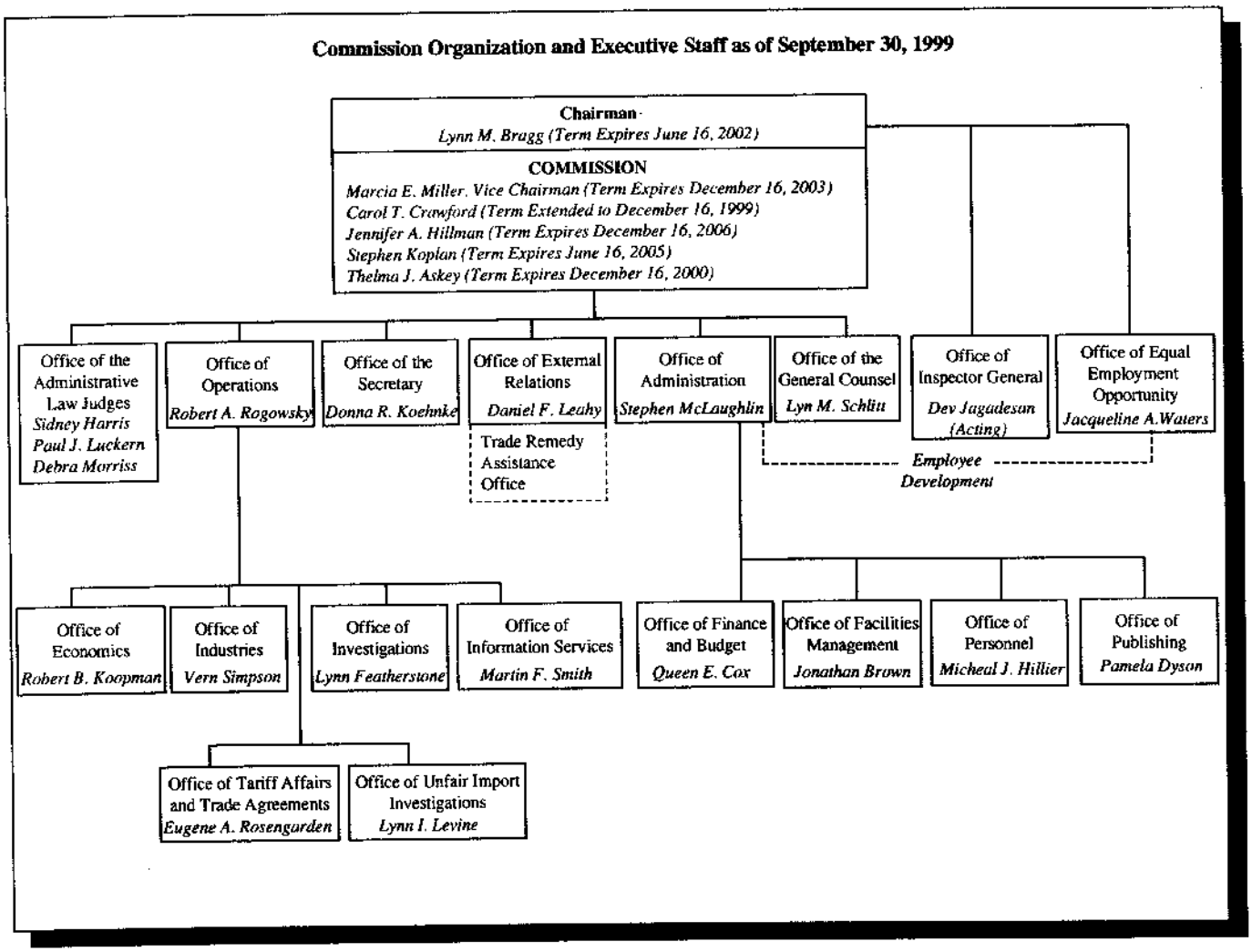
- determining whether U.S. industries are materially injured by reason of imports that benefit from pricing at less than fair value or from subsidization;
- making recommendations to the President regarding relief for industries seriously injured by increasing imports;
- directing actions, subject to Presidential approval, against unfair trade practices such as patent infringement;
- providing objective analyses of other major trade issues, including estimating the probable economic effects of trade agreements;
- analyzing the competitiveness of specific industries, seeking to identify economic factors within the industry as well as external factors that affect the industry's competitiveness; and
- participating in the development of uniform statistical data on imports, exports, and domestic production and in the establishment of an international harmonized commodity code.

The Commission

The Commission is made up of six Commissioners who are nominated by the President and confirmed by the Senate for terms of nine years, unless appointed to fill an unexpired term. The terms are set by statute and are staggered so that a different term expires every 18 months. A Commissioner who has served for more than five years is ineligible for reappointment.

No more than three Commissioners may be members of the same political party. The Chairman and Vice Chairman are designated by the President and serve for a statutory two-year term. The Chairman and the Vice Chairman may not be members of the same political party, and the Chairman may not be of the same political party as the preceding Chairman.

Commission Organization and Executive Staff as of September 30, 1999



The Staff

The ITC staff is recognized throughout the federal government and U.S. industry for its knowledge of world trade. A variety of disciplines and academic backgrounds are found among the commodity analysts, economists, attorneys, investigators, nomenclature experts, information services specialists, and service support personnel at the ITC.

ITC analysts and economists investigate and publish reports on U.S. industries and the global trends that affect them. The ITC staff provides substantial technical assistance and information on current policy questions to members of Congress and the U.S. Trade Representative (USTR). The staff also works closely with the U.S. Customs Service, other government agencies, and international trade-related organizations. Its expertise is often called upon by the news media, the business community, trade lawyers, and the public. At the end of FY 1999, a total of 366.5 permanent employees were employed by the ITC. All ITC personnel are located at 500 E Street, SW, Washington, DC 20436.

Organizational unit	Number of staff on board as of September 30, 1999
Commissioners	6
Offices of the Commissioners	23
Office of the Administrative Law Judges	9
Office of the Secretary	13
Office of External Relations	5
Office of the General Counsel	41.5
Office of Inspector General	2
Office of the Director of Operations	4
Office of Economics	36
Office of Industries	104
Office of Investigations	26
Office of Tariff Affairs and Trade Agreements	15
Office of Unfair Import Investigations	12
Office of Information Services	34
Office of the Director of Administration	9
Office of Facilities Management	5
Office of Finance and Budget	6
Office of Personnel	6
Office of Publishing	9
Office of Equal Employment Opportunity	1
Total	366.5

ITC staff members analyze the ongoing economic impact of various legislation on US industries and consumers.

Offices of the Commission

The **Commissioners**, appointed by the President and confirmed by the Senate, oversee and direct the operations and investigations of the ITC.

The **Office of the Secretary** compiles and maintains the Commission's official records and receives petitions and briefs.

The **Office of Administrative Law Judges** hears and decides on unfair trade practices brought under section 337 of the Tariff Act of 1930.

The **Office of External Relations** provides advice on public and media relations; promotes the agency to industry associations; and coordinates relations between the ITC, USTR, Congress, and other executive branch offices.

The **Trade Remedy Assistance Office** provides information and technical assistance to the public on remedies and benefits available under U.S. trade laws.

The **Office of the General Counsel** serves as the Commission's principle legal advisor, responsible for litigation, input on investigations, and reports on proposed legislation.

The **Office of the Inspector General** directs and carries out audits and investigations of Commission programs and operations.

The **Office of Equal Opportunity Employment** monitors and maintains affirmative action and outreach programs.

The **Office of Operations** supervises the Offices of Investigations, Industries, Economics, Tariff Affairs and Trade Agreements, Unfair Import Investigations, and Information Services.

The **Office of Economics** provides economic analyses of the effects of U.S. foreign trade on domestic production, employment, and consumption, and provides expert advice to Congress and the President on international issues.

The **Office of Industries** provides technical and economic information and assessments of U.S. industries and merchandise trade.

The **Office of Investigations** coordinates the Commission's countervailing duty, antidumping and review investigations, escape clause and market disruption investigations, and investigations under section 22 of the Agricultural Adjustment Act.

The **Office of Information Services** provides information services and resources, maintains and improves information technology systems, and administers the statistical and editorial services of the agency.

The **Office of Tariff Affairs and Trade Agreements** prepares reports on tariff legislation, publishes the U.S. tariff schedule, chairs the import-export statistical committee, and participates in the Harmonized System Committee.

The **Office of Unfair Import Investigations** participates in all investigations conducted under section 337 of Tariff Act of 1930.

The **Office of Administration** oversees all procurement and contracting activities of the ITC and the Director supervises support services of the Commission, which include the Offices of Finance and Budget, Facilities Management, Personnel and Publishing.

The **Office of Finance and Budget** directs budget, payroll, and accounting functions.

The **Office of Facilities Management** coordinates space and storage, supplies, maintenance of infrastructure, and safety functions.

The **Office of Personnel** recruits, places, and trains employees, and administers position classification, benefits, and labor relations programs.

The **Office of Publishing** oversees all ITC publishing activities.

PERFORMANCE GOALS AND RESULTS

The ITC continues to actively improve its business operations, management processes, and customer support in order to more effectively carry out its mission.

The ITC continues to take important steps toward improving its planning, management, and reporting systems and processes. The Commission established a Strategic Planning Board in 1994 soon after the enactment of the Government Performance and Results Act (GPRA) of 1993. The Board, working together with ITC's talented workforce, has taken important steps toward improving the way the agency plans activities and measures performance - and uses performance information to better serve ITC's partners, customers, and the general public. Accordingly, in FY 1999, the ITC's *Strategic Management Process* - the Strategic Plan, Performance Plans, and companion improvement initiatives - continues to evolve.

The Commission has established long-term goals and objectives for its five major operations:

- Import Injury Investigations
- Intellectual Property-Based Investigations
- Research
- Trade Information Services
- Trade Policy Support

All of these operations define the output of the Commission, emphasizing the benefits that the agency provides in facilitating an open trading system based on the rule of law and economic self-interest. Within each operation, specific critical success indicators and strategic goals have been identified. As provided for in GPRA, the ITC has sought to express performance goals in an objective and measurable form. To the extent practicable, the Commission has established outcome-oriented objectives. For each of these strategic goals, performance goals for FY 1999 and ensuing years were created and quantitative indicators were developed or identified. Many of the goals for FY 1999 involved the development of baseline measures, all of which have now been established. Detailed information is contained in the agency's Program Performance Report for fiscal year 1999.

For each operation, a senior agency manager serves as Operation Coordinator. Under the general oversight of the Strategic Planning Committee, the Operation Coordinators are responsible for annual verification and validation of measured values.

As part of the *Strategic Management Process*, the agency performs a review of the strategic planning process annually. This includes an evaluation of the agency's goals and success in achieving its objectives, and an assessment of the policies, practices, and processes for implementing operations. The agency is improving its performance data quality to ensure data sources and methodologies are consistent with current Federal guidance for timeliness, consistency, and accuracy.

As a result, the ITC's FY 1999 MD&A, with the assistance and participation of the Commission's management and staff, will describe important achievements toward meeting and improving performance goals and measures, and institutionalizing a disciplined *Strategic Management Process* throughout the ITC.

During FY 1999, the ITC had many major accomplishments, continuing to build on its reputation for excellence in serving its direct customers - the President, the U.S. Trade Representative, and the Congress - as they request and receive trade policy support. The following section outlines a few of the many successes achieved in FY 1999 in the five operational areas.

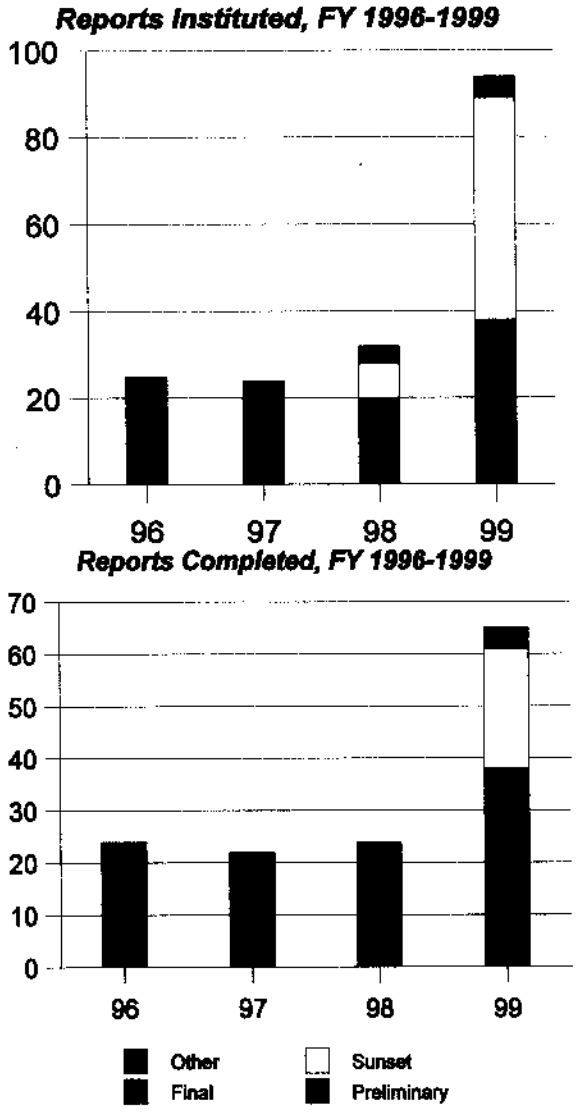
Import Injury Investigations

The agency faced a growing caseload during the year, completing a total of 65 various import injury investigations. This is more than double the number of investigations completed in FY 1998. Investigations conducted in this operation concern a variety of products, including live cattle, crude oil, aspirin, ammonium nitrate, emulsion styrene-butadiene rubber, preserved mushrooms, synthetic indigo, and paintbrushes.

Two of the main types of investigations performed include antidumping investigations, which are instituted to determine whether imported merchandise which is being sold in the United States at less than fair value is causing material injury to a domestic industry, and countervailing duty investigations, which determine whether imported merchandise, which is benefitting from a countervailable subsidy is causing material injury to a domestic industry.

A major new Commission responsibility required by the Uruguay Round Agreements Act (URAA) began in 1998- the five-year (sunset) review process. The URAA requires the Department of Commerce to revoke any antidumping or countervailing duty order, or terminate any suspension agreement, after five years unless the Department of Commerce and the ITC determine that doing so would lead to continuation or recurrence of dumping or subsidies, and of material injury within a reasonably foreseeable time.

This new requirement will lead to the review over the next three years of hundreds of outstanding antidumping and countervailing duty orders and suspension agreements. The five-year review process touches on almost every aspect of the ITC's work. In addition to establishing procedures and rules for the reviews, ITC paid close attention to public education about the process. The agency has launched a new five-year (sunset) review section on its Internet website (*http://www.usitc.gov*) to help users understand the five-year review process and track current and future review cases. The first 8 five-year reviews



were instituted during FY 1998, an additional 51 were instituted in FY 1999.

Intellectual Property-Based Investigations

Intellectual property-based investigations performed by the Commission involve alleged unfair methods of competition. Most of these investigations concern allegations relating to infringement of U.S. patents, trademarks, and copyrights, and misappropriation of trade secrets. Currently, they are dominated by complex patent-based investigations, particularly in the computer and telecommunications fields.

Research

The focus of investigations conducted in the research operation includes those initiated under Section 332 of the Tariff Act of 1930. Section 332 investigations are among the Commission's most demanding tasks. Policymakers need independent, expert analyses of international trade issues because of the growing complexity involved in matters of trade policy. A number of investigations, including both one-time fact-finding studies and continuing industry surveys and economic analyses, explored areas in which there was little existing or available information or investigative precedent.

Given the various multilateral efforts to liberalize trade, as well as scheduled WTO activity in services, agriculture, and other areas, the Commission expects to receive additional requests from the President and Congress to provide economic effects advice or other information, particularly in the area of services, investment, information technology, and rules of origin.

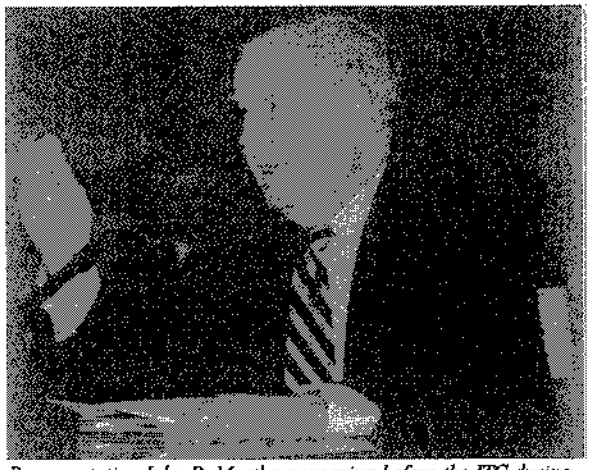
The principal performance goal for this operation was to determine baseline measurements for such areas as use of ITC information by various customers, institution of study initiatives of emerging issues, timeliness of reporting, and assessment of the value and quality of information. Nearly 5.6 million visitors accessed the ITC Internet site, many of which used the site to conduct research and download reports.

The Commission also published its annual analysis of significant trade shifts in selected commodity areas and its separate report covering the service industries.

Since the 1920's the ITC has periodically issued a series of detailed reports on thousands of products imported and exported from the United States. The most recent series of reports, known as an Industry and Trade Summary, began in FY 1991. In FY 1999, nine summaries were published, bringing the total number in this series to 136.

The Research Division of the Office of Economics continued to develop and maintain the computable general equilibrium (CGE) models that enable agency staff to estimate the effects of changing any specific trade restraint, any set of multiple restraints, or any other quantifiable barriers to U.S. trade.

The Research Division conducted several section 332 general fact-finding investigations. Among those completed in 1999 were investigations on the global large civil aircraft industry and market, the economic impact of U.S. sanctions with respect to India and Pakistan, and an assessment of the economic effects on the United States of China's accession to the WTO.



Representative John P. Murtha appearing before the ITC during a steel antidumping/countervailing duty hearing.

The Research Division also rendered technical assistance to the USTR, the Council of Economic Advisors, the House Committee on Ways and Means, and the Senate Committee on Finance during FY 1999, providing briefings, critical reviews of trade-related issues and trade flow data, and general trade-related economic expertise.

Key Reports Completed in FY 1998

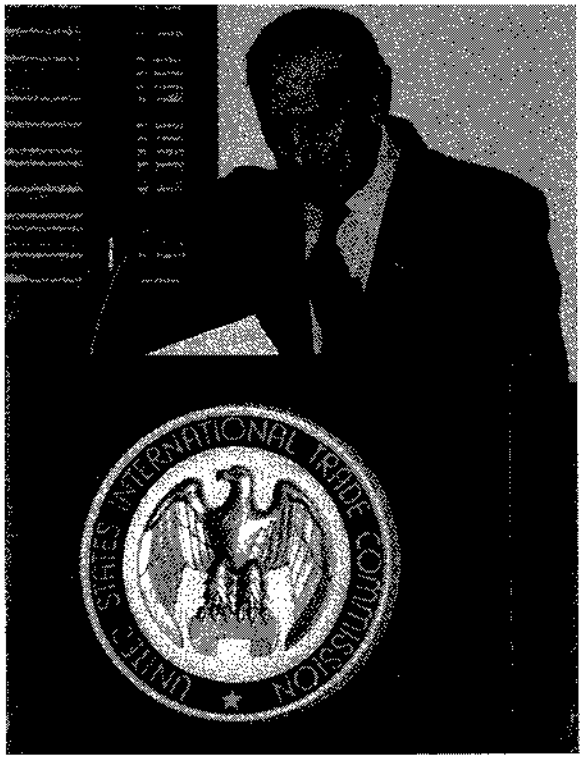
- *Production Sharing: Use of U.S. Components and Materials in Foreign Assembly Operations, 1994-1997*
- *Overview and Analysis of the Economic Impact of U.S. Sanctions with Respect to India and Pakistan*
- *Changing Structure of the Global Large Civil Aircraft Industry and Market: Implications for the Competitiveness of the U.S. Industry*
- *Update on Economic Effects of Significant U.S. Import Restraints*
- *Pianos: Economic and Competitive Conditions Affecting the U.S. Industry*
- *Assessment of the Economic Effects on the United States of China's Accession to the WTO*

Trade Information Services

The agency's use of technology, particularly the ITC website, DataWeb, and the Electronic Document Imaging System (EDIS) continued to enhance the public's access to information throughout the year.

The Commission has established an Interactive Tariff and Trade DataWeb *(http://dataweb.usitc.gov)* to allow easily accessible user-defined data retrieval. DataWeb offers data on imports and exports, U.S. import duties, staged tariff reductions, U.S. trade by region and partner country, and detailed ITC trade database tables. Timely trade data and ease of access has made the DataWeb a respected source for Congressional staff, other government agencies, and the public. Since pilot implementation in February 1999, over 4,000 users have registered, generating nearly 22,000 reports each month. In addition, the ITC Tariff Database available on the Internet was also used as the basis for the U.S. submission to the Integrated Database maintained by the WTO.

The Office of Tariff Affairs and Trade Agreements is responsible for the Harmonized Tariff Schedule of the United States (HTS) which provides applicable tariff rates and statistical categories for all merchandise imported into the United States. The 1999 edition was published in November of 1998. An electronic version is available on the ITC's website and a draft simplified version has been posted for comment.



Senator Strom Thurmond testifying during an injury phase hearing in a steel wire rod global safeguard investigation.

Additional trade information services include such activities as trade remedy assistance, library services, preparation of legislative reports, maintenance of the U.S. Schedule of Commitments, and preparation of Presidential Proclamations modifying the HTS

Trade Policy Support

The Commission supports trade policymakers in the Executive Branch and in the Congress by providing technical expertise and

objective factual information on trade issues. A major strategic goal in this operation is to enhance the ITC role as provider of technical advice on international trade issues by actively seeking opportunities to support U.S. trade policy formulation and U.S. representation in international fora.

ITC staff members review background data.

In FY 1999, the Commission was actively engaged in providing technical advice and assistance to interagency committees and international organizations in over thirty different issue areas. Such assistance spanned a broad range of bilateral and multilateral trade issues and included support for activities of the WTO, the Asia-Pacific Economic Cooperation, and policymakers considering African trade legislation, particularly in the textile and apparel sectors.

Workplace and Business Improvements

The Commission recognizes that its human capital is its most valuable asset. Thus, another important goal of the Commission is to tailor internal practices to support, train, and retain highly motivated employees. The ITC instituted a number of internal process improvement strategies to streamline efficiency, improve the workplace, and better serve the agency's employees and customers. The ITC plans to continue these business and workplace improvements in FY 2000.

The Office of Information Services implemented a complete upgrade of the agency's network infrastructure to support continuing rapid growth in the size and performance demands of new systems and carried out planned upgrades and reporting for the agency's Year 2000 effort.

During FY 1999, the implementation of Electronic Dockets Information System (EDIS) On-Line brought desktop access to non-confidential ITC case records to private parties involved in the cases, and to the general public. The technology used in EDIS On-Line will also improve the ease of use of the EDIS system for ITC staff attorneys, investigators, and Commissioners.

Additionally, the Passport system is now in place, allowing secure, Web-based remote access to internal information resources, including files, e-mail, and many databases. Passport has been an immediate success, supporting staff off-site and providing access to technical assistance during trade talks and other critical situations.

In FY 1999 a major reorganization effort created two new offices within the Office of Administration - the Office of Facilities Management and the Office of Publishing.

The Office of Facilities Management completed several renovation projects to accommodate changing personnel requirements within the agency and to improve accessibility to the disabled.

The Office of Publishing implemented a digital network to create a state-of the-art, networked publishing system that interfaces with the entire Commission. The office also improved the color printing services and continued the digital conversion of its historic photographic and publication archives.

Within the Office of Personnel, significant staff resources were devoted to recruitment of non-permanent employees to assist with the five-year (sunset) review process. As of the end of FY 1999, twenty-four such employees - primarily attorneys, trade analysts, and economists -were on board. These employees, devoted exclusively to sunset activities, constitute about 6.5% of the operating staff.

The Office of Administration continues to simplify and streamline the procurement process and has made significant gains in implementing GSA's Simplified Acquisition Procedures, electronic commerce, and purchase card program.

The Office of Finance and Budget completed the implementation of the government's master contract for fleet, travel, and purchase. The integration of these activities resulted in a more efficient process for obtaining services by utilizing one vendor for financial services. Additional improvements in the travel program included streamlining reimbursement and billing procedures, and use of an Intranet airline flight guide service for staff.

FINANCIAL PERFORMANCE AND LIMITATIONS OF FINANCIAL STATEMENTS

The ITC has a long history of success in managing the resources entrusted to it. The ITC strives to enhance its credibility and accountability to the Congress and taxpayers by preparing the accompanying financial statements in conformity with the accounting principles approved by the Federal Accounting Standards Advisory Board (FASAB) and the form and content guidance of the Office of Management and Budget (OMB).

The ITC has received a no-year appropriation from Congress for its operations since FY 1993. Appropriations are recognized as revenue and expensed when operating expenses are incurred. Any appropriated funds not expended during the fiscal year are included in the ITC's net position and available for use during the following fiscal year.

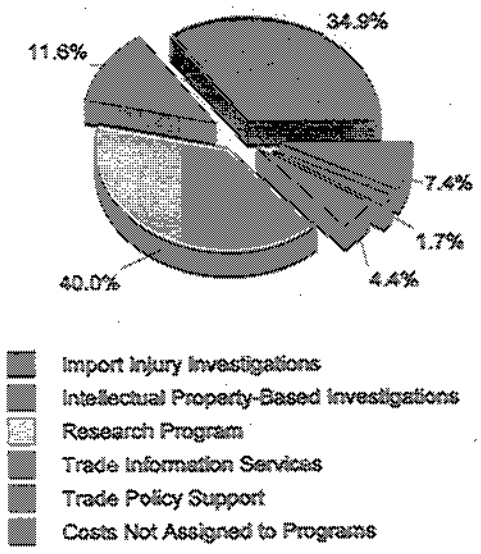
Management Integrity and Controls

The Commission's achievements in fiscal responsibility are recognized in its record of audits on financial operations. Four consecutive audits conducted on the agency's operations by independent auditors have resulted in unqualified "clean" opinions. The ITC Inspector General is responsible for the manner in which the audit of the ITC's financial statements is conducted.

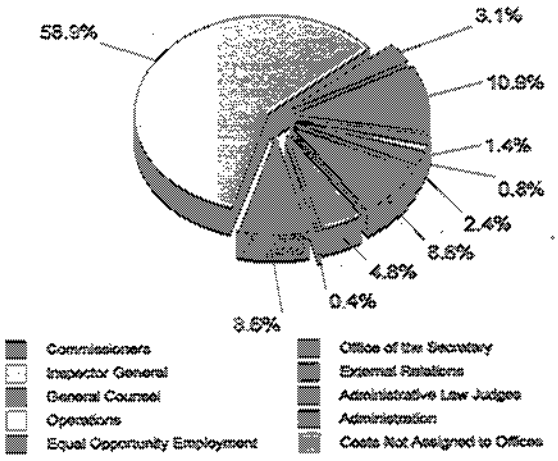
The ITC's FY 1999 financial statements are prepared in compliance with the OMB Bulletin 97-01, *Form and Content of Agency Financial Statements*. Although the ITC is not required to comply with OMB guidance or the Chief Financial Officer's (CFO) Act of 1990 (Public Law 101-576), the decision was made to present the ITC's financial statements in accordance with all available guidance.

The ITC is committed to continual improvement of its managerial cost accounting process. Cost assigned to operations includes the full costs of the operation and consists of all costs that can be directly traced, assigned on a cause and effect basis, or reasonably allocated to the operation. The full cost of operations also includes costs of supporting services provided by other offices. Current net cost of operations is assigned to operations and offices as shown.

Net Cost by Operation Area
1999



Net Cost by Office
1999



An extensive analysis of Property, Plant, and Equipment (PP&E) was begun in FY 1998 and completed in FY 1999. The classification of PP&E was refined to include items that: a) have a single unit dollar value of $5,000 or more; b) have a useful life of three years or more; and c) are not consumable (i.e. lose identity upon use). This classification guidance is consistent with FASAB standards and enables the ITC to accurately track fixed assets financially and physically. In addition, the ITC elected to depreciate PP&E effective October 1, 1997. This leads to a more accurate matching of the cost of resources in each reportable period. An aggressive review of open obligations conducted at mid-year, resulted in the availability of additional funds amounting to over one million dollars. These funds will be used to compensate for a reduced appropriation from Congress in FY 2000.

Commissioner Askey during a lamb meat importation global safeguard investigation.

Understanding the Financial Statements

As a result of the CFO Act of 1990 and subsequent congressional reform initiatives, great progress is being made toward improving Federal financial management. One of the top priorities for all agencies is to improve accountability through the production of reliable, timely, and consistent financial information. The following discussion is intended to provide an understanding of some significant balances and conditions that are reflected in each of the ITC financial statements.

Balance Sheet: The Balance Sheet presents amounts available for use by the ITC (assets) against the amounts owed (liabilities) and amounts that comprise the difference (net position). The largest entity asset is Fund Balance with Treasury which represents the appropriated funds available to the ITC to make expenditures and pay liabilities. PP&E is shown net of accumulated depreciation.

Entity assets are those which the ITC has authority to use in its operations. Non-entity assets reflected on the Balance Sheet include items which will be transferred to the U.S. Department of Treasury when collected and are not available for use by the ITC.

Liabilities Covered by Budgetary Resources are those incurred which are covered by available budgetary resources as of the end of the fiscal year. Liabilities Not Covered by Budgetary Resources includes accrued annual leave and receivables which will be paid to U.S. Department of Treasury upon collection.

Net Position is comprised of appropriated funds which have not been expended (undelivered orders and unobligated balances) and the net results of operations since inception.

Statement of Net Cost: The Statement of Net Cost is designed to show separately the components of the net cost of operations for the period classified by the various ITC offices and major operational areas. The net cost is the amount that ultimately must be paid by the taxpayer. Cost accounting methods and performance measures are being continually refined. This statement will evolve to provide useful linkage information for management and external users.

Statement of Changes in Net Position: This statement is presented to explain those items that caused the net position of the ITC to change during the reporting period. A significant item to note is the Prior Period Adjustment. This

adjustment was made to record the capitalization of certain fixed assets (and related accumulated depreciation) which had been placed in service in prior years. This addition was made as a result of the completion of PP&E analysis accomplished in FY 1999.

Statement of Budgetary Resources: This statement provides information on how budgetary resources were made available for the year and their status at year-end.

Budgetary outlays differ from expenses which are included as part of net cost of operations. Expenses are computed using accrual accounting techniques which recognize costs when incurred and revenues when earned and include the effect of accounts payable. Outlays refer to the issuance of checks, disbursements of cash, or electronic transfer of funds made to liquidate an expense regardless of the fiscal year the service was provided or the expense was incurred.

Statement of Financing: Accrual-based measures used in the Statement of Net Cost differ from the obligation-based measures used in the Statement of Budgetary Resources. In order to understand these differences, information is needed to reconcile financial (proprietary) net cost of operations with obligations of budget authority. The Statement of Financing is designed to report those differences and facilitate the reconciliation.

Budgetary Resources and Use

The key components of the ITC's total budget are personnel and leasing costs. The ITC has made, and continues to make, a deliberate effort to improve utilization of resources and limit the growth in its budget. In this regard, the agency has streamlined procedures by reducing staffing levels, space requirements, and other business and operational costs in recent years.

For FY 1999, Congress appropriated $44,495,000 to the ITC, and rescinded $68,000. Additional resources available included a carryover of unobligated funds from FY 1998 in the amount of $1.2 million. For FY 2000, Congress approved total appropriations of $44,495,000, less an initial rescission of $167,000 in accordance with discretionary budget authority and obligation limitations imposed by the FY 2000 Consolidated Appropriations Bill. Resources available in FY 2000 will also include funds deferred from FY 1999 to compensate for the anticipated appropriation shortfall, and $300,000 provided by OMB to replace the critical EDIS system.

Representatives from the Paper, Allied-Industrial-Chemical and Energy Workers Union (PACE), attending an uranium antidumping hearing.

Limitations of Financial Statements

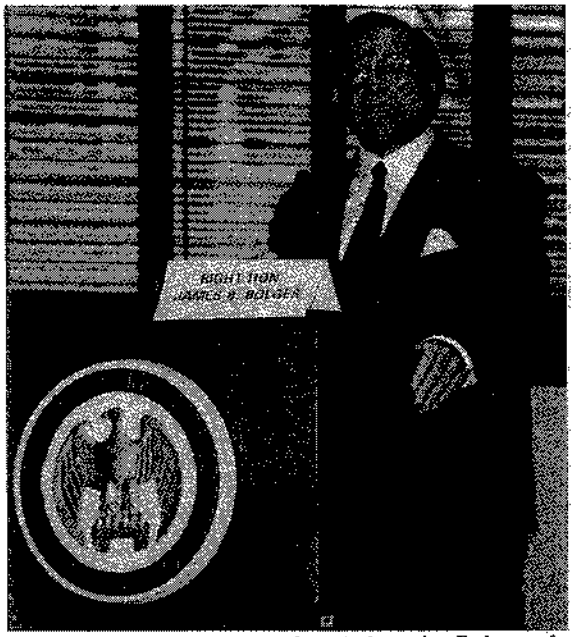
Responsibility of the integrity and objectivity of the financial information presented in the financial statements lies with the ITC management. The accompanying financial statements are prepared to report the financial position and results of the operations of the ITC, pursuant to the requirements of Chapter 31 of the United States Code, Section 3515(b). While these statements have been prepared from the books and records of the ITC in accordance with the formats prescribed in OMB Bulletin 97-01, *Form and Content of Agency Financial Statements*, they are in addition to the financial reports used to monitor and control budgetary resources which are prepared from the same books and records. They should be read with the realization that the ITC is an agency of the United States Government, a sovereign entity. Accordingly, unfunded liabilities reported in the statements cannot be liquidated without collection of related penalties and other liabilities can only be liquidated with funds appropriated through legislation.

PERFORMANCE IMPROVEMENTS AND MAJOR CHALLENGES AHEAD

In the coming year, the U.S. International Trade Commission faces important challenges: potential Year 2000 (Y2K) disruptions; internal realignments to improve operations and efficiency; further implementation of reform initiatives; and reduced staff levels in the face of increases in workload as a result of the five-year (sunset) review process.

Planning and Management Operations

In FY 1999 the ITC aggressively continued implementation of its *Strategic Management Process* and other business improvement goals. These actions as well as compliance with the Chief Financial Officers Act, National Performance Review, Government Performance Results Act, and related Federal initiatives will ensure that the ITC continues to build on its reputation for success and performance excellence.



The Right Honourable James Bolger, Ambassador, Embassy of New Zealand, addresses the ITC during a lamb meat import injury investigation.

The Year 2000

Since 1988, the Commission has automated essential agency functions and implemented an enterprise-wide local area network (LAN). The ITC depends on information systems developed by other Federal agencies, information-gathering systems from commercial organizations for news and legal research, and components that contain embedded electronics. On January 1, 2000, the ability of the agency to accomplish its mission without disruptions would be at risk unless the information systems and components on which the ITC depends are Y2K compliant.

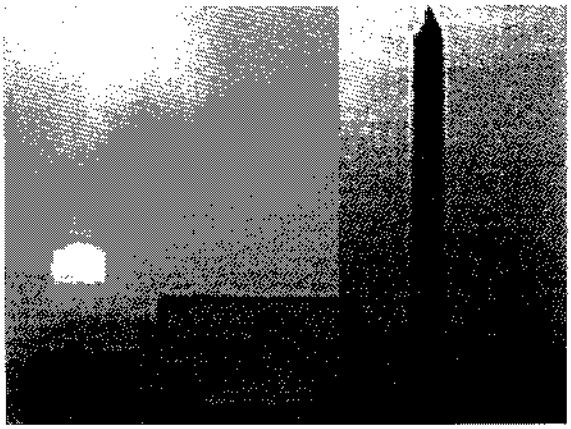
FY 1999 was a pivotal year for ITC's Y2K program. In January 1999, the Director of Operations was designated the Commission's Y2K Official. Through an organized technical and managerial effort, steps were taken to minimize Y2K vulnerabilities and raise awareness of Y2K issues among its staff. A recent review of the agency's state of readiness conducted by the ITC Inspector General's office revealed the Commission's mission-critical systems are on track for Y2K compliance.

Although the ITC performs no functions that are matters of life and death, some functions must operate during any potential disruption. Those functions have been identified as "first-tier" functions. The "second-tier" of functions includes the investigation and research activities that fulfill the agency's mission. Contingency plans have been developed taking into account a variety of scenarios based on different levels of disruption. These plans include a Day One Plan for January 1, 2000, and detailed business continuity and contingency plans (BCCP) for particular agency functions.

Costs associated with Y2K issues were absorbed within available funds by the affected cost center manager, with the exception of $300,000 provided by OMB in FY 2000, enabling the ITC to replace the Electronic Dockets Information System

(EDIS). It was determined that correction of EDIS Y2K-related weaknesses would be more costly than replacement of the entire system.

Additionally, Y2K concerns and plans have been communicated to staff and the public in a variety of ways - on the Internet and LAN, through staff meetings, and with dissemination of a "Y2K Communique." Overall, the agency has done an exemplary job of confronting this issue, prioritizing functions, testing systems, and developing contingency plans, all at minimal cost and disruption to current tasks.



Future Workload

The Uruguay Round Agreements Act requirements for five-year reviews of antidumping duty orders, countervailing duty orders, and suspension agreements has increased the ITC's investigation case load. During a three-year transition period that began in July 1998, the Commission will conduct injury reviews of nearly all outstanding antidumping and countervailing duty orders, while at the same time continuing its normal workload of ongoing and new cases. Furthermore, as of the beginning of the year 2000, the Commission is required to conduct reviews of all antidumping and countervailing duty orders imposed since January 1, 1995. The Commission anticipates a corresponding increase in court litigation as parties appeal decisions in five-year reviews and seek clarification of new statutory terms.

The Commission expects its caseload of fact-finding and probable-effect investigations to remain significant. These investigations typically are much more complex than Title VII investigations and, accordingly, require more staff resources per investigation. Potential trade liberalization initiatives involving areas of the world such as the Asia-Pacific region, Latin America, and the European Union are likely to require assistance to the USTR during both the negotiations phase and for probable effect advice prior to implementation. Likewise, we expect to continue to see a strong demand for support and analyses related to WTO sector agreements in services and agriculture. The ITC is also seeing an increase in requests for studies on the competitiveness of specific industries.

The Commission expects that in FY 2000 the Section 337 docket, which relates primarily to the enforcement of intellectual property rights, will continue to be dominated by complex patent-based investigations, particularly in the computer and telecommunications fields. The level of Section 337 investigations in these years is expected to remain at or somewhat above the FY 1999 level. In addition to work on new investigations in FY 2000, most of the Section 337 investigations instituted in FY 1999 will require substantial work during FY 2000.

In recent years, budgetary constraints have resulted in staff reductions across the agency. With diminished staffing levels, increased case loads present a significant challenge in FY 2000 and beyond. By taking advantage of improved management efficiencies and increased use of automated systems, the ITC plans to maintain high productivity levels in the coming years.

Conclusion

The ITC will continue to refine its strategic goals, actively improving business operations, management processes and customer support. A high priority on fiscal accountability will lead to continued disciplined internal controls and clear linkages between financial and program performance. These initiatives will allow the ITC to continue its leadership role and more effectively serve the Commission's ultimate customer, the U.S. public.

INTRODUCTION

Financial Statements

Federal agencies have traditionally prepared financial reports to monitor and control the obligation and expenditure of budgetary resources. With the enactment of the Chief Financial Officers' (CFO) Act, Congress called for the production of financial statements that fully disclose a Federal entity's financial position and results of operations, and provide information not only for the effective allocation of resources but also with which Congress, agency managers, the public, and others can assess management performance and stewardship.

The ITC's FY 1999 ***Financial Statements*** include:

- *Balance Sheet*
- *Statement of Net Cost*
- *Statement of Changes in Net Position*
- *Statement of Budgetary Resources*
- *Statement of Financing*

Comparative FY 1998 and FY 1999 data is presented in the Balance Sheet and Statement of Budgetary Resources. Also, incorporated into this financial statement presentation are accompanying notes and disclosures which are an integral part of the statements.

UNITED STATES INTERNATIONAL TRADE COMMISSION
Balance Sheet
As of September 30, 1998 and 1999

ASSETS		1998	1999
Entity Assets			
Intragovernmental			
Fund Balance with Treasury	(NOTE 2)	$7,178,128	$7,355,723
Total Intragovernmental		$7,178,128	$7,355,723
Imprest Fund	(NOTE 3)	1,500	1,500
Accounts Receivable	(NOTE 4)	0	537
Advances and Prepayments	(NOTE 5)	1,300	1,500
General Property, Plant, and Equipment (Net)	(NOTE 6)	1,757,570	1,695,770
Total Entity Assets		$8,938,498	$9,055,030
Non-Entity Assets			
Intragovernmental			
Fund Balance with Treasury	(NOTE 2)		$4,877
Total Intragovernmental		$0	$4,877
Accounts Receivable	(NOTE 4)	1,550,000	1,855
Total Non-Entity Assets		$1,550,000	$6,732
Total Assets		$10,488,498	$9,061,762
LIABILITIES			
Liabilities Covered by Budgetary Resources			
Intragovernmental			
Accounts Payable	(NOTE 7)	$35,741	$3,191
Accrued Payroll and Benefits	(NOTE 7)	288,634	369,435
Total Intragovernmental		$324,375	$372,626
Accounts Payable	(NOTE 7)	1,224,549	801,498
Accrued Payroll and Benefits	(NOTE 7)	1,290,020	1,567,259
Total Liabilities Covered by Budgetary Resources		$2,838,944	$2,741,383
Liabilities Not Covered by Budgetary Resources			
Intragovernmental			
Accounts Payable	(NOTE 8)	$1,550,000	$0
Other Liabilities	(NOTE 8)	0	6,732
Total Intragovernmental		$1,550,000	$6,732
Accrued Annual Leave	(NOTE 8)	2,432,346	2,470,991
Total Liabilities Not Covered by Budgetary Resources		$3,982,346	$2,477,723
Total Liabilities		$6,821,290	$5,219,105
NET POSITION			
Unexpended Appropriations	(NOTE 9)	$4,341,985	$4,617,877
Cumulative Results of Operations		(674,777)	(775,221)
Total Net Position		$3,667,208	$3,842,656
Total Liabilities and Net Position		$10,488,498	$9,061,762

The Accompanying Notes Are an Integral Part of These Statements

UNITED STATES INTERNATIONAL TRADE COMMISSION
Statement of Net Cost
For the Year Ended September 30, 1999

	COMMISSIONERS	OFFICE OF THE SECRETARY	INSPECTOR GENERAL	EXTERNAL RELATIONS	GENERAL COUNSEL	ADMINISTRATIVE LAW JUDGES	EQUAL EMPLOYMENT OPPORTUNITY	OPERATIONS	ADMINISTRATION	TOTAL
PROGRAM COSTS										
Import Injury Investigations	$2,330,047	$949,902	$0	$77,645	$2,870,276	$0	$62,756	$8,447,106	$1,814,467	$15,452,201
Intellectual Property-Based Investigations	358,469	83,056	0	23,725	819,262	1,370,736	19,175	2,080,270	396,472	5,151,165
Research Program	967,206	556,484	0	319,740	928,537	0	81,931	13,059,011	1,780,233	17,693,142
Trade Information Services	0	30,202	0	28,029	100,943	0	6,973	1,628,420	144,634	1,939,201
Trade Policy Support	0	15,101	0	162,396	49,277	0	3,486	454,436	82,076	766,775
TOTAL PROGRAM COSTS	$3,655,722	$1,084,747	$0	$611,536	$4,768,297	$1,370,736	$174,322	$25,669,243	$3,717,881	$41,002,484
COSTS NOT ASSIGNED TO PROGRAMS										
Other Support Cost	172,529	30,382	349,293	9,413	79,076	13,650	1,729	426,364	79,794	1,162,231
Other Travel and Transportation of Things										12,314
Communications and Equip Rental										336,076
Printing and Reproduction										218,990
Supplies and Materials										738,058
Land and Structures										342,298
Depreciation										390,468
Loss on Disposal of Assets										45,704
Unfunded Annual Leave										38,645
NET COST OF OPERATIONS (NOTE 18)	$3,828,252	$1,085,129	$349,293	$620,949	$4,847,373	$1,384,386	$176,051	$26,095,607	$3,797,676	$44,287,268

The Accompanying Notes Are an Integral Part of These Statements

UNITED STATES INTERNATIONAL TRADE COMMISSION
Statement of Changes in Net Position
As of September 30, 1999

Net Cost of Operations		($44,287,268)
Financing Sources		
Appropriations Used		44,151,007
Net Results of Operations		($136,261)
Prior Period Adjustment	(NOTE 11)	35,816
Net Changes in Cumulative Results of Operations		($100,445)
Increase (Decrease) in Unexpended Appropriations		275,893
Changes in Net Position		$175,448
Net Position - Beginning Of Period		3,667,208
Net Position - End of Period		$3,842,656

The Accompanying Notes Are an Integral Part of These Statements

UNITED STATES INTERNATIONAL TRADE COMMISSION
Statement of Budgetary Resources
For the Years Ended September 30, 1998 and 1999

		1998	1999
Budgetary Resources			
Budget Authority	(NOTE 12)	$41,200,000	$44,427,000
Unobligated Balances - Beginning of Period		819,192	1,210,734
Spending Authority from Offsetting Collections	(NOTE 13)	985	24,799
Adjustments	(NOTE 13)	183,487	1,128,543
Total Budgetary Resources		$42,203,664	$46,791,076
Status of Budgetary Resources			
Obligations Incurred	(NOTE 14)	$40,992,930	$44,213,570
Unobligated Balances - Available	(NOTE 14)	1,210,734	698,958
Unobligated Balances - Unavailable	(NOTE 14)	0	1,878,548
Total, Status of Budgetary Resources		$42,203,664	$46,791,076
Outlays			
Obligations Incurred		$40,992,930	$44,213,570
Less: Spending Authority from Offsetting Collections and Adjustments		(184,473)	(1,153,342)
Subtotal		$40,808,457	$43,060,228
Obligated Balances, Net - Beginning of Period		4,673,829	5,967,293
Obligated Balances Transferred, Net		0	0
Less: Obligated Balances, Net - End of Period		(5,967,293)	(4,778,217)
Total Outlays		$39,514,993	$44,249,304

The Accompanying Notes Are an Integral Part of These Statements

UNITED STATES INTERNATIONAL TRADE COMMISSION
Statement of Financing
For the Year Ended September 30, 1999

Obligations and Nonbudgetary Resources			
Obligations Incurred		$44,213,570	
Less: Spending Authority from Offsetting Collections and Adjustments	(NOTE 13)	(1,153,342)	
Less: Net Obligation Adjustments not Reported to Treasury	(NOTE 15)	(41,574)	
Total Obligations as Adjusted, and Nonbudgetary Resources			$43,018,654
Resources That Do Not Fund Net Costs of Operations			
Reduction in Amount of Goods, Services, and Benefits Ordered but not yet Received or Provided		$1,132,354	
Costs Capitalized on the Balance Sheet, Net	(NOTE 16)	(292,852)	
Total Resources That Do Not Fund Net Cost of Operations			839,502
Costs That Do Not Require Resources			
Depreciation		$390,468	
Total Costs That Do Not Require Resources			390,468
Financing Sources Yet to be Provided			
Increase in Unfunded Annual Leave	(NOTE 17)	$38,645	
Total Financing Sources Yet to be Provided			38,645
Net Cost of Operations			$44,287,268

The Accompanying Notes Are an Integral Part of These Statements

Notes to Financial Statements
September 30, 1998 and 1999

Note 1. Significant Accounting Policies

A. *Basis of Accounting and Presentation* - The United States International Trade Commission (ITC) financial statements are prepared in accordance with generally accepted accounting principles (GAAP), and the form and content requirements specified by the OMB Bulletin 97-01, as amended. GAAP for Federal entities are the standards prescribed by the Federal Accounting Standards Advisory Board (FASAB), which was recently designated the official accounting standards-setting body for the Federal Government by the American Institute of Certified Public Accountants. The ITC is not subject to the Chief Financial Officer (CFO) Act and requirements of the Office of Management and Budget (OMB) Bulletin 97-01, Form and Content of Agency Financial Statements; however, the ITC has elected to follow these guidelines in preparation of the fiscal year 1998 and 1999 financial statements. The ITC's fiscal year is October 1 to September 30.

B. *Reporting Entity* - The ITC is an independent agency of the U.S. Government created by an act of Congress and is headed by six commissioners, appointed by the President and confirmed by the U.S. Senate for nine-year terms. The President designates the chairman and vice chairman, each of whom serve two-year terms.

The ITC conducts investigations and reports findings relating to imports and the effect of imports on industry, and unfair import practices. The ITC advises the President on the probable economic effect of proposed trade agreements with foreign countries. The ITC also conducts analytical studies and provides reports on issues relating to international trade and economic policy on behalf of both the Congress and President.

C. *Financing Sources* - The ITC has received a no-year appropriation for operations since FY 1993. Appropriations are recognized as revenue and expensed when related operating expenses are incurred. Differences between appropriations received and expensed are included in unexpended appropriations. Congress appropriated to the ITC $41,200,000 for salaries and expenses in fiscal year 1998 and $44,495,000 for both fiscal years 1999 and 2000. Congress also rescinded funds in the amount of $68,000 and $167,000 for FY 1999 and FY 2000, respectively. Additionally, $300,000 will be provided in FY 2000 from the Y2K Contingent Emergency Fund in accordance with the Omnibus Consolidated and Emergency Supplemental Appropriation Act.

D. *Fund Balances with Treasury* - The majority of fund balances represent appropriated entity funds in the custody of the U.S. Treasury and are available for payment of the ITC obligations. The ITC's obligated and unobligated fund balances are carried forward until goods or services are received and payment is made, or until such time as funds are deobligated.

E. *General Property, Plant, and Equipment* - Property and equipment are recorded at cost with a corresponding entry to cumulative results of operation. Assets are carried net of accumulated depreciation until disposition. Effective October 1, 1997, fixed assets are defined as items that: 1) have a single unit dollar value of $5,000 or more; 2) have a useful life of three years or more; and 3) are not consumable (i.e. lose identity upon use).

F. *Accrued Annual Leave* - Annual leave is accrued at fiscal year end, although it is not funded until it is used by employees. Sick, compensatory, and certain other types of leave are not accrued and are expensed when used by the employee.

G. *Net Position* - The components of Net Position are defined as follows:

1. Unexpended appropriations include undelivered orders and unobligated balances.

2. Cumulative results of operations is comprised of the net results of operations since inception plus the cumulative amount of prior period adjustments, including net changes in capital asset investments and accrued unfunded annual leave.

H. *Intergovernmental Activities* - The ITC records and reports only those Government-wide financial matters for which it is responsible and identifies only those financial matters that the ITC has been granted budget authority and resources to manage.

Note 2. Fund Balances with Treasury

	1998	1999
Entity	$7,178,128	$ 7,355,723
Non-Entity		4,877
	$ 7,178,128	$ 7,360,600

Fund Balances with Treasury is the sole intragovernmental asset. Entity fund balances represent funds appropriated by Congress for use by the ITC. No entity funds are restricted; however, in accordance with Section 605 of Title 5 of Public Law 105-277, Congressional approval is required under certain reprogramming or transfer actions.

Non-Entity funds include copier fees collected from the public for Freedom of Information Act (FOIA) and other documents which will be turned over to the U.S. Treasury and are not available for use by the ITC.

Note 3. Imprest Fund

An imprest fund in the amount of $1,500 is established to provide funds for emergency travel advances, official reception and representation claims/advances, and small purchases.

Note 4. Accounts Receivable

Entity: The balance of funds receivable from ITC employees for salary overpayments is $537 at September 30, 1999.

Non-Entity: Civil penalties imposed by the ITC in the amounts of $1,550,000 in 1997 and $2,320,000 in 1999 are now deemed uncollectible and are no longer classified as a receivable. Certain erroneous disbursements related to the carpool subsidy program are due from ITC employees. Upon collection, these funds will be held in trust for the U.S. Treasury.

Non-Entity Accounts Receivable	1998	1999
Civil Penalties	$ 1,550,000	$ 0
Employee Debt		1,855
	$ 1,550,000	$ 1,855

Note 5. Advances and Prepayments

Outstanding travel advances to ITC employees totaled $1,300 on September 30, 1998 and $1,500 on September 30, 1999.

Note 6. General Property, Plant, and Equipment

Major classes of general property, plant, and equipment include: 1) office furniture, fixtures, and equipment, and 2) information systems and data handling equipment. Depreciation is recorded using the straight-line method, based on estimated useful lives of seven years and five years, respectively, with a ten percent residual value. Additional disclosures may be found in Note 1E.

Fiscal Year 1998	Acquisition Value	Accumulated Depreciation	Net Book Value
Office Furniture, Fixtures and Equipment	$ 1,674,656	$ 295,465	$ 1,379,191
Information Systems and Data Handling Equipment	1,177,368	798,989	$ 378,379
	$ 2,852,024	$ 1,094,454	$ 1,757,570

Fiscal Year 1999	Acquisition Value	Accumulated Depreciation	Net Book Value
Office Furniture, Fixtures and Equipment	$ 1,397,506	$ 645,204	$ 752,302
Information Systems and Data Handling Equipment	1,596,104	652,636	$ 943,468
	$ 2,993,610	$ 1,297,840	$ 1,695,770

Note 7. Liabilities Covered by Budgetary Resources

Intragovernmental Accounts Payable: All intragovernmental accounts payable are current liabilities.

	1998	1999
Government Printing Office	$ 364	$ 5
Department of Commerce	2,400	0
Department of Treasury	6,500	0
General Services Administration	16,224	0
National Institutes of Health	10,253	0
Department of State	0	3,186
	$ 35,741	$ 3,191

Intragovernmental Accrued Payroll Benefits: Accrued Payroll Benefits due to the Department of the Interior amounted to $288,634 and $369,435 at September 30, 1998, and 1999, respectively, and are current liabilities.

Public: Public accounts payable and accrued payroll and benefits are current liabilities.

Note 8. Liabilities Not Covered by Budgetary Resources

Intragovernmental: Accounts Payable consists of civil penalties imposed by the ITC which, upon collection, are held in trust for the U.S. Treasury and classified as long-term liabilities. In 1999, the penalties were deemed uncollectible and are no longer classified as a liability. Other Liabilities includes copier fees collected from the public for FOIA and other documents, and disbursements related to the carpool subsidy program which are being collected from ITC employees. Other Liabilities are payable to the U.S. Treasury and are considered current liabilities.

Public: Accrued Annual Leave is the value of leave accumulated by ITC employees which is funded when used. The current portion is dependant upon such use and is, therefore, not accurately determinable.

	1998	1999
Accounts Payable	$ 1,550,000	$ 0
Other Liabilities - Copier Receipts		4,877
Other Liabilities - Employee Debt		1,855
Accrued Annual Leave	2,432,346	2,470,991
	$ 3,982,346	$ 2,477,723

Note 9. Unexpended Appropriations

	1998	1999
Unobligated Balances Available	$ 1,210,735	$ 2,619,081
Undelivered Orders	3,131,150	1,998,796
Refund of Foreign Currency Transaction	100	
	$ 4,341,985	$ 4,617,877

Note 10. Contingencies

The ITC is a party in various pending or threatened litigation, claims and assessments that each individually represent a potential loss exposure in excess of $25,000. While the ultimate result of these legal proceedings cannot be predicted, management identified no material liability or gain or loss contingencies that are required to be accrued or disclosed.

Note 11. Prior Period Adjustment

Prior to fiscal year 1998, all capitalized real property was recorded at original cost and expensed upon disposal. The ITC elected to record depreciation expense effective October 1, 1997. Accumulated depreciation was calculated for all real property from the time of acquisition through September 30, 1998. The portion applicable to fiscal year 1998 was recorded as depreciation expense, and the portion applicable to years prior to fiscal year 1998 was recorded as a prior period adjustment included in Cumulative Results of Operations.

In addition, a capitalized property reconciliation in FY 1999 revealed six items which had been placed in service in prior years. Accumulated depreciation on these assets was calculated through September 30, 1998. A prior period adjustment for FY 1999 was made for the net addition.

Prior year fixed asset additions	$ 72,091
Accumulated depreciation	(36,275)
	$ 35,816

Note 12. Budget Authority

	1998	1999
Funds appropriated by Congress, beginning of year	$41,200,000	$44,495,000
Funds rescinded by Congress during year	0	(68,000)
	$41,200,000	$44,427,000

Note 13. Spending Authority from Offsetting Collections/Adjustments

Spending authority from offsetting collections consists of refunds of prior year expenditures reported to U. S. Treasury as collections. Adjustments includes deobligation of prior year funds. A foreign currency refund was recorded by U. S. Treasury in September 1998 in the amount of $100.

	1998	1999
Spending authority from offsetting collections	$ 985	$ 24,799
Recovery of prior year obligations	183,487	1,128,543
Refund of foreign currency transaction	100	
	$ 184,572	$ 1,153,342

Note 14. Status of Budgetary Resources

The net amount of budgetary resources obligated for undelivered orders included in Obligations Incurred amounted to $3,131,150 at the end of fiscal year 1998 and $1,998,796 at the end of fiscal year 1999.

Based upon fiscal constraints anticipated for government agencies in the future, Congress directed the ITC to defer a portion of its recoveries from prior year appropriations and funds carried over from fiscal year 1998 for use in fiscal year 2000. Funds totaling $1,878,548 were deferred by the ITC during fiscal year 1999, but will be available in fiscal year 2000.

Note 15. Net Obligation Adjustments

Following the close of FY 1999, a review of unliquidated obligations prompted a reduction in obligations for blanket purchase orders and travel authorizations. This adjustment was not included on the trial balance submitted to U.S. Treasury.

Blanket Purchase Orders	$ 40,763
Travel Authorizations	811
Net Adjustment to Obligations	$ 41,574

Note 16. Costs Capitalized

Fixed asset additions, including trade-ins	$351,679
Fixed asset deletions, net of accumulated depreciation	(58,827)
	$292,852

Note 17. Financing Sources Yet to be Provided

This represents the net increase in accrued annual leave reflected on the balance sheet as a liability not covered by budgetary resources. Costs of this nature are incurred in this reporting period and are a component of net cost of operations. Other liabilities not covered by budgetary resources are not a part of net cost of operations or obligations incurred and are not reflected on the Statement of Financing (see note 8).

Note 18. Net Cost of Operations

The Statement of Net Cost is designed to show separately the components of net cost of operations classified by office and operation. Cost assigned to operations includes the full costs of the operation and consists of all costs that can be directly traced, assigned on a cause and effect basis, or reasonably allocated to the operation. The full cost of operations also includes costs of supporting services provided by other offices.

Administrative Law Judge office cost is applied solely to Intellectual Property-Based Investigations since all its responsibility lies in that one area. Inspector General activity cost is not allocated to operations. Office of Information Service (OIS) and Commissioners' cost is allocated based upon that office's estimation of time spent on the operations. All other supporting cost is allocated based upon each operations' direct labor hours percentage.

	1999
Personnel Compensation and Benefits	$ 32,329,015
Travel	363,219
Other Travel & Transportation of Things	12,314
Space Rental	5,590,903
Communications & Equipment Rental	336,076
Printing & Reproduction	218,990
Other Services	2,894,169

Training	184,132
Supplies and Materials	738,058
Equipment	803,277
Land & Structures	342,298
Depreciation	390,468
Loss on Disposal of Assets	45,704
Unfunded Annual Leave	38,645
Total Net Cost of Operations	$ 44,287,268

Compensation and Benefits. Compensation and benefits are charged directly to program operations through use of time and attendance labor cost coding whenever possible. Administrative and leave costs are allocated based upon each operations' direct labor hours percentage. Office of Information Service (OIS) and Executive Direction costs are allocated based upon the office's estimation of time spent on each operation. Other labor cost such as certain awards, workers' compensation, commuting program, inspector general, unfunded annual leave and other miscellaneous charges are costs not assigned to operations.

Space Rental. Cost for space rent is assigned directly to individual offices based upon the square footage occupied and shared space is allocated to each office on a percentage basis. In Operations, External Relations, General Counsel, and Administrative Law Judge cost is charged to operations based upon the main focus of activity of the office. All other space is allocated to the operations using percentages described above.

Travel and Training. Travel and training costs are assigned directly to offices using annual expenditure reports. In Operations, External Relations, General Counsel, and Administrative Law Judge cost is charged to operations based upon the main focus of activity of the office. All other travel and training cost is allocated to the operations using percentages described above.

Equipment and Other Services. Equipment and other services are allocated to each office using the percentage of total labor hours of that office, and to operations based upon percentages described above.

Other Support Cost. Other Support Cost includes any compensation and benefits, space, travel, training, equipment, and other services which are not assigned to operations.

	1999
Personnel Compensation and Benefits	$ 1,066,943
Travel	1,557
Space Rental	61,500
Other Services	24,253
Training	1,247
Equipment	6,731
	$ 1,162,231

Loss on Disposal of Assets. During FY 1999, loss on asset disposals was calculated as follows. This cost is not allocated to operations or offices.

	1999
Fixed asset deletions at cost	$ 282,183
Trade-in allowances	(13,123)
Related accumulated depreciation	(223,356)
	$ 45,704

Other Costs. The following are costs not assigned to operations or offices: Other Travel and Transportation of Things, Communications and Equipment Rental, Printing and Reproduction, Supplies and Materials, Land and Structures, and Depreciation.

APPENDIX II

UNITED STATES INTERNATIONAL TRADE COMMISSION

WASHINGTON, DC 20436

March 14, 2000 AD-X-029

MEMORANDUM

TO: Acting Inspector General

FROM: Stephen A. McLaughlin, Director
Office of Administration

SUBJECT: Response to Draft Report OIG-AR-03-00: Audit of the USITC Financial Statements for Fiscal Year 1998 and 1999

This memorandum is the Office of Administration's response to the Draft Report: Audit of the USITC Financial Statements for Fiscal Year 1998 and 1999. I have reviewed the draft audit report and am in general agreement with the findings and recommendations.

The Inspector General recommends that the Director, Office of Administration:

1. Issue instructions requiring that a copy of all documents advising of moneys to be paid to USITC be sent to OFB.

Response: Agree

AD proposes: The Office of Administration will issue a memorandum to all office directors reminding them of their obligation to notify, in writing, the Office of Finance and Budget of all receivables in a timely manner.

Action for this recommendation should be completed by May 1, 2000.

2. Standardize the form and content of blanket purchase agreement call records and make them available on the local area network for read only access by contract specialists and financial personnel.

Response: Agree

AD proposes: The Office of Administration will develop a standard blanket purchase agreement call record and make it available on the local area network for read only access by contract specialist and finance personnel.

Action on this recommendation should be completed by June 1, 2000.

3. Require the call records be reviewed by contract specialists on a regular basis to ensure compliance with the FAR and terms of the blanket purchase agreements.

Response: Agree

AD propose: Contract specialists will be instructed to review call records, once posted on the Intranet, on a regular basis to ensure compliance with the FAR and terms of the blanket purchase agreements

Action on this recommendation should be completed by June 1, 2000.

4. Direct OFB to use call records as the basis for recording obligations for blanket purchase agreements and other indefinite delivery agreements upon implementation of the previous two recommendations.

Response: Agree

AD proposes: OFB will use call records as the basis for recording obligations for blanket purchase agreements and other indefinite delivery agreements upon the implementation of recommendations 3 and 4.

Action on this recommendation should be completed by June 1, 2000.

5. Issue instructions requiring that Cost Center Managers review unliquidated obligations on a regular basis and inform OFB of adjustments and de-obligations in a timely manner.

Response: Agree

AD proposes: In order to facilitate regular, periodic de-obligation reviews, OFB will issue accounting reports, instructions, as well as follow-up guidance to CCMs, and request that adjustments be provided in writing to OFB.

Action on this recommendation should be completed by June 1, 2000.

Approve: X Disapprove: _____

LMB /FB 3/15/00

Chairman, Lynn M. Bragg Date

cc: The Commission
Director, Office of Finance and Budget