April 19, 2007

TO: The Chairman
FROM: Assistant Inspector General for Audit

SUBJECT: OIG Semiannual Report for October 1, 2006 – March 31, 2007


This report summarizes the significant OIG activities during the six month period ending March 31, 2007 and discusses the top management challenges facing the Commission.
TABLE OF CONTENTS

THE OFFICE OF INSPECTOR GENERAL ................................................................. 1

COMMISSION’S TOP MANAGEMENT CHALLENGES.......................................... 3
Management Challenge: Competitive Sourcing .................................................... 3
Management Challenge: Improved Financial Performance ............................... 3
Management Challenge: Budget and Performance Integration ......................... 4
Management Challenge: Expanded Electronic Government ............................. 4
Management Challenge: Strategic Management of Human Capital ................... 5

COMMISSION PROFILE ......................................................................................... 6

AUDITS ...................................................................................................................... 8
Reports Issued During this Period ......................................................................... 8
On-Going Audits ..................................................................................................... 8
Audit Follow–Up ...................................................................................................... 9

INVESTIGATIONS ................................................................................................... 10
Summary of Investigative Activity ........................................................................ 10

OTHER ACTIVITIES ............................................................................................. 11
Regulatory Review ............................................................................................... 11
Directives Review ................................................................................................. 11
Government Accountability Office (GAO) ........................................................... 12
Management Assistance ...................................................................................... 13
Other ..................................................................................................................... 14
Liaison Activities ................................................................................................ 14

REPORTING REQUIREMENTS INDEX ............................................................... 16
Table 1: AUDIT REPORTS WITH QUESTIONED COSTS ...................................... 17
Table 2: AUDIT REPORTS WITH RECOMMENDATIONS THAT FUNDS BE PUT TO BETTER USE ................................................................. 18

GLOSSARY .............................................................................................................. 19
THE OFFICE OF INSPECTOR GENERAL

The Commission established the Office of Inspector General (OIG) pursuant to the 1988 amendments to the Inspector General Act. The OIG is headed by an Inspector General (IG), who reports directly to the Chairman and Congress. As set forth in the IG Act, as amended, the IG has the authority and responsibility to conduct objective and independent audits, reviews and investigations of the agency’s programs and operations. Specifically, the IG is responsible for promoting economy, efficiency, and effectiveness within the Commission; preventing and detecting fraud, waste, abuse and mismanagement in the Commission’s programs and operations; providing comments and recommendations on proposed legislation, regulations and procedures affecting the Commission; and keeping the Chairman and the Congress fully and currently informed of problems in agency programs and operations.

As shown in the organizational chart, the OIG was allocated four staff years in fiscal year 2007 (October 1, 2006- September 30, 2007, “FY 2007”). Since 2005, two positions have been vacant and have not been filled. The Inspector General retired on October 31, 2005 and the Paralegal Specialist left the Commission on November 27, 2005. After the staff departures, the Assistant Inspector General for Audit and Counsel have been performing the necessary duties to meet the requirements of the Inspector General Act.
## OIG Points of Contact

<table>
<thead>
<tr>
<th></th>
<th>Phone</th>
<th>202-205-2210</th>
<th>Fax</th>
<th>202-205-1859</th>
<th>OIG internet</th>
<th><a href="http://www.usitc.gov/oig">www.usitc.gov/oig</a></th>
<th>Hotline:</th>
<th>1-800-500-0333</th>
<th><a href="mailto:OIGHotline@usitc.gov">OIGHotline@usitc.gov</a></th>
</tr>
</thead>
<tbody>
<tr>
<td>Phone</td>
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<td>Fax</td>
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<td>OIG internet</td>
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</table>
COMMISSION’S TOP MANAGEMENT CHALLENGES

The “Top Management Challenges” facing the Commission as identified by the OIG and recent OIG activities relating to each challenge are discussed below. The OIG has been helping the Commission to address some of these challenges.

The Commission’s top management challenges are within the framework of the President’s Management Agenda (PMA) that include five Government-wide initiatives: (1) Competitive Sourcing, (2) Improved Financial Performance, (3) Budget and Performance Integration, (4) Expanded Electronic Government, and (5) Strategic Management of Human Capital.

Because the Commission was not included among the PMA agencies and has not established PMA deliverables and time lines, neither the Commission nor the OIG has attempted to score its PMA progress. However, the Commission’s budget justifications, as well as its strategic planning documents, expressed the Commission’s commitment to the spirit of the five PMA initiatives. The Commission’s adherence to that spirit is discussed below.

Management Challenge: Competitive Sourcing. To improve the performance and efficiency of activities that are commercial in nature, the PMA calls for departments and agencies to compare their commercial activities with those of the private sector and determine whether the private sector or government employees should perform the activity. The intended outcome is better service at a lower price.

The Commission has stated that its permanent staff is devoted to core agency investigative functions and recurring support activities where the cost of outsourcing is less competitive. The Commission contracted for mailroom and general labor services, cleaning and building maintenance services, and security services. In addition, other services are acquired on an as-needed basis, such as virtually all equipment maintenance services, application systems design and development, and certain financial services.

Management Challenge: Improved Financial Performance. This initiative is to improve the quality and timeliness of financial information so that it can be used to reduce waste, fraud, and abuse and manage federal programs more effectively. During this reporting period, the OIG audited the Commission’s financial statements for fiscal years 2006 and 2005 and issued an unqualified opinion. The audit did not detect internal control
deficiencies deemed to be reportable conditions or material weaknesses. However, the Commission needs to: strengthen controls and oversight of procurement activity; issue guidance for controlling fixed assets and accountable property; improve procedures for depositing funds; and issue guidance on taxing employee awards. The OIG issued a draft report on these issues, and at this time, the OIG is working with the Commission to obtain concurrence with all the reported findings and recommendations.

Management Challenge: Budget and Performance Integration. This initiative is to ensure each program’s purpose is clear, well designed to achieve its objectives, and effectively managed to provide the best value for taxpayers. Performance information will be used to (1) end or reform programs that either cannot demonstrate positive results or are clearly failing and (2) put resources in programs that can prove they are successful.

The Commission structured its budget formulation and execution activities to permit the allocation of virtually all costs to one of the five operations set forth in the Strategic Plan. All indirect costs are allocated to the Commission’s five operations with the exception of the OIG activities. These are reported as unallocated indirect costs. The Commission also presents data using a budget object classification methodology. Budget integration efforts have allowed Commission managers to track changes in workload and compare them to changes in cost.

The performance goals and indicators in the Commission’s Annual Performance Plan also provide measures by which the agency’s activities can be assessed. During this reporting period, the Commission submitted to Congress the agency’s Performance and Accountability Report, which provided program performance results for FY 2006.

Management Challenge: Expanded Electronic Government. This initiative is designed to bring more services to the American citizen over the Internet, make government more efficient, and improve information technology (IT) management throughout the Executive Branch.

Every Commission business process—investigations, research, trade information services, trade policy support, and administration—depends on reliable and effective information systems and services. The information that the Commission processes and generates is a valuable asset that management must protect from loss, misuse, unauthorized access, or modification.
The Commission has been working on redesigning its website and making improvements to its Electronic Document Information System. Furthermore, the Commission has been making progress in strengthening its IT security program. However, further work is needed.

The OIG’s Federal Information Security Management Act (FISMA) audit for FY 2006, found the Commission fully implemented 10 of 23 recommendations from the prior year’s audit and 9 remained open. The audit also found three additional weaknesses. These weaknesses relate to use of wireless technologies, certification and accreditation of major systems, and the system change control process.

Of the four remaining recommendations from the FY 2005 FISMA audit, the OIG is currently concluding its work on their status. The OIG rescheduled audit follow-up work on these recommendations until after the FY 2006 FISMA audit because the recommendations were associated with improvements the Commission was making at the time of the audit.

**Management Challenge: Strategic Management of Human Capital.** Agencies must strategically align human resources to support the organization’s policy and program goals. Since a substantial number of federal employees will be eligible to retire within the next few years, agencies need to hire, develop, and retain skilled staff to ensure continuity of operations.

The Commission’s largest budget item is salaries and personnel benefits, which account for approximately 75 percent of the budget. The Commission maintains an expert staff of professional international trade and nomenclature analysts, investigators, attorneys, economists, computer specialists and administrative support personnel.

The Commission has undertaken several initiatives in support of an overall human capital strategy. The Commission developed a Strategic Human Capital Management Plan which is intended to be an essential component of the organization’s strategic planning. It serves to: define human capital goals, summarize the projected changes in the workforce assets, and identify strategies to achieve the human capital goals and an action plan for implementing the strategies. Additionally, the Commission developed a vision of future workforce needs.
COMMISSION PROFILE

http://www.usitc.gov

The Commission is an independent, nonpartisan, quasi–judicial federal agency established to provide trade expertise to both the Legislative and Executive Branches of government. Its mission is to: administer U.S. trade remedy laws within its mandate in a fair and objective manner; provide the President, the U.S. Trade Representative (USTR) and the Congress with independent, quality analysis, information, and support on matters of tariffs and international trade and competitiveness; and maintain the Harmonized Tariff Schedule of the U.S. In so doing, the Commission serves the public by implementing U.S. law and contributing to the development of sound and informed U.S. trade policy. Major Commission activities include:

• **Import Injury Investigations**—The Commission makes determinations in a variety of import injury investigations, primarily antidumping and countervailing duty (AD/CVD) investigations concerning the effects of unfairly traded imports on a U.S. industry.

• **Intellectual Property–Based Investigations**—The Commission adjudicates complaints brought by domestic industries under section 337 of the Tariff Act of 1930 that allege infringement of U.S. intellectual property rights and other unfair methods of competition by imported goods.

• **Industry and Economic Analysis**—The Commission’s industry and economic analysis program consists of probable economic effects investigations under section 131 of the Trade Act of 1974 or section 2104 of the Trade Act of 2002; analysis of trade and competitiveness issues under section 332 of the Tariff Act of 1930; and independent assessments on a wide range of emerging trade issues.

• **Trade Information Services**—The Commission’s trade information services include such activities as legislative reports; maintenance of the Harmonized Tariff Schedule; Schedule XX; U.S. Schedule of Services Commitments under the General Agreement on Tariffs and Trade/World Trade Organization; preparation of U.S. submissions to the Integrated Database of the World Trade Organization; and certain other information gathering, processing, and dissemination activities.
• **Trade Policy Support**—The Commission supports the formulation of U.S. trade policy, providing objective input to both the Executive Branch and the Congress on the basis of the distinctive expertise of its staff.

The Commission consists of six Commissioners, appointed by the President and confirmed by the Senate, who serve one term of nine years, unless appointed to fill an unexpired term. No more than three Commissioners may be of the same political party. The Chairman and Vice Chairman are designated by the President and serve a 2–year statutory term. The Chairman is responsible, within statutory limits, for the administrative functions of the Commission.

There are six Commissioners. During this reporting period, two Commissioners, Stephen Koplan and Jennifer A. Hillman left after expiration of their terms. Two new Commissioners replaced them. Irving A. Williamson was sworn in as a member of the Commission on February 7, 2007, for a term expiring on June 16, 2014. Dean A. Pinkert was sworn in as a member of the Commission on February 26, 2007, for a term expiring on December 16, 2015. The Chairman is Daniel R. Pearson and the Vice Chairman is Shara L. Aranoff. The other Commissioners are Charlotte R. Lane and Deanna Tanner Okun.

For FY 2007, the Commission’s expenditure plan totals $62,408,000. The FY 2007 staffing plan is for 398 permanent positions and 13 term/temporary positions for a total of 411 positions. All employees are located in one building at 500 E Street, SW, Washington, DC.
AUDITS

Reports Issued During this Period

The OIG issued one audit report during this period:

**USITC's Financial Statements for Fiscal Years 2006 and 2005 and the Commission's Management Challenges**


An Independent Public Accountant (IPA), working under our supervision, performed an audit of the Commission's fiscal years 2006 and 2005 financial statements. The IPA reported no material weaknesses and issued an unqualified opinion on the financial statements.

As part of the audit, we reported on the top management challenges facing the Commission as identified by the OIG, as well as recent OIG activities relating to each challenge. These five challenges—Competitive Sourcing; Improved Financial Performance; Budget and Performance Integration; Expanded Electronic Government; and Strategic Management of Human Capital—are discussed on pages 3 to 5.

On-Going Audits

During this reporting period, we are in the process of completing the following two audits:

**Internal Controls Over the Commission’s Operations**

We conducted this work as part of our audit of the Commission’s financial statements for fiscal years 2006 and 2005 (OIG-AR-01-07, November 14, 2006). We are in the process of obtaining management concurrence with the findings and recommendations.
Technical Review of the Information Technology Systems

We are concluding our work on the status of the remaining four recommendations from the FY 2005 FISMA audit. Because the recommendations were closely linked to improvements the Commission was making during our FY 2006 FISMA audit, we rescheduled our review of the applicable areas until the improvements were in place.

Audit Follow–Up

Pending recommended actions remain open on two audits reported in the previous semiannual report:

(OIG-AR-03-06, September 29, 2006   http://www.usitc.gov/oig/ OIG-AR-03-06.pdf)

Our annual independent audit of the Commission’s information security program and practices resulted in three new recommendations and identifying nine open prior year recommendations. The Commission completed action on one of the 12 recommendations.

Due to the sensitive content, we have limited distribution of this and prior information security annual reports.

Evaluation of the Commission’s Records Management

The Commission agreed with all 22 recommendations, implemented 21, but has yet to identify records scanned by the Electronic Document Information System so they can be disposed.

The Commission’s Records Manager and Office of Information Technology Services have not been able to coordinate their efforts and take the appropriate action to satisfy this recommendation.
INVESTIGATIONS

The OIG investigates possible violations of laws, rules, and regulations, mismanagement, abuse of authority, and waste of funds. These investigations may result either from our own audit, inspection and other work or in response to allegations, complaints, and information received from employees, other government agencies, contractors, and other concerned individuals. The objective of this program is to ensure the integrity of the Commission and assure individuals fair, impartial, and independent investigations.

Summary of Investigative Activity

During this reporting period, one case was open. A summary of investigative activity is presented below.

<table>
<thead>
<tr>
<th>Case Workload</th>
<th>Referrals Processed</th>
<th>Investigative Results</th>
</tr>
</thead>
<tbody>
<tr>
<td>Open (09/30/06)</td>
<td>Received from Hotline 1</td>
<td>Referrals for Prosecution 0</td>
</tr>
<tr>
<td>Initiated</td>
<td>Referred to OIG Audit &amp; Inspection</td>
<td>Referrals Declined for Prosecution 0</td>
</tr>
<tr>
<td></td>
<td>Division 0</td>
<td></td>
</tr>
<tr>
<td>Closed</td>
<td>Referred to Commission 0</td>
<td>Administrative Action 0</td>
</tr>
<tr>
<td>Open (03/31/07)</td>
<td>Referred to other Federal Agencies 0</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Evaluated but no Investigation Initiated</td>
<td>1</td>
</tr>
</tbody>
</table>
OTHER ACTIVITIES

Regulatory Review

During this reporting period, the OIG reviewed drafts of proposed rules and notices. The OIG provided comments to the Commission on proposed rules: 19 Code of Federal Regulation (CFR) Part 208 – Investigations Relating to Commercial Availability Under the African Growth and Opportunity Act. The rules were published in 72 Federal Register 8626, on February 27, 2007. In addition, the OIG commented on the draft revisions to the Commission’s Privacy Act Notices.

Directives Review

During this reporting period, the Commission distributed two draft directives to the OIG for review and comment. Also, the Commission’s Travel and Transportation Manager provided the OIG with a copy of the draft revision to the travel management handbook for review and comment.

Performance Management System Directive

The OIG’s review of the draft performance management system directive raised concerns that it contained provisions that affected OIG independence. The Inspector General Act created the OIG as an independent unit to their respective agency. The OIG provided applicable provisions of the law and recommended revisions to the draft performance management system directive to bring the directive in compliance with the Inspector General Act. In addition, the OIG provided comments and suggested revisions to the definitions, responsibilities, requirements, ratings computation method, and unusual situations provisions of the draft directive, as well as the ancillary documents.
Emergency Action Plan Directive
The OIG compared the draft emergency action plan directive against guidance obtained off the Department of Homeland Security (DHS) website at www.ready.gov and the Red Cross website. The OIG suggested changes to the draft directive to conform to these resources.

Revision to the Travel Management Handbook
The OIG commented that the handbook duplicated the Federal Travel Regulations (“FTR”). The OIG suggested that the travel management handbook could be revised to supplement the FTR with provisions that are Commission specific or not addressed in the FTR. In addition, the OIG suggested that the draft travel management handbook be revised to be more concise, user friendly, and allow for more flexibility because unforeseen circumstances may arise in the future.

Government Accountability Office (GAO)

The Inspector General Act states that each Inspector General shall give particular regard to the activities of the Comptroller General of the United States with a view toward avoiding duplication and ensuring effective coordination and cooperation. During this period, the GAO issued four reports in which Commission activity was reported and none contained a recommendation for the Commission. The four reports are:

International Trade: Customs' Revised Bonding Policy Reduces Risk of Uncollected Duties, but Concerns about Uneven Implementation and Effects Remain (GAO-07-50, October 18, 2006)

GAO China Antidumping Database (GAO-06-652sp). This e-supplement is a companion to GAO's report U.S.-China Trade: Eliminating Nonmarket Economy Methodology Would Lower Antidumping Duties for Some Chinese Companies (GAO-06-231, January 10, 2006)


World Trade Organization: Congress Faces Key Decisions as Efforts to Reach Doha Agreement Intensify (GAO-07-379, March 5, 2007)
Management Assistance

Guidance on Use of Appropriated Official Reception and Representation Funds
The OIG provided guidance to the Commission on using appropriated official reception and representation funds for food and refreshments at receptions for departing Commissioners. As a general rule, appropriated funds may not be used for purchase of food, refreshments, entertainment, or gifts, except when specifically authorized by statute and also authorized or approved by proper administrative officers. According to GAO, an agency may use appropriated official reception and representation funds to cover expenses incurred in connection with official agency events, typically characterized by a mixed ceremonial, social and/or business purpose, and hosted in a formal sense by high level agency officials.

Guidance on Commission Employees Attendance at Sponsored Events
The Commission’s Ethics Officer consulted with the OIG Counsel on an Administrative Order permitting Commission employees to attend sponsored events. The Order does not apply when the employees are directly involved in or are supervising substantive work on Commission matters involving the event's sponsor. Usually, attendance by these employees might put them at risk for administrative sanctions under 5 CFR 2635.202(a) or 2635.101(b)(14). OIG Counsel suggested that the provisions of 5 CFR Sec. 2635.204 (g)(3)(i) be incorporated in Order. That regulation permits the employee's participation if it may be determined to be in the interest of the agency and there is a written finding by the agency designee that the agency's interest in the employee's participation in the event outweighs the concern that acceptance of the gift of free attendance may or may appear to improperly influence the employee in the performance of his official duties.

Personally Identifiable Information Analysis Survey
During this reporting period, the OIG provided the Commission’s CIO office with personally identifiable information analysis surveys for the OIG’s audits, investigations, and personnel systems.
Other

Records Management
Counsel serves as the OIG representative to the Commission’s records management revision team. Pursuant to the OIG’s report on *Evaluation of the Commission’s Record Management* (OIG-AR-05-00, March 7, 2001), the Commission assembled a team to revise the agency’s records management program.

Counsel also prepared a new records disposition schedule for the OIG, which was submitted to the National Archives and Records Administration (NARA) for acceptance. During this reporting period, Counsel has been working with a NARA representative to obtain approval of the OIG records schedule.

Year in Review
The OIG provided a submission for the Commission’s “Fiscal Year 2006 Year in Review.” The submission described OIG accomplishments which included: audits, investigations, management assistance, and responses to the Office of Management and Budget.

Liaison Activities

The Assistant Inspector General for Audit participated in activities sponsored by the Executive Council on Integrity and Efficiency (ECIE). Established by Executive Order 12805 on May 11, 1992, the ECIE is chaired by the Office of Management and Budget and, in addition to the Inspectors General, includes representatives from the Office of Personnel Management, the Office of Government Ethics, the Office of Special Counsel, and the Federal Bureau of Investigation. The ECIE’s functions and responsibilities are to promote integrity and efficiency and to detect and prevent fraud, waste and abuse in federal programs.

The Assistant Inspector General for Audit is an active member of the Federal Audit Executive Council and the Financial Statement Audit Network. The functions and responsibilities of these groups are to anticipate potential changes and share experiences related to auditing.
The OIG Counsel is a member of the Council of Counsels to the Inspectors General (CCIG). During this reporting period, her term ended as one of the Vice-President’s of this organization. Her duties included recording the minutes of the monthly meetings and assisting with facility arrangements.

Also, Counsel is a member of the Inter-agency Ethics Council, which is composed of Federal employees involved in ethics issues. Counsel provides a monthly report to the Council on Federal Court cases involving ethics issues.

Furthermore, the OIG Counsel is a member of the Association of Directors of Investigations, which consists of Federal OIG Investigators.

In addition to her professional contributions to the federal OIG community, the OIG Counsel is a volunteer tutor for a second grade elementary school student. The Commission adopted Amidon Elementary School, a neighboring District of Columbia public school, for which Commission employees voluntarily tutor students in a variety of subjects.
REPORTING REQUIREMENTS INDEX


<table>
<thead>
<tr>
<th>CITATION</th>
<th>REPORTING REQUIREMENTS</th>
<th>PAGE</th>
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<tbody>
<tr>
<td>Section 4(a)(2)</td>
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<td>Section 5(a)(3)</td>
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<td>Section 5(a)(4)</td>
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<td>Section 5(a)(6)</td>
<td>Listing of each audit report</td>
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<td>Section 5(a)(7)</td>
<td>Summary of each significant report</td>
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<tr>
<td>Section 5(a)(8)</td>
<td>Statistical tables showing Audit Reports–Questioned Costs</td>
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</tr>
<tr>
<td>Section 5(a)(9)</td>
<td>Statistical tables showing Audit Reports–Funds Put to Better Use</td>
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<tr>
<td>Section 5(a)(10)</td>
<td>Summary of each audit report issued before the commencement of the reporting period for which no management decision has been made by the end of the reporting period</td>
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<td>Section 5(a)(11)</td>
<td>Description and explanation of the reasons for any significant revised management decisions</td>
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<td>Information concerning any significant management decision with which the Inspector General is in disagreement</td>
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### Table 1: AUDIT REPORTS WITH QUESTIONED COSTS

<table>
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<tr>
<th></th>
<th>Dollar Value</th>
<th>Number of Reports</th>
<th>Questioned Costs</th>
<th>Unsupported Costs</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>A.</strong> For which no management decision has been made by the commencement of the period</td>
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<tr>
<td><strong>B.</strong> Which were issued during the reporting period</td>
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<td>0</td>
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<tr>
<td><strong>Subtotals (A + B)</strong></td>
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<td>0</td>
<td>0</td>
<td>0</td>
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<tr>
<td><strong>C.</strong> For which a management decision was made during the reporting period</td>
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<tr>
<td>(i) Dollar value of disallowed costs</td>
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<td>0</td>
<td>0</td>
</tr>
<tr>
<td>(ii) Dollar value of costs not disallowed</td>
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<td>0</td>
<td>0</td>
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<td><strong>D.</strong> For which no management decision has been made by the end of the reporting period</td>
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<tr>
<td><strong>E.</strong> Reports for which no management decision was made within six months of issuance</td>
<td></td>
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</table>
### Table 2: AUDIT REPORTS WITH RECOMMENDATIONS THAT FUNDS BE PUT TO BETTER USE

<table>
<thead>
<tr>
<th>Description</th>
<th>Number of Reports</th>
<th>Dollar Value</th>
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<tr>
<td>A. For which no management decision has been made by the commencement of the period</td>
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<td>0</td>
</tr>
<tr>
<td>B. Which were issued during the reporting period</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td><strong>Subtotals (A + B)</strong></td>
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<td>0</td>
</tr>
<tr>
<td>C. For which a management decision was made during the reporting period</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(i) Dollar value of recommendations that were agreed to by management</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>(ii) Dollar value of recommendations that were not agreed to by management</td>
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<td>0</td>
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<tr>
<td>D. For which no management decision has been made by the end of the reporting period</td>
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<td>0</td>
</tr>
<tr>
<td>E. Reports for which no management decision was made within six months of issuance</td>
<td>0</td>
<td>0</td>
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</table>
GLOSSARY

The following definitions apply to the terms used in this report.

**Questioned cost**
means a cost that is questioned because of: (1) an alleged violation of a provision of a law, regulation, contract, grant, cooperative agreement, or other agreement or document governing the expenditure of funds; (2) a finding that, at the time of the audit, such cost is not supported by adequate documentation; or (3) a finding that the expenditure of funds for the intended purpose is unnecessary or unreasonable.

**Unsupported cost**
means a cost that is questioned because at the time of the audit, such cost is not supported by adequate documentation.

**Disallowed cost**
means a questioned cost that management, in a management decision, has sustained or agreed should not be charged to the Government.

**Recommendations that funds be put to better use**
means a recommendation that funds could be used more efficiently if management of an establishment took actions to implement and complete the recommendation, including: (1) reduction in outlays; (2) deobligation of funds from programs or operations; (3) withdrawal of interest subsidy costs on loans or loan guarantees, insurance, or bonds; (4) costs not incurred by implementing recommended improvements related to the operations of the establishment, a contractor or grantee; (5) avoidance of unnecessary expenditures noted in preaward reviews of contract or grant agreements; or (6) any other savings which are specifically identified.
If you suspect fraud, waste, abuse, or other misconduct at the U.S. International Trade Commission, contact us.

The EthicsLine is available 24 hours per day. The caller can remain anonymous. Federal employees are protected from reprisal under the provisions of the Whistleblower Protection Act of 1989. For more information, see the MSPB publication “Questions and Answers About Whistleblower Appeals.”

If you prefer, you may send written complaints to:
OIGHotline@usitc.gov or
U.S. International Trade Commission
Office of Inspector General
Room 515
500 E Street, S.W.
Washington, DC 20436