United States International Trade Commission

AGENCY FINANCIAL REPORT

Fiscal Year 2012

CONTENTS

MESSAGE FROM THE CHAIRMAN

I am pleased to transmit the *FY 2012 Agency Financial Report* for the United States International Trade Commission. This report documents the Commission's programmatic and financial performance for the year, and discusses our accomplishments and challenges.

The Commission has three important mandates: (1) to administer U.S. trade remedy laws in a fair and objective manner; (2) to provide the President, the United States Trade Representative, and the Congress with independent analysis, information, and support on matters relating to tariffs, international trade, and U.S. competitiveness; and (3) to maintain the Harmonized Tariff Schedule of the United States. In doing so, the Commission contributes to the development of sound and informed U.S. trade policy. The Commission carries out these mandates primarily through its import injury investigations, intellectual property-based import investigations, industry and economic analysis program, tariff and trade information services, and trade policy support. Strategic goals and strategies are reviewed annually and are designed to promote the mission of the agency.

Program Accomplishments

I would like to highlight the following noteworthy accomplishments for the past year.

The Commission made substantial progress toward its strategic and management goals during FY 2012 by meeting or exceeding the majority of its annual targets for these goals and improving agency performance in other areas. During the year, the agency instituted 101 new investigations and completed 102 investigations. Intellectual property-based import investigations accounted for the majority of investigations during the year.

The Commission's intellectual property-based import investigations and import injury investigations serve the national economic interests of the United States and support a rules-based international trading system by producing technically sound determinations and providing effective relief when it is warranted. The Commission has maintained the high quality of its investigations and adjusted to growth in its workload in recent years by adjusting resources within the agency.

The Commission supports sound and informed trade policy formulation by providing the U.S. Trade Representative and Congress with high quality investigations and technical support. These investigations cover a wide range of topics and help fill critical information gaps for policy makers. Examples of investigations completed during the year include factors affecting the competitiveness of the U.S. business jet industry, competitive factors in Brazil affecting U.S. and Brazilian agricultural sales in third country markets, and trade facilitation in the East African Community. In addition, the agency provided Congress with reports on over 1300 miscellaneous tariff bills within the timeframe set by congressional staff. Agency staff also provided various types of technical assistance to congressional and executive branch staff throughout the year.

The Commission set new management goals for FY 2012 and made good progress on them during the year. The goals cover human resources, acquisitions, financial management, and information technology. The agency also made progress on government-wide initiatives in the areas of acquisitions and information technology and continued its internal efforts to improve its business processes, both in administrative and program offices.

FY 2012 Agency Financial Report

The Commission's FY 2012 financial statement audit resulted in an unqualified opinion by the independent accounting firm Castro & Company, LLC, monitored by the Inspector General. The Commission was able to sustain an unqualified opinion as it transforms how it accounts for and reports on its financial operations. The new Chief Financial Officer (CFO) has taken the lead on the Commission's efforts to transform its financial operations. Also, the Commission's senior management team continues to oversee USITC's assessment of internal control over its operations and financial management systems. The Commission's work is consistent with the provisions of the Federal Managers' Financial Integrity Act of 1982 (FMFIA) and while the Commission is exempt from the requirements of the Federal Financial Management Improvement Act of 1996 (FFMIA), it has complied with the spirit and key provisions of this statute.

I am providing a qualified statement of assurance that the internal controls and financial management systems meet the objectives of FMFIA and FFMIA, except for areas in need of improvement as described in the Chairman's Statement of Assurance section of this report. My qualified statement of assurance is based on the Commission's assessment of the effectiveness of internal controls over financial reporting conducted in accordance with OMB Circular A-123, *Management's Responsibility for Internal Control, Appendix A*.

The financial information presented herein is complete and accurate, and in accordance with law and Office of Management and Budget guidance. While continued improvement is needed to remediate remaining weaknesses, significant progress in addressing these weaknesses was made during the fiscal year. The Commission implemented a new financial management structure and a new system of senior executive communications and management. Most notably, the Commission created an Office of the Chief Financial Officer and recruited a CFO, Procurement Officer, Budget Officer and other staff with the requisite skills to address financial management and internal control issues including the formulation, execution, performance, and management of agency budgetary resources. All of these steps will help to resolve the remaining financial management challenges and place the Commission on a sound path to achieving accountability over its assets.

As Chairman, I assure you that Commission employees are committed to the agency's mission, and I applaud their efforts.

Irving A Williamson

Irving A. Williamson
November 15, 2012

MANAGEMENT'S DISCUSSION AND ANALYSIS

Introduction

The United States International Trade Commission (Commission or USITC) FY 2012 Agency Financial Report (AFR) presents the results of the Commission's program and financial performance and demonstrates to the Congress, the President, and the public, the USITC's commitment to its mission and accountability for the resources entrusted to it. This report is available at www.usitc.gov. The USITC has chosen to produce an AFR and Annual Performance Report (APR). The USITC will issue its FY 2012 Annual Performance Report when it issues its Congressional Budget Justification and will post it on the USITC's website on February 4, 2013.

About the USITC

The USITC is an independent, quasi-judicial federal agency with broad investigative responsibilities on matters of trade. The USITC was established by Congress on September 8, 1916 as the U.S. Tariff Commission. In 1974, the name was changed to the United States International Trade Commission by section 171 of the Trade Act of 1974.

The Commission investigates, generally at the request of private sector parties, the effects of dumped and subsidized imports on domestic industries and conducts global safeguard investigations. The USITC also adjudicates cases involving imports that allegedly infringe intellectual property rights. Through such proceedings, the agency supports a rules-based international trading system. The Commission also serves as a federal resource where trade data and other trade policy-related information are gathered and analyzed. The information and analyses are provided largely to the President, the Office of the United States Trade Representative (USTR), and Congress, to facilitate the development of sound and informed U.S. trade policy. The Commission makes most of its information and analysis available through its website to the public to promote a better understanding of international trade issues.

MISSION

The mission of the Commission is to:

- Administer U.S. trade remedy laws within its mandate in a fair and objective manner;
- Provide the President, USTR, and Congress with independent quality analysis, information, and support on matters relating to tariffs and international trade and competitiveness; and
- Maintain the Harmonized Tariff Schedule of the United States (HTS).

In doing so, the Commission serves the public by implementing U.S. law and contributing to the development of sound and informed U.S. trade policy.

ORGANIZATION

Commissioners

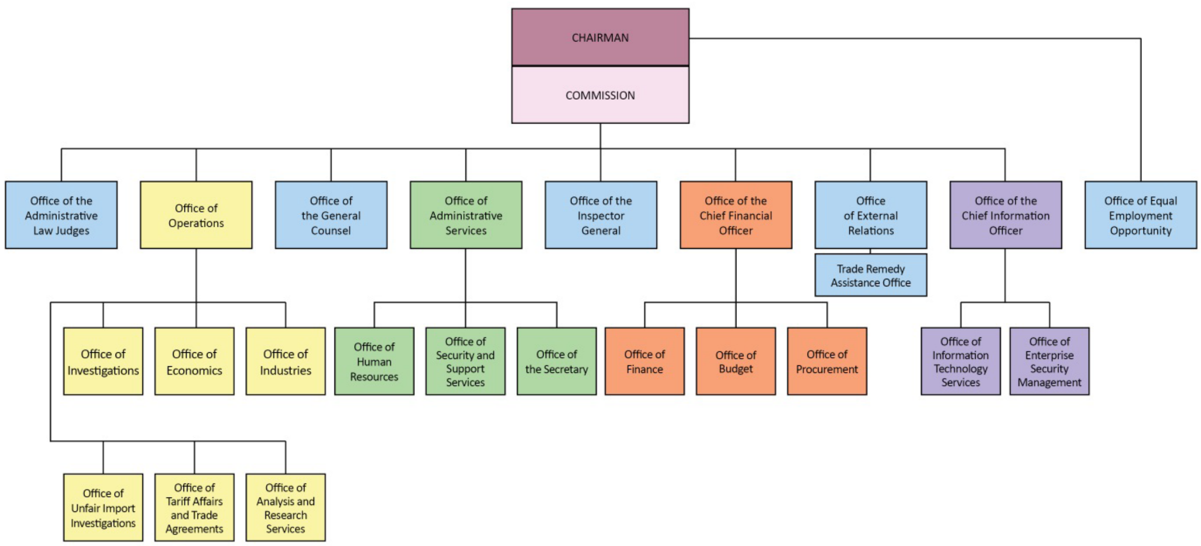
The USITC is headed by six Commissioners, nominated by the President and confirmed by the U.S. Senate. Commissioner Irving A. Williamson, a Democrat, is serving as Chairman of the USITC for the term expiring June 16, 2014. As of the date of issuance of this report, the Commission has no Vice Chairman. Commissioners serving at the end of the fiscal year are, in order of seniority, Daniel R. Pearson, Shara L. Aranoff, Dean A. Pinkert, David S. Johanson, and Meredith M. Broadbent.

Each of the six Commissioners serves a term of nine years, unless appointed to fill an unexpired term. The terms are set by statute[1] and are staggered so that a different term expires every 18 months. A Commissioner who has

1 19 U.S.C § 1330, Organization of Commission.

served for more than five years is ineligible for reappointment. A Commissioner may, however, continue to serve after the expiration of his or her term until a successor is appointed and qualified. No more than three Commissioners may be members of the same political party. The Chairman and the Vice Chairman are designated by the President and serve for a statutory two-year term. The Chairman may not be of the same political party as the preceding Chairman, nor may the President designate two Commissioners of the same political party to serve as the Chairman and Vice Chairman. Currently three Democrats and three Republicans serve as Commissioners.

Office-Level Organizational Chart



USITC Staff

USITC staff is organized into offices designed to support the mission of the agency. These include the:

- Office of Operations (OP), and its subordinate Offices of Investigations (INV), Industries (IND), Economics (EC), Tariff Affairs and Trade Agreements (TATA), Unfair Import Investigations (OUII), and Analysis and Research Services (OARS);
- Office of the Administrative Law Judges (OALJ);
- Office of the General Counsel (GC);
- Office of External Relations (ER), which also includes the Trade Remedy Assistance Office (TRAO);
- Office of the Chief Financial Officer (OCFO), and its subordinate Offices of Budget (OB), Finance (FIN), and Procurement (PR);
- Office of the Chief Information Officer (OCIO), and its subordinate Offices of Enterprise Security Management (ESM) and Information Technology Services (ITS);

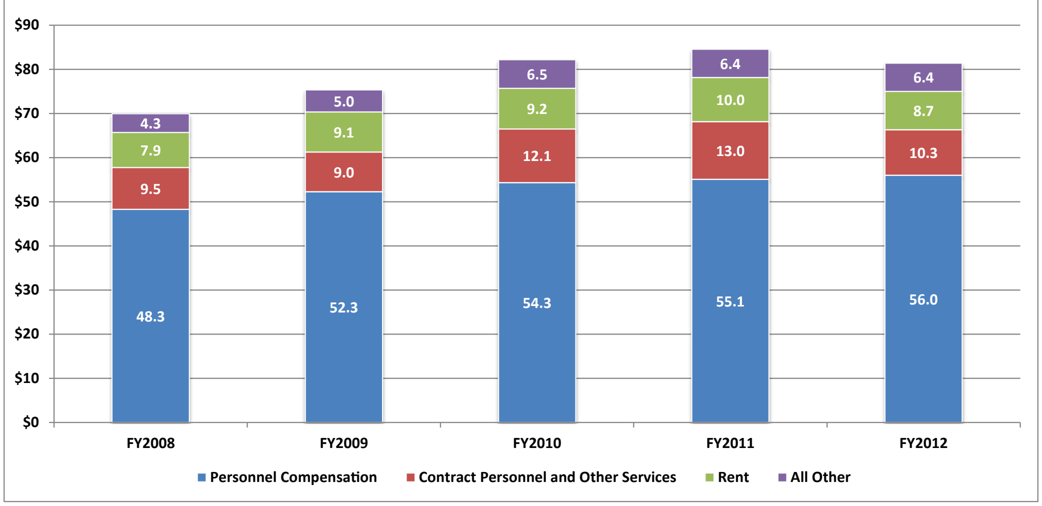
- Office of Administrative Services (OAS), and its subordinate Offices of the Secretary (SE), Human Resources (HR), and Security and Support Services (SSS);
- Office of the Inspector General (IG); and
- Office of Equal Employment Opportunity (EEO).

Appendix A provides additional information on the individual offices of the USITC.

RESOURCES

The Commission has received "no year" appropriations for operations since FY 1993. For FY 2012, the Commission obligated a total of $81.4 million; $56.0 million or 68.8 percent was obligated for all employees to include permanent, temporary, and term (figure 1). Rental for occupied space amounted to $10.3 million or 12.7 percent. Contract services obligated was $8.7 million or 10.7 percent and primarily supported network operations. All Other was composed primarily of equipment, supplies, and leasehold improvements that amounted to $6.4 million or 7.9 percent.

Figure 1 Obligations, FY 2008–12



Source: USITC Budget Justification Summary FY 2008-2013, Analysis of Change: Obligations.

Performance Goals, Objectives, and Results

The Commission develops annual performance measures and uses the results to evaluate its performance in order to fulfill its mission efficiently and effectively. This section summarizes the Commission's strategic planning and management activities and provides an overview of its performance during FY 2012.

COMMISSION STRATEGIC PLANNING AND MANAGEMENT

The Commission issues a Strategic Plan, an annual Performance Plan, and an annual Performance Report in accordance with the Government Performance and Results Act of 1993 (GPRA) as amended by the GPRA Modernization Act of 2010 (2010 Act). The Strategic Plan establishes strategic and performance goals for the Commission. To ensure the effectiveness of strategic planning and budget development, the Commission aligns its budget formulation and execution with its Strategic Plan. The Commission's Budget Justification includes its Annual Performance Plan for that year. The Annual Performance Report provides a detailed review of agency performance.

The Performance Plan for FY 2012 set out annual measures that correspond to the broader strategic goals, performance goals, and strategies identified in the Strategic Plan. The FY 2012 Budget Justification describes the operational processes, skills, and technology, as well as the information and other resources required to meet the performance goals.

During FY 2012, the Commission continued to align its planning and reporting with the new reporting requirements laid out in the 2010 Act. In particular, the agency issued an Addendum to its Strategic Plan for FY 2009–2014 in February 2012. The Addendum included revisions to existing performance goals and provided for new management goals concerning financial management, acquisitions, human resources, and information technology.

The FY 2012 and FY 2013 Performance Plans, issued in February 2012, provided specific annual measures and targets for these goals. These Performance Plans also included information about low-priority program activities in accordance with the 2010 Act and Office of Management and Budget (OMB) guidelines. The Commission also conducted a review of the reports it prepares for Congress to determine whether any of them should be identified as outdated or duplicative. The Commission continued to implement recommendations stemming from internal reviews of both its administrative activities and its functions related to intellectual property-based import investigations.

During FY 2012, the Commission began development of its Strategic Plan for FY 2014–2018. Staff throughout the agency are contributing to the new Plan. During FY 2013, the Commission will seek feedback from its legislative and executive branch customers, as well as the public. The Plan will be issued in February 2014.

Human capital and information technology are essential to fulfilling the Commission's mission. The agency regularly updates its Strategic Human Capital Plan, which identifies programs and activities that will further efforts to develop and maintain a workforce with the requisite knowledge and skills to fulfill its mission over the long term. The Commission implemented an updated Strategic Human Capital Plan during FY 2010–2011 and is in the process of revising this Plan to adjust to anticipated funding constraints and changing operational requirements. The agency expects to complete this update during FY 2013.

The Commission has developed a new Information Technology (IT) Strategic Plan, in accordance with the Information Technology Management Reform Act of 1996 (Clinger-Cohen Act) and the Paperwork Reduction Act of 1995. The Commission's IT Strategic Plan for FY 2012–2016 contains goals and performance measures that relate to or integrate government-wide initiatives and requirements with the Commission's Strategic Goals.

STRATEGIC OPERATIONS AND GOALS

Although the Commission has one program activity set forth in the Budget of the United States, the Commission's Strategic Plan identifies five strategic Operations and sets strategic goals for each operation as shown below. These Operations reflect the mission and mandates of the Commission, highlighting the diverse benefits that the Commission provides in supporting an open trading system based on the rule of law and the economic interests of the United States. For each strategic goal, the Strategic Plan identifies performance goals, and strategies to meet these goals. The Commission's Annual Performance Plans set forth annual measures and targets by which the agency can assess whether it is making progress toward achieving its performance goals.

Strategic Operation	Strategic Goal
1. Import Injury Investigations	1. Support a rules-based international trading system by producing high-quality and timely import injury determinations based on the following— • an effective exchange of information between the Commission and interested parties • an appropriate investigative record, and • transparent, fair, and equitably implemented procedures
2. Intellectual Property-based Import Investigations	2. Conduct intellectual property-based import investigations in an expeditious, technically sound, and transparent manner, and provide for effective relief when relief is warranted, to support a rules-based international trading system
3. Industry and Economic Analysis	3. Enhance the quality and timeliness of its industry and economic analysis to support sound and informed trade policy formulation
4. Tariff and Trade Information Services	4. Improve the availability of and access to high-quality and up-to-date tariff and international trade information and technical expertise to support the executive and legislative branches, the broader trade community, and the public
5. Trade Policy Support	5. Provide enhanced support to the development of well-informed U.S. international trade policy by quickly responding to executive and legislative branch policymakers' needs for technical support, data, and analysis

MANAGEMENT GOALS

The Commission set four management goals for FY 2012. They are—

- Improve effectiveness and efficiency of hiring practices
- Improve effectiveness and efficiency of acquisitions
- Improve financial management controls
- Use information technology to support productivity gains

SUMMARY OF PERFORMANCE RESULTS

The Commission made substantial progress toward its strategic and management goals during FY 2012 by meeting or exceeding the majority of the annual targets that it established for these goals. During FY 2012 the Commission continued to focus many of its performance goals and measures on the timeliness of its determinations and reports, improvements in the effectiveness of its information collection, improvements in its analytical capabilities, and enhancing communication with and outreach to its customers and the general public. Highlights for each strategic and management goal follow.

Import Injury Investigations

Strategic Goal 1: *Support a rules-based international trading system by producing high-quality and timely import injury determinations based on the following—*

- *an effective exchange of information between the Commission and interested parties*
- *an appropriate investigative record, and*
- *transparent, fair, and equitably implemented procedures*

The Commission conducts investigations into the effects on a U.S. industry of unfairly traded imports or an increase in imports and participates in appellate litigation to defend Commission decisions.[2] These proceedings include the following:

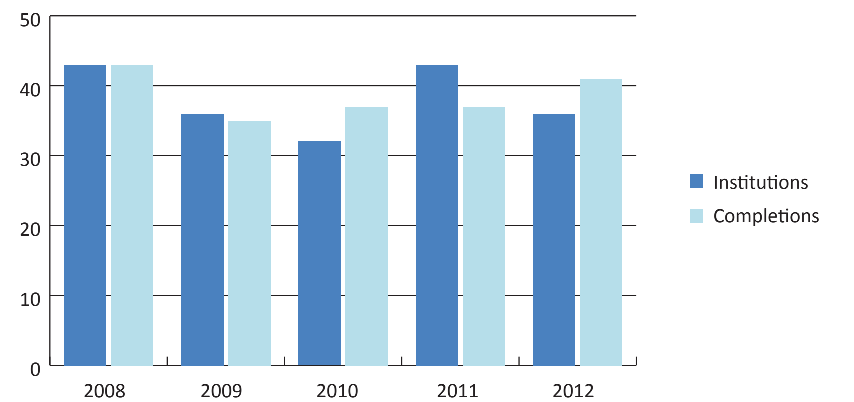
- Antidumping and Countervailing Duty (AD/CVD) investigations, five-year (sunset) reviews, and changed circumstances reviews
- global and country-specific safeguard investigations and market disruption investigations
- safeguard investigations under various statutes implementing free trade agreements
- World Trade Organization (WTO) consistency proceedings requested by the U.S. Trade Representative (USTR)

The Commission's work on these investigations ensures that each import injury determination is based on an appropriate investigative record and made within the time limit mandated by statute, and that all procedures are transparent and fair.

During FY 2012, the Commission met or exceeded all but one of the annual targets associated with this strategic goal. The agency met all of its statutory deadlines. In terms of volume, the Commission's caseload levels have not changed significantly over the past five fiscal years (figure 2).

2 Applicable statutes include title VII of the Tariff Act of 1930; sections 202, 204, 406, 421, and 422 of the Trade Act of 1974; sections 302 and 312 of the North American Free Trade Agreement (NAFTA) Implementation Act of 1993; and section 129(a)(4) of the Uruguay Round Agreements Act.

Figure 2 Institutions and completions of import injury investigations, FY 2008–12



Much of the information supporting these investigations is proprietary and is supplied by firms involved in these matters. The Commission continued to make progress during the year on its effort to collect information electronically, with the goal of offering companies a more efficient way to give the agency information in import injury proceedings and improving data processing efficiency for staff. The ongoing efforts to shift to electronic collection of information should ultimately generate cost savings for the Commission and investigation participants by reducing submission and processing times.

Although the Commission developed a customer feedback survey, it was not able to issue it by the close of FY 2012 as it originally planned. It expects to issue the survey to external investigative participants in FY 2013. This is one of a number of customer feedback surveys pertaining to selected agency-wide operations that the Commission plans to issue during FY 2013. The Commission has used such surveys in past years in its efforts to improve the efficiency and effectiveness of its rules and procedures.

Commission efforts to provide information to its customers were successful in several areas. The agency continued to exceed the targets it set for making information available on its electronic docket information system (EDIS). As in FY 2011, documents filed on EDIS for both import injury and intellectual property-based import investigations were available well within the established timeframes. Ready access to documents is important both to agency staff and to parties to the investigations. In addition, Commission staff outreach to industry groups continued throughout the year.

User satisfaction with the agency's Import Injury Investigations webpages improved in FY 2012. The Commission deployed a redesigned public website in early FY 2012. The redesign efforts focused on public feedback regarding ease of navigation and overall usability. The Commission will continue to make improvements to the content of the pages during FY 2013.

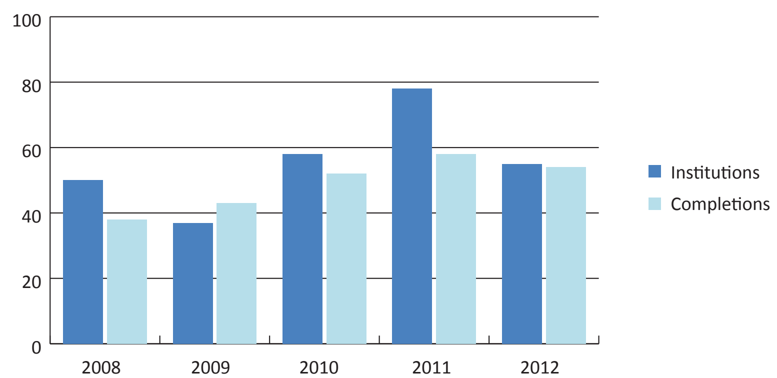
Intellectual Property-based Import Investigations

Strategic Goal 2: *Conduct intellectual property-based import investigations in an expeditious, technically sound, and transparent manner, and provide for effective relief when relief is warranted, to support a rules-based international trading system*

The Commission investigates alleged unfair methods of competition and unfair acts in the importation of articles into the United States, or in their sale.[3] These section 337 investigations usually involve allegations relating to infringement of U.S. patents and trademarks. If the Commission finds a violation, it may issue an exclusion order barring the imported product from entry into the United States, and it may also direct a respondent to cease and desist from engaging in the unfair practices at issue. The violation of a cease and desist order can be punished by civil penalties of up to $100,000 a day or twice the domestic value of the articles entered or sold. The President may, for policy reasons and typically following interagency review, disapprove Commission exclusion and/or cease and desist orders within 60 days of their issuance. Commission determinations may be appealed to the U.S. Court of Appeals for the Federal Circuit.

Although the number of new investigations instituted by the Commission in FY 2012 did not reach the record level of new investigations commenced in FY 2011, investigative activity remains at or above the average for the last five years.[4] Moreover, these investigations have grown more complex, since cases involving telecommunications devices and other high-technology products, often asserting infringement of many patents, constitute a rising share of the overall caseload. Figure 3 shows investigative activity over the past five years.

Figure 3 Institutions and completions of intellectual property-based import investigations and ancillary proceedings, FY 2008–12



The sustained high level of investigative activity in this area has made it difficult for the Commission to fully meet all of its annual targets. In particular, the Commission did not fully meet targets concerning investigative time frames as it continued to work through the record number of filings that it received in FY 2011. A small number of administrative deadlines in the 128 active section 337 matters during FY 2012 were also missed.

In recent years, the Commission has redirected resources to address its burgeoning caseload. It undertook a comprehensive review of this Operation during FY 2009–10. The Commission determined, after completion of the review, that achieving the Commission's goals of adjudicating section 337 matters in an efficient, expeditious, technically sound, and transparent manner requires a balance of funding for all offices involved in these matters. As a result, the Commission adjusted the extent to which the Office of Unfair Import Investigations participates in section 337 investigations, in order to maximize that office's contribution within existing resources. It increased the number of Administrative Law Judges (ALJs), as well as attorneys in the Office of the ALJs and the Office of the General Counsel. In FY 2010, the agency secured additional space for a new courtroom. Although

3 The Commission conducts these investigations pursuant to section 337 of the Tariff Act of 1930, as amended.

4 The average level of institutions for the five year period was 56; completions, 49. In contrast, from 2000–09, new investigations averaged 26 per year.

it delayed the construction of the courtroom in FY 2011 because of budget uncertainties, the agency built the courtroom in FY 2012 and anticipates that it will be operational in early FY 2013. The Commission also worked to expand its roster of mediators for its section 337 mediation program during FY 2012. The Commission expects that all of these actions will contribute to its goal of concluding investigations expeditiously.

The Commission met targets associated with its efforts to facilitate the enforcement of exclusion orders during FY 2012. It also partially met targets related to improving the information the agency provides to investigation participants and the public. Specifically, as with Operation 1, outreach efforts and targets set for making information available via EDIS were exceeded, but user satisfaction with the Operation 2 webpage did not reach the targeted level.

The Commission regularly seeks feedback from firms involved in Operation 2 investigations and modifies its rules and procedures, as appropriate. The agency began conducting a survey during FY 2012 to help it assess whether its realignment of Operation 2 resources has been effective. This survey will continue during FY 2013.

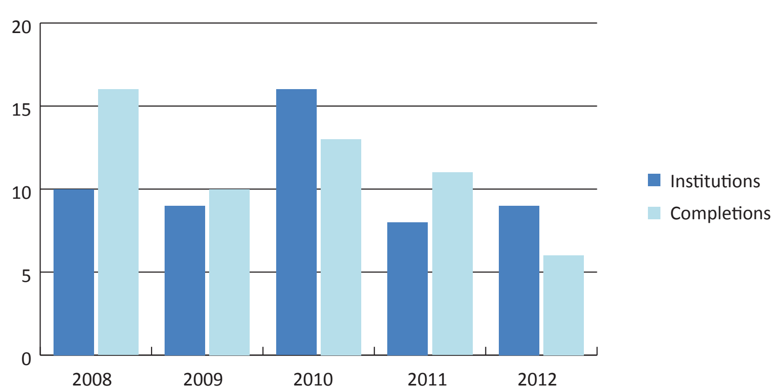
The agency also met the Performance Goal it established at the end of FY 2010 regarding early identification of public-interest issues. The Commission issued a notice of proposed rulemaking and published its final rules in early FY 2012.

Industry and Economic Analysis

Strategic Goal 3: *Enhance the quality and timeliness of its industry and economic analysis to support sound and informed trade policy formulation*

The Commission's industry and economic analysis provides policymakers in the legislative and executive branches with insightful, independent, and objective information as they evaluate policy options. As a globally recognized leader in the analysis of international trade and industry competitiveness, the Commission provides its customers with high-quality analysis that is both timely and relevant to U.S. trade policy.[5] Figure 4 shows the volume of non-recurring investigations over the past five fiscal years.[6]

Figure 4 Institutions and completions of industry and economic analysis investigations, FY 2008–12



5 The Commission conducts these investigations pursuant to section 332(g) of the Tariff Act of 1930; section 131 of the Trade Act of 1974; section 2104(b)(2) of the Trade Act of 2002; and section 103 of certain FTA implementation acts, such as the NAFTA Implementation Act.

6 The Commission conducts a number of other statutory investigations on an annual or biennial basis.

Industry and Economic Analysis investigations differ significantly in terms of duration, scope, and complexity. In FY 2012, the Commission completed or was conducting investigations on a wide range of new and complex topics that provided unique information and analysis that helped fill critical information gaps for policy makers. Examples include trade facilitation in the East African Community, competitive factors in Brazil affecting U.S. and Brazilian agricultural sales in third country markets, factors affecting the competitiveness of the U.S. business jet industry, an overview of the U.S. and global remanufactured goods industry, and an analysis of U.S. exports of used electronic products.

The Commission invests in its staff to ensure that they have the relevant industry and economic expertise and continues to develop analytical tools and data resources. These investments allow the agency to quickly respond to changing policy interests and customer needs. The resources developed for this strategic goal are also integral to investigative and other activities that contribute to Strategic Goals 1, 4, and 5.

The agency's efforts in recent years to improve data collection methods through the application of electronic information gathering and manipulation tools have contributed positively to certain Industry and Economic Analysis investigations, as a number of such investigations rely on firm-level data that are not publically available. Because the investigations address one-time requests, the structure and content of surveys vary, impeding efforts to standardize these types of questionnaires. In FY 2011, the Commission began applying these tools to an investigation that required the agency to issue thousands of questionnaires. Commission staff refined this technology and used it for two investigations with similar survey sampling requirements that began in FY 2012. Use of the technology has generated efficiencies for survey respondents, as they are able to submit their responses electronically, and has made processing the information feasible despite Commission resource and time constraints. The Commission is leveraging the knowledge gained through these investigations to advance electronic information collection and processing for import injury investigations.

The Commission met or made progress on the annual targets it set for FY 2012. The agency issued all of its reports to its customers on time. It continued its efforts to improve its communications with its legislative and executive branch customers and to provide them with reports that fulfilled their requirements and were useful inputs into their trade policy analysis or deliberations.

The Commission met most of the targets it set concerning its goal to strengthen its analytical capabilities. Of note, the agency improved its capability to assess the impact of non-tariff measures and foreign direct investment, continued to develop unique data and strengthen knowledge regarding global supply chains, and extended its research concerning the links between competitiveness and regulation and green technologies and services. These efforts relate to areas of growing interest to U.S. policy officials and have been incorporated to varying degrees in the agency's customer-requested work. The Commission also made substantial progress but did not fully meet three targets, as customer-requested work took precedence. They have been extended, with completion expected in FY 2013.

The agency did not meet its target regarding positive feedback from users of the Industry and Economic Analysis webpages. Although the Commission's website redesign was received positively, user satisfaction declined during the second half of FY 2012. The agency will continue efforts to improve the overall functionality of the website and will continue to make most of its reports and staff research available to the public on its website, providing information and analysis that the public cannot find elsewhere.

Tariff and Trade Information Services

Strategic Goal 4: *Improve the availability of and access to high-quality and up-to-date tariff and international trade information and technical expertise to support the executive and legislative branches, the broader trade community, and the public*

Tariff and trade information services include maintenance and publication of the HTS, preparation of legislative reports for the Congress, drafting of implementing annexes to trade agreements negotiated by USTR, maintenance of the online Interactive Tariff and Trade DataWeb (DataWeb), and management of Commission trade databases. Services also include contributions to the development of the interagency International Trade Data System (ITDS), maintenance of U.S. commitments under Schedule XX of the General Agreement on Tariffs and Trade/World Trade Organization (GATT/WTO), preparation of the electronic database that supports U.S. submissions to the WTO Integrated Database, and related information gathering, processing, and dissemination activities.[7] Commission staff are members of the U.S. Delegation to the HS-related committees at the World Customs Organization (WCO) and are members of the interagency 484(f) Committee.

FY 2012 performance goals and targets established for Operation 4 concern providing accurate and timely tariff and trade information and technical services to customers and the public. The Commission met the targets it set for FY 2012, with one exception. However, the Commission did meet a related target established by its congressional oversight committees.

The exception concerned meeting internal deadlines for producing reports on miscellaneous tariff bills. The Commission's target did not account for the substantial increase in the number of draft bills that were submitted for review in FY 2012. The number of submissions was roughly double the level received in FY 2010. Moreover, unlike past years when draft legislation was submitted for review on a flow basis over a period of months, the Commission received the drafts simultaneously. To accommodate the volume and timing of these submissions, the agency shifted staff resources to help with the analysis of the proposed legislation. It also redesigned the review process to gain efficiencies and reduce the overall time required for review. By taking these steps, the Commission met the deadline that was established by congressional staff.

The Commission also began the process of redesigning the way it maintains the HTS. The agency is developing a unified database capable of generating both the official HTS and various ancillary products. The Commission expects that this effort will lead to production efficiencies when it is completed.

Trade Policy Support

Strategic Goal 5: *Provide enhanced support to the development of well-informed U.S. international trade policy by quickly responding to executive and legislative branch policymakers' needs for technical support, data, and analysis*

The Commission provides trade policymakers with technical expertise, accurate data and information, and objective analysis on international trade and competitiveness issues in order to support the development of well-informed U.S. international trade policy. The Commission's ability to provide prompt responses to requests

7 The functions of the Commission in this Operation are carried out mainly in response to legal requirements set out in section 484(f) of the Tariff Act of 1930 and the Omnibus Trade and Competitiveness Act of 1988 (19 U.S.C. § 3001 et seq); other statutes also apply.

for trade policy support from both the legislative and executive branches complements and draws upon work in other strategic Operations, most notably Industry and Economic Analysis and Tariff and Trade Information Services.[8] The Commission is a non-voting member of the interagency Trade Policy Staff Committee (TPSC), and its staff participates in various TPSC subcommittees.

During FY 2012 the Commission focused its efforts on giving policy makers timely and responsive staff technical assistance and improving its outreach efforts in this area. The agency met three of the six targets it set for the year and made significant progress on the others.

The Commission met its target regarding the number of requests it responded to in FY 2012. The agency also met its target regarding deadlines for responses to letters from Congress. During FY 2011, the Commission developed an automated system for tracking technical assistance requests, which it began implementing in FY 2012. This system is one piece in a broader agency effort to create more unified methods of collecting, maintaining, and reporting performance information to support performance management efforts. The Commission made progress but did not reach its target pertaining to enhancing electronic delivery of classified products. The Commission expects to reach this target in FY 2013.

The Commission uses outreach and feedback on its technical assistance efforts both to improve the quality of those products and as a means of gauging which trade policy issues are likely to be of interest to policy makers going forward. Commission efforts to continue outreach to new congressional staff and receive regular feedback from executive branch staff met with mixed success. Feedback from executive branch staff was requested but not consistently provided; new trade committee staff was contacted and briefings offered.

Management Goals

The Commission set management goals for FY 2012 covering human resources, acquisitions, financial management, and information technology. Many of the annual targets set for these goals established performance baselines. The Commission met all but one of its FY 2012 targets during the fiscal year and met the remaining target in October 2012.

Management Goal 1: *Improve effectiveness and efficiency of hiring practices*

The Commission is committed to hiring and retaining the most talented workforce possible as human capital is critical for mission attainment. As part of the management initiative to improve effectiveness and efficiency in this area, the Commission is working to decrease processing time for hiring actions, improve satisfaction with agency hiring practices and employee development and training, and improve documentation pertaining to hiring activities.

In FY 2012, the Commission established baselines concerning the satisfaction with the hiring process, accuracy of records regarding hiring activities, and employee satisfaction with training opportunities. The Commission established a baseline for the timeliness of the hiring process shortly after the end of the fiscal year.

To make progress on implementing OPM's 80 day hiring model, the Commission developed a database to

8 The Commission provides this support in accordance with section 332 of the Tariff Act of 1930.

document hiring milestones. The Commission made substantial progress on its FY 2012 target to establish a baseline for the time to issue certified candidates to selecting officials, an important component of the hiring process. The agency completed this effort in October 2012 and is using this information to make progress toward the 80 day target in FY 2013.

In addition, the Commission established a baseline measure of satisfaction with hiring practices based on customer survey feedback and it will strive for improvement on its score in 2013. In FY 2013, the recurring customer satisfaction survey will include questions more specifically addressing hiring practices and the Commission will conduct a separate survey of customer/management satisfaction with these issues.

The Commission established a baseline for accuracy of records regarding hiring procedures based on an internal records review and will strive to improve on its score in 2013.

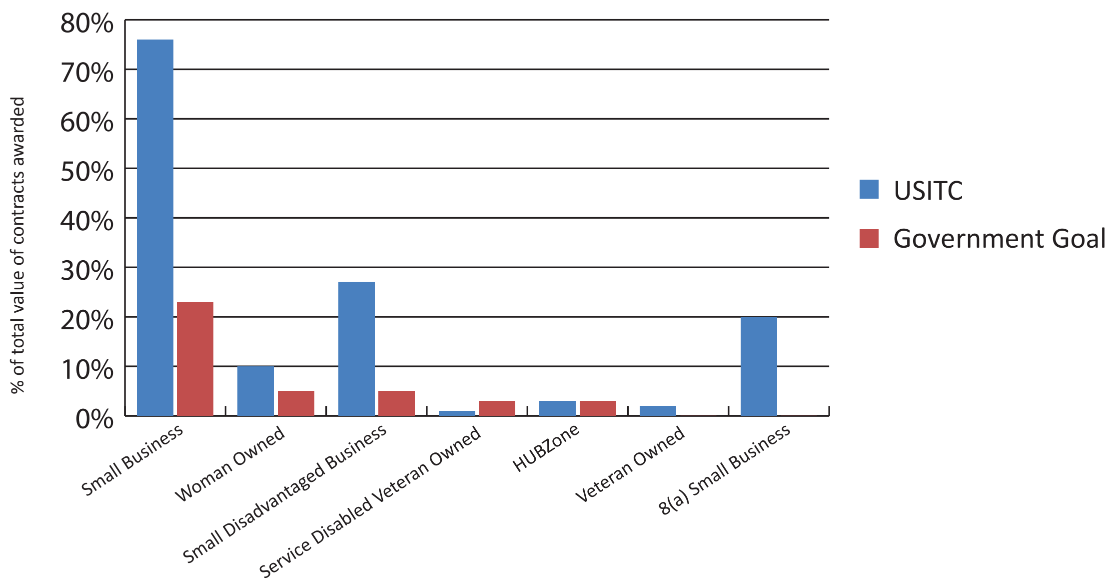
The Commission administered a training assessment survey and established a baseline measure of satisfaction with training and development practices based on customer survey feedback. The Commission will establish a training plan during FY 2013 and will continue its efforts to improve on its baseline scores in this area.

Management Goal 2: *Improve effectiveness and efficiency of acquisitions*

In FY 2012, the Commission met the annual targets of establishing baselines from which to improve the effectiveness and efficiency of acquisitions. In addition, the Commission reviewed all open procurement files and instituted new procedures for an ongoing compliance review of contract files with a quarterly summary review of the open files. The Commission established a customer satisfaction program that resulted in improvements to the acquisition process and will pave the way forward for further refinements and increased customer satisfaction.

During FY 2012 the Commission increased the acquisition staff with highly qualified and certified contract specialists. In addition, the Commission exceeded most socioeconomic goals set for federal agencies by contracting with small businesses as shown in figure 5.

Figure 5 Socioeconomic Goal Achievement, FY 2012



Management Goal 3: *Improve financial management controls*

As part of the initiative to improve financial management controls, the Commission is working to better ensure the timeliness of internally distributed financial information, address the cause of improper payments and improve internal controls. In FY 2012, the Commission met the annual targets of establishing baselines from which to make improvements. The Commission established an internal financial information distribution system to facilitate effective decision making regarding resource utilization. This distribution system will enable Commission managers to access their budget information from a centralized location and within a defined time frame. In addition, the Commission addressed improper payments through the integration of the U.S. Treasury's Do Not Pay solution by integrating the solution into existing business processes so that current and relevant data is accessed prior to making an award or payment decision. The Commission refined numerous financial workflow processes and documented internal controls to improve the timeliness of vendor payments and the accuracy of contract information. Finally, the Commission is further refining its processes to ensure accuracy, accountability, and transparency regarding financial information.

Management Goal 4: *Use information technology to support productivity gains*

Information Technology directly and indirectly supports the Commission's mission related activities. The Commission is committed to using information technology to drive productivity gains in its mission and support functions. In FY 2012, the Commission met all of the annual targets it set by establishing or meeting baseline performance that supported improving operational efficiencies, cybersecurity, and various business requirements. The Commission migrated 100 percent of its telecommunication contracts to the GSA Networx contract vehicle, thus supporting a government-wide effort to improve the quality of telecommunication services at a reduced cost. The Commission expects to implement Personal Identification Verification cards for employee access to the agency network during the first half of FY 2013, ahead of the government-wide target date.

REVIEWS AND EVALUATIONS

The Commission began the practice of gathering performance data and reporting performance results internally on a quarterly basis during FY 2010. For each strategic or management goal, a senior agency manager serves as Goal Leader. Under the general oversight of the Agency Performance and Strategic Planning Committee and the Executive Management Council, the Goal Leaders, Responsible Officials, and staff supplying the data are responsible for verification and validation. The Commission believes that the performance data highlighted in this report are complete and reliable.

Pursuant to the GPRA and the 2010 Act, the Commission conducts program evaluations to improve its plans and operations. The Strategic Plan for FY 2009–2014 and the FY 2011 Performance Plan identified the review of programs and procedures as part of the Commission's strategy for meeting the performance goals set for several strategic Operations.

As noted in its FY 2010 Performance and Accountability Report, the Commission completed an evaluation of Operation 2 (Intellectual Property-based Import Investigations). The Commission is continuing to assess the effectiveness of its reallocation of resources in this area.

In FY 2011, the Commission initiated and completed an evaluation of its Office of Administration. The Commission began taking actions to realign resources during FY 2011, and in FY 2012 the agency established the Office of the Chief Financial Officer, with three component offices: Budget, Finance, and Procurement.

The Commission did not complete any comprehensive reviews during FY 2012, but continued a long term project that is assessing agency business processes. The Commission will use the information generated by this effort as a baseline for evaluating the efficiency and quality of its operations. The assessments are being utilized in multiple ongoing efforts including the development of an integrated database for the HTS and improvements in electronic collection and processing of information for import injury investigations.

The Commission also continued efforts to streamline its rules and procedures in FY 2012. Notably, it implemented E-Filing requirements for most document submissions. The agency also began to assess issues related to E-discovery in an effort to streamline its section 337 investigations. The Commission believes that these efforts will lead to increased efficiency and improved transparency for investigation participants.

Chairman's Statement of Assurance

STATEMENT OF QUALIFIED ASSURANCE

The Commission's management is responsible for establishing and maintaining effective internal control and financial management systems that meet the objectives of the Federal Managers' Financial Integrity Act of 1982 (FMFIA). The Commission is able to provide a qualified statement of assurance that the internal controls and financial management systems meet the objectives of FMFIA with the exception of the material weakness described below.

The Commission conducted its assessment of the effectiveness of internal control over the effectiveness and efficiency of its systems, programs, and financial operations and compliance with applicable laws and regulations in accordance with OMB Circular A-123, *Management's Responsibility for Internal Control*. Based on the results of this evaluation, the Commission identified inadequate controls surrounding undelivered orders, accounts payable, and expenditures as a material weakness in the above area. Other than the exception noted above, the internal controls were operating effectively and no other material weakness was found in the design or operation of these internal controls.

To improve the agency's system of internal controls, the Commission developed a congressionally approved Human Capital Plan which it began implementing in Fiscal Year 2012. This plan established the Office of Chief Financial Officer (OCFO) and aligns the budget, procurement, and finance functions under the CFO.

The Commission made significant progress in its financial management during Fiscal Year 2012. It is continuing to address outstanding challenges and is on track to achieve its goal of full financial accountability. Specifically, the Commission started addressing the internal controls surrounding financial activities and successfully remedied previous fiscal year deficiencies in procurement operations and financial accounting. These gains were achieved through devoting additional resources to these issues, including the hiring of additional personnel with appropriate skill sets. Most notable was the recruitment of an experienced CFO who rapidly put together a first-rate team and began instituting major improvements to our financial management processes. While we noted the actions taken over the past few years represent significant progress, more work is still required before we are fully compliant with FMFIA and OMB Circular No. A-123. The Commission remains fully committed to establishing and maintaining an effective internal control program.

Irving A. Williamson
November 15, 2012

Overview of Financial Results

OVERVIEW OF FINANCIAL STATEMENTS

The Commission received an unqualified opinion on its FY 2012 financial statements. Notwithstanding this opinion, the Commission's auditors reported one material weakness and a significant deficiency. The material weakness relates to accounting for undelivered orders, while the significant deficiency relates to controls over financial reporting. Remedial actions are underway to address both issues.

Over the course of the fiscal year, the Commission has made significant improvements to its internal controls over financial management. With the establishment of the Office of the Chief Financial Officer and the hiring of the CFO to fill the position, the Commission is addressing all financial internal controls and processes.

The CFO has begun to address concerns with respect to financial management personnel and is following through on its Human Capital Plan to staff up with highly skilled financial management personnel. While there has been significant improvement supporting financial transactions throughout the fiscal year, there are still gaps that need to be addressed.

Summary of the Balance Sheets and Statements of Changes in Net Position

Assets: At the end of FY 2012, the Commission's balance sheet showed total assets of $22.8 million, an increase of $1.6 million or 7.6 percent over FY 2011. This was the net result of the $3.1 million (59.7 percent) increase in Property, Plant and Equipment (PP&E) offset by a decrease of $1.5 million (9.1 percent) to Fund Balance with Treasury. The PP&E increase is due to the $1.3 million purchase of equipment for the Continuity of Operations (COOP) facility and $3.4 million for the leasehold improvements on the second floor of the USITC building, which are reduced by an additional $1.6 million in amortization and depreciation since last year.

Liabilities: At the end of FY 2012, the Commission's total liabilities were $10.6 million, an increase of $2.8 million or 36.0 percent over FY 2011. The increase in total liabilities was primarily the result of increases to accounts payable. Federal accounts payable increased by $1.9 million (148.7 percent) largely due to the accrual of the amounts owed to General Services Administration for leasehold improvements to the second floor of the USITC building. The $797 thousand (46.8 percent) increase in nonfederal accounts payable is due to accruals for capitalized leasehold improvement equipment and for vendor invoices (PP&E licenses/subscriptions for example) not due to be paid until after October 1, 2012.

Net Position: The Commission's net position on the Balance Sheet and the Statement of Changes in Net Position was $12.2 million, a decrease of $1.2 million or 8.8 percent below the FY 2011 ending net position of $13.4 million. The amount of unexpended appropriations decreased more than $4.1 million (34.8 percent), which more than offsets the increase in cumulative results of operations of approximately $3.0 million (197.7 percent).

Summary of the Statement of Net Cost

The Commission's net cost of operations for FY 2012 was $84.8 million, an increase of $1.8 million or 2.1 percent over FY 2011. The increase in net cost of operations was the result of more appropriations used and lower imputed financing costs.

Statement of Budgetary Resources

The Statement of Budgetary Resources provides information on budgetary resources made available to the Commission and the status of these resources at the end of the fiscal year. For FY 2012, total budgetary resources were $84.3 million. This represents a decrease of $461 thousand, or 0.5 percent, from the FY 2011 total budgetary resources of $84.8 million. The unobligated balance at October 1 decreased by $1.6 million (75.4 percent), prior year recoveries increased $2.7 million (247.5 percent), appropriation authority decreased $1.7 million (2.1 percent), and offsetting collections increased $121 thousand (226.3 percent).

Additionally, direct obligations were $84.0 million and net outlays totaled $81.5 million this year. This represents a decrease in direct obligations of $286 thousand (0.3 percent) and an increase in net outlays of $2.1 million or 2.6 percent over FY 2011.

LIMITATIONS ON FINANCIAL STATEMENTS

The Commission's financial statements were prepared in conformity with the hierarchy of accounting principles approved by the Federal Accounting Standards Advisory Board (FASAB) and OMB Circular No. A-136, *Financial Reporting Requirements*.

The principal financial statements have been prepared to report the financial position and results of operations of the Commission, pursuant to the requirements of 31 U.S.C. 3515(b). While the statements have been prepared from the books and records of the Commission in accordance with U.S. Generally Accepted Accounting Principles (GAAP) for federal entities and the formats prescribed by OMB, the statements are in addition to the financial reports used to monitor and control budgetary resources, which are prepared from the same books and records.

The statements should be read with the realization that they are for a component of the U.S. Government, a sovereign entity.

Management Controls and Compliance with Laws and Regulations

FEDERAL MANAGERS' FINANCIAL INTEGRITY ACT (FMFIA)

The objectives of the Federal Manager's Financial Integrity Act of 1982 are to ensure that the Commission's controls and systems provide reasonable assurance that:

- obligations and costs are in compliance with applicable laws;
- funds, property, and other assets are safeguarded against waste, loss, unauthorized use, or misappropriation;
- revenues and expenditures are properly recorded and accounted for to permit the preparation of accounts and reliable financial reports and to maintain accountability over assets; and
- programs are efficiently and effectively carried out in accordance with applicable laws and management policy.

In accordance with the Accountability of Tax Dollars Act of 2002 (ATDA), the Commission's financial information is audited annually to help assess if these objectives are being met. Additionally, at the end of each fiscal year, management reviews the operating units' performance data to ensure that performance results can be properly supported.

For FY 2012, the Commission evaluated the internal controls over the effectiveness and efficiency of operations and compliance with applicable laws and regulations in accordance with OMB Circular A-123, *Management's Responsibility for Internal Control*. In addition, the Commission evaluated the effectiveness of internal control over financial reporting in accordance with the requirements of Appendix A of OMB Circular A-123. Based on these evaluations, the Commission provides qualified assurance that its internal controls were operating effectively.

GOVERNMENT PERFORMANCE AND RESULTS ACT

The Government Performance and Results Act of 1993 requires a recurring cycle of performance reporting for federal agencies. This cycle involves five-year strategic plans, annual performance plans, and annual program performance reports.

GPRA MODERNIZATION ACT

The Act creates a new government wide framework including (1) long-term federal government priority goals, (2) revised federal government performance plan requirements, (3) quarterly priority progress reviews, and (4) a government-wide performance website.

FEDERAL FINANCIAL MANAGEMENT IMPROVEMENT ACT

Under the Federal Financial Management Improvement Act of 1996 (FFMIA), agencies are required to report on whether their financial management systems substantially comply with the federal financial management systems requirements, applicable federal accounting standards, and the United States Standard General Ledger (USSGL) at the transaction level. Since the Commission is not a CFO Act agency, it is not subject to the FFMIA. The Commission uses the Department of Interior's financial management system and that system is FFMIA compliant. Thus, the Commission's financial management system complied with the requirements of FFMIA and produced records in accordance with USSGL at the transaction level.

FEDERAL INFORMATION SECURITY MANAGEMENT ACT

The Federal Information Security Management Act of 2002 (FISMA) requires each federal agency to establish and maintain an information security program for all non-national security information and information systems. The Commission's information security program plans, implements, evaluates, and documents remedial action to address any deficiencies in its information security policies, procedures, and practices. In addition, FISMA requires the OIG to perform an annual independent evaluation.

During FY 2012, the Commission improved its information security program by (1) providing annual information general security awareness training and specialized role based training for employees with significant information security responsibilities (SISR); (2) completing authorization cycles for two systems; (3) updating and implementing an IT Incident Response Plan; and providing a base for our continuous monitoring program by (4) increasing the breadth of our internal vulnerability assessment program (5) joining DHS's Cyber Hygiene Program which reviews the USITC's public facing network for any security vulnerabilities every quarter.

ACCOUNTABILITY OF TAX DOLLARS ACT

ATDA requires the preparation of financial statements by the federal agencies that were exempted by the Chief Financial Officers Act of 1990. OMB Circular No. A-136, *Financial Reporting Requirements*, enables agencies to either produce a consolidated Performance and Accountability Report or to produce a separate Agency Financial Report. The Commission chose to produce an Agency Financial Report. This report meets the requirements of the Act.

IMPROPER PAYMENTS ELIMINATION AND RECOVERY ACT

The Improper Payments Elimination and Recovery Act of 2010 (IPERA), enacted on July 22, 2010, requires the development of policies and procedures for the prevention and detection of improper payments in the federal government. The Act expands on the Improper Payments Information Act of 2002 (IPIA), which requires an initial assessment to identify those programs that are susceptible to significant risk of improper payments.

The Commission's formal, written improper payment identification and recovery plan includes analysis of receivables, analysis of payroll transactions, and sample testing of both payroll and non-payroll disbursements to identify improper payments. In addition, the Commission recently entered into an agreement with its shared service provider to utilize the centralized Do Not Pay solution to check all pre-payments in an effort to further reduce improper payments.

PROMPT PAYMENT ACT

The Prompt Payment Act of 1982, as amended, provides government-wide guidelines for establishing due dates on commercial invoices and provides for interest payment on invoices paid late. The Commission made late payments resulting in interest penalties of $3,032 in FY 2012.

INSPECTOR GENERAL ACT

The 1988 amendments to the Inspector General Act of 1978 established the Commission's Inspector General (IG). The IG is responsible for overseeing audits, investigations, and inspections of the Commission's programs and operations.

DEBT COLLECTION IMPROVEMENT ACT

The Debt Collection Improvement Act of 1996 requires agencies to review and report annually on their internal standards and policies regarding compromising, writing down, forgiving, or discharging debt. In FY 2012, the Commission referred no debts to Treasury.

ANTI-DEFICIENCY ACT

The Anti-Deficiency Act prohibits federal agencies from obligating or expending federal funds in advance or in excess of an appropriation or apportionment. The Act also prohibits an agency from accepting voluntary services for the United States, or employing personal services not authorized by law, except in cases of emergency involving the safety of human life or the protection of property. The Commission did not have any Anti-Deficiency Act violations during FY 2012.

BUY AMERICAN ACT

The Buy American Act requires federal agencies to purchase goods, supplies, and materials that have been mined, produced, or manufactured in the United States of America. The Commission followed the requirements of this Act during FY 2012.

ECONOMY ACT

The Economy Act of 1933 allows the head of an agency or major organizational unit within a federal agency to place an order with a major organizational unit within the same federal agency or another federal agency for goods or services, if

1. amounts are available;
2. the head of the ordering federal agency or unit decides the order is in the best interest of the United States Government;
3. the federal agency or unit to fill the order is able to provide or get by contract the ordered goods or services; and
4. the head of the federal agency decides ordered goods or services cannot be provided as conveniently or cheaply by a commercial enterprise.

During FY 2012, the Commission had interagency agreements with 14 agencies: Council of the Inspectors General on Integrity and Efficiency, Department of Homeland Security, Department of Labor, Federal Occupational Health, National Archives and Records Administration, General Services Administration, Government Printing Office, Library of Congress, Interior Business Center, Office of Federal Operations, Office of Personnel Management, United States Postal Service, United States Census Bureau, and the United States Department of Agriculture.

FINANCIAL SECTION

Message from the Chief Financial Officer

I am pleased to present the United States International Trade Commission's financial statements for the FY 2012 Agency Financial Report. The independent accounting firm of Castro & Company, LLC, monitored by the Inspector General, issued an unqualified opinion on the Commission's FY 2012 financial statements. For the past three years the Commission has undergone a transformation in how it accounts for and reports on its financial management operations. This transformation was accelerated during FY 2012 with the establishment and staffing of the Office of the Chief Financial Officer (CFO). The unqualified opinion not only represents continued improvement in the Commission's financial management transformation over the last three years, it also is a testament to the agency's commitment to addressing remaining challenges to the reform process by sustaining its efforts to improve financial management across the Commission.

The Independent Auditor's Report on Internal Control included one material weakness and one significant deficiency. The material weakness relates to accounting for undelivered orders while the significant deficiency relates to controls over financial reporting. Remedial actions are underway to address the material weakness and significant deficiency and I am confident that we will eliminate these issues as we move forward.

Much has been accomplished during this fiscal year regarding financial management transformation. For example, we have stabilized the Office of the Chief Financial Officer by hiring staff with the requisite skills to address financial management and internal control issues that have in the past precluded the Commission from achieving full accountability over its financial resources. Our staff has been mapping the Commission's financial processes in an effort to ensure financial transactions are processed properly on a consistent basis. Furthermore, we have worked closely with our financial system service provider (Interior Business Center) to develop systemic processes as well as reports. This effort has resulted in more reliable, timely, and consistent financial information for decision-makers throughout the Commission. In the area of procurement, we have developed and implemented processes to eliminate control weaknesses reported by our external auditors in previous years. This effort includes ongoing training of our Contracting Officer's Representatives (CORs), Town Hall Meetings to educate staff on the Federal Acquisition Regulation, implementing a process to achieve a higher quality of contract files, and providing individual instruction to each of our CORs on how to properly calculate accruals. Finally, we have enhanced our financial tools such as SharePoint and developed a new system report that assists accurate reconciliations between contract files and the financial system. This report has been invaluable in allowing CFO staff to better manage the status of our procurements.

As a result of our transformation efforts, we have sustained an unqualified audit opinion for FY 2012. I am grateful to the dedicated staff of the Commission, and in particular the staff of the CFO, who worked tirelessly on our transformation to increase accountability for financial resources and improve the quality and accuracy of our financial reporting.

As we move forward in addressing our internal control issues, I am confident that our newly created Office of the CFO will continue to make a tremendous difference in integrating our financial, budget, and procurement functions and improving the efficiency and effectiveness of our financial operations.

I look forward to working closely with internal and external stakeholders during FY 2013 to make further improvements to the Commission's financial management operations.

William Dobrzykowski

William Dobrzykowski
Chief Financial Officer

Inspector General's Transmittal Letter of Independent Auditor's Report

UNITED STATES INTERNATIONAL TRADE COMMISSION

WASHINGTON, DC 20436

November 9, 2012 OIG-KK-019

Chairman Williamson:

This memorandum transmits the results of the audit (OIG-AR-13-03) of the Commission's financial statements for the fiscal years ended September 30, 2012 and 2011.

We contracted with the independent certified public accounting firm, Castro & Company, LLC, to conduct this audit. The contract required that the audit be performed in accordance with U.S. generally accepted government auditing standards.

My office has policies and procedures that are designed to provide assurance that work performed by non-Federal auditors complies with the auditing standards. These procedures follow the guidelines provided in the GAO/PCIE Financial Audit Manual (FAM650). In connection with this contract, we reviewed Castro & Company's final report and related documentation and made inquiries of its representatives. Our involvement in the audit process consisted of monitoring audit activities, attending meetings, participating in discussions, and reviewing the audit planning, working papers, conclusions, and results.

Our involvement and review of Castro & Company's work disclosed no instances where they did not comply, in all material respects, with the U.S. generally accepted government auditing standards; however, this review cannot be construed as an audit, and is not intended to enable us to express, and we do not express, any opinion on the Commission's financial statements. Castro and Company is solely responsible for the audit report dated November 8, 2012, and the conclusions expressed in the report.

Thank you for the cooperation and courtesies extended to both Castro & Company and my staff during this audit.

Sincerely,

Philip M. Heneghan
Inspector General

Independent Auditor's Report

Castro & Company
Auditors ✓ Advisors

2121 Eisenhower Ave.
Suite 606
Alexandria, VA 22314
Phone: 703.229.4440
Fax: 703.859.7603
www.castroco.com

Independent Auditor's Report

Inspector General
U.S. International Trade Commission

We have audited the accompanying balance sheets of the U.S. International Trade Commission (ITC) as of September 30, 2012 and 2011, and the related statements of net cost, changes in net position, and budgetary resources for the fiscal years then ended. These financial statements are the responsibility of ITC management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the auditing standards generally accepted in the United States of America; 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. 07-04, *Audit Requirements for Federal Financial Statements*, as amended. Those standards require that we plan and perform the audits 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 the 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 audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the ITC as of September 30, 2012 and 2011, and the related statements of net cost, changes in net position, and budgetary resources for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The information presented in the Management's Discussion and Analysis is not a required part of ITC's financial statements, but is considered supplementary information required by U.S. generally accepted accounting principles and OMB Circular No. A-136, *Financial Reporting Requirements*. The other accompanying information has not been subjected to the auditing procedures applied in our audit of the basic financial statements and accordingly, we express no opinion on it.

The information presented in the Message from the Chairman and Performance Section is presented for purposes of additional analysis and is not required as part of the financial statements. However, we have applied certain limited procedures, which consist principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. Such information has not been subjected to auditing procedures, and accordingly, we express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our reports dated November 8, 2012, on our consideration of ITC's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations and other matters. The purpose of those reports is to describe the scope of our testing of internal control over financial reporting and

Independent Auditor's Report
Page 2

compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. Those reports are an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Castro & Company, LLC

November 8, 2012
Alexandria, VA

Inspector General's Transmittal Letter of Independent Auditor's Report on Internal Control

UNITED STATES INTERNATIONAL TRADE COMMISSION

WASHINGTON, DC 20436

November 9, 2012 OIG-KK-020

Chairman Williamson:

This memorandum transmits the Independent Auditor's Report on Internal Control (OIG-AR-13-04) associated with the audit of the Commission's financial statements for fiscal year 2012. Your comments on the draft have been included in their entirety as an appendix to the report.

We contracted with the independent certified public accounting firm, Castro & Company LLC, to conduct the financial statement audit. The contract required that the audit be conducted in accordance with U.S. generally accepted government auditing standards and these auditing standards require a report on Internal Control to be produced as part of the audit.

This report contains three new recommendations for corrective action. In the next 30 days, please provide me with your management decisions describing the specific actions that you will take to implement each recommendation.

Throughout the audit and at its conclusion, my office followed procedures and conducted a final review that included monitoring the performance of the audit, reviewing Castro & Company's report and related documentation, and making inquiries of its representatives. Our final review disclosed no instances where Castro & Company did not comply, in all material respects, with the U.S. generally accepted government auditing standards; however, this final review cannot be construed as an audit, and is not intended to enable us to express, and we do not express, any opinion on the Commission's internal control. Castro and Company is solely responsible for this report dated November 8, 2012, and the conclusions expressed in the report.

Thank you for the courtesies extended to the auditors and my staff during this audit.

Sincerely,

Philip M. Heneghan
Inspector General

Independent Auditor's Report on Internal Control

Castro & Company
Auditors ✓ Advisors

2121 Eisenhower Ave.
Suite 606
Alexandria, VA 22314
Phone: 703.229.4440
Fax: 703.859.7603
www.castroco.com

Independent Auditor's Report on Internal Control

Inspector General
U.S. International Trade Commission

We have audited the financial statements of the U.S. International Trade Commission (ITC) as of and for the year ended September 30, 2012, and have issued our report thereon dated November 8, 2012.

In planning and performing our work, we considered ITC's internal control over financial reporting by obtaining an understanding of the design effectiveness of ITC's internal control, determining whether controls had been placed in operation, assessing control risk, and performing tests of ITC's controls as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not to express an opinion on the effectiveness of ITC's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of ITC's internal control over financial reporting. We limited our internal control testing to those controls necessary to achieve the objectives described in the Office of Management and Budget (OMB) Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements,* as amended. We did not test all internal controls relevant to operating objectives as broadly defined by the Federal Managers' Financial Integrity Act of 1982 (FMFIA), such as those controls relevant to ensuring efficient operations.

Our consideration of internal control over financial reporting was for the limited purposes described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a deficiency in internal control, or a combination of deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with U.S. generally accepted accounting principles (GAAP) such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected.

A material weakness is a significant deficiency, or combination of significant deficiencies, that result in a more than remote likelihood that a material misstatement of the financial statements will not be prevented or detected.

Independent Auditor's Report on Internal Control
Page 2

Our consideration of the internal control over financial reporting was for the limited purpose described above and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we consider the first deficiency described below to be a material weakness.

We also noted less significant matters involving internal control and its operations which we have reported to ITC management in a separate letter dated November 8, 2012.

This report is intended solely for the information and use of the management and the Office of Inspector General of ITC, OMB, Government Accountability Office, and Congress, and is not intended to be and should not be used by anyone other than these specified parties.

Castro & Company, LLC

November 8, 2012
Alexandria, VA

Independent Auditor's Report on Internal Control
Page 3

MATERIAL WEAKNESS

I. Inadequate Controls over Undelivered Orders (i.e., Open Obligations) Accounts Payable, and Expenditures (Repeat Condition, Modified)

Even though improvements were made over the prior fiscal year (FY), sufficient documentation was not provided to support the validity of certain Undelivered Orders (UDO) balances (i.e. obligating documents, invoices), including accruals not being properly recorded. As a result of material misstatements, we were unable to rely on our interim testing as of June 30, 2012 for the UDO, accounts payable (AP), and expenditures balances because of a significant number of testing exceptions, which required us to perform expanded testing related to all UDO's as of September 30, 2012. However, we were able to determine that the FY 2012 financial statements are fairly presented because ITC performed a significant data clean-up right before year-end, but the controls were not in place for the majority of the fiscal year.

During our testing, we noted multiple issues surrounding the accounting for UDO, AP, and expenditures as summarized below.

- ITC's obligated balance recorded in the general ledger (GL) was not adequately supported: certain documentation was not provided; documentation on file did not agree with amounts recognized in the GL (invoice amounts differed from invoice amounts recognized in the GL, obligation amounts differed from obligations recognized in the GL); and modifications on file were not posted to the GL. For example:
    - ITC recorded a modification in the GL without a valid obligating document. Management discovered this error during the year-end open obligations review, but made the decision not to correct as of September 30, 2012 in order to avoid increasing its surplus at the end of FY 2012. Creating obligations without authorized obligating documentation is a control deficiency that could lead to an Anti-Deficiency Act violation.

- Accruals were not properly recorded throughout the fiscal year. Because ITC does not record accruals at the transaction level, in order to determine the amount to record as AP through Journal Vouchers (JVs), ITC performed a quarterly review of open obligations throughout the fiscal year. The review consisted of sending the open obligations report to each Contracting Officer's Representative (COR) in order for the COR to review and state whether the obligations were valid. If the obligation was valid, the COR should have provided an amount to accrue for AP. However, during our UDO testing, we noted that ITC did not always have a detailed logical methodology to accrue expenses for goods/services that were received but not paid. For example:
    - Accruals were not recorded as of June 30, 2012 for obligations related to the leasehold improvement for the build-out of the second floor at the ITC headquarters building, even though construction was substantially completed as of June 30, 2012.

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As a result, the AP and Construction-In-Progress (CIP) balances were materially understated, and the UDO balance was materially overstated on the third quarter financial statements submitted to OMB.

- Certain accruals were not supported by proper documentation such as an estimate of services received based on past services received, and paid. Some CORs did not include the methodology used for the accruals; even though this information was required. In addition, some CORs provided accruals estimates with no clear documented explanation on the methodology used to record the accruals. There was no documentation to clearly support finance's review and approval to ensure explanations used by COR's for accrual methodologies used and other needed information were included as required, or that methodologies used for accruals were clearly explained, reasonable and supported by adequate documentation,
- Certain accruals recorded by finance were incorrect, as methodologies used by the COR contained accruals for services for which invoices were received subsequent to the accrual calculation and recognized in the GL, but for which the accrual was not adjusted causing overstatements of AP and understatements of the UDO. Review of subsequent invoices received and approved by the COR, and booked by finance was inadequate as the over accrual was not caught and corrected.
- For certain obligations, the COR did not submit an amount to be accrued because invoices had not been received; however, services had been received by ITC and therefore an accrual should have been recorded. There was no documentation to clearly support finance's detailed review of the accrual process to ensure accruals were properly recognized when goods and services were received.

In the prior fiscal year, we recommended to ITC management to reconcile all open obligation folders to the general ledger. We reviewed ITC Management's Decision regarding this recommendation, and even though ITC management made significant improvements to the procurement folders, the balances in the procurement folders were not properly reconciled to the general ledger, evidenced by certain GL posting errors reported in the prior year's audit that were not corrected during FY 2012.

Additionally, in the prior fiscal year, we recommended to ITC management to establish and implement quality control procedures for the open obligation reviews. We reviewed ITC Management's Decision regarding this recommendation, and determined that ITC did not adequately document management's quality control procedures for open obligation reviews and there continued to be errors in the accruals proposed by the COR's. Controls were not adequate to ensure the amount recorded as an AP through the accrual JV was reasonable. There was no documentation to clearly support finance's review and approval of the accrual spreadsheet to ensure COR's properly recognized accruals when goods and services were received, methodologies used for accruals were clearly explained, reasonable and supported by adequate documentation, explanations for methodologies used and other needed information were included as required.

Finally, in the prior fiscal year, we recommended to ITC management to post financial transactions, including adjustments at the detailed general ledger transaction level, including accruals, deobligations and refunds. We reviewed ITC Management's Decision regarding this

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recommendation, and determined that the manual posting of accruals continued to cause significant testing errors. By not recording accruals at the GL transaction level, some of the manual accruals booked by ITC using the open obligation review contained accruals for services for which invoices were received subsequent to the accrual calculation and recognized in the GL, but for which the accrual was not adjusted causing overstatements of AP and understatements of the obligations.

Government Accountability Office’s (GAO’s) *Standards for Internal Control in the Federal Government* states:

> Internal control and all transactions and other significant events need to be clearly documented, and the documentation should be readily available for examination. The documentation should appear in management directives, administrative policies, or operating manuals and may be in paper or electronic form. All documentation and records should be properly managed and maintained.

The Statement of Federal Financial Accounting Standards (SFFAS) No. 1, *Accounting for Selected Assets and Liabilities* states:

> Accounts payable are amounts owed by a Federal entity for goods and services received from, progress in contract performance made by, and rents due to other entities…When an entity accepts title to goods, whether the goods are delivered or in transit, the entity should recognize a liability for the unpaid amount of the goods. If invoices for those goods are not available when financial statements are prepared, the amounts owed should be estimated.

By not performing an accurate review of UDOs, ITC’s obligations, AP and net position were materially misstated as of June 30, 2012. In addition, as noted above, ITC did not properly record accruals throughout the majority of the fiscal year when goods and services were received, or accruals were incorrectly calculated.

Recommendations:

We made eight recommendations in the prior fiscal year related to this issue. Six of those recommendations were not implemented as of September 30, 2012; therefore, additional recommendations will not be issued related to this Material Weakness.

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SIGNIFICANT DEFICIENCY

II. Inadequate Internal Controls over Financial Reporting (Repeat Condition, Modified)

During FY 2012, ITC filled certain key positions, including hiring a Chief Financial Officer (CFO) and a systems accountant, and created a CFO Office. During testing of ITC's financial reporting, we noted that improvements were made over the prior year in producing its quarterly financial statements and related reconciliations. However, during our review of ITC's financial statement and reconciliation preparation process, we identified certain issues, as summarized below, impacting ITC's ability to effectively accumulate, assemble, and analyze information presented in its financial statements in accordance with applicable guidance. Specifically, we noted the following:

- ITC did not prepare the Statement of Budgetary Resources (SBR) in compliance with the updated required format in the revised OMB Circular No. A-136, *Financial Reporting Requirements*, in the original year-end draft financial statements. ITC made the necessary correction to the final issued financial statements.

- A significant number of transactions were processed through the use of manual JVs throughout the fiscal year, instead of posting the adjustments at the detailed transaction level in the general ledger. ITC posted a total of 76 JVs during FY 2012. Although manual journal vouchers in and of themselves are not considered an issue, they do increase the risk for errors. For example, ITC prepared a JV with documentation to accrue for training and travel incurred as of September 30, 2012. However, the amount related to training was erroneously omitted from the JV total posted.

- ITC did not report an updated amount for the unfunded and actuarial Federal Employees Compensation Act (FECA) liability for FY 2012 on the original year-end draft financial statements. ITC erroneously reported the same amount from the prior fiscal year. ITC made the necessary correction to the final issued financial statements.

- Reconciliations between the subsidiary listings and the general ledger on key financial accounts were not well documented, and did not always contain the signatures evidencing the review and approval for the reconciliation throughout the majority of the fiscal year.

These errors occurred because of ineffective management reviews and approvals. The fact that the significant deficiency related to the financial reporting was not adequately corrected, but ITC management considered its Management Decision complete relating to the prior year's internal control report recommendation, continues to highlight that ITC still needs to strengthen its controls and ensure management personnel with the appropriate skill sets and expertise are responsible for the financial management accounting and reporting functions.

A major objective of internal control is to ensure the integrity of the underlying accounting data supporting the financial statements. A key control is performing reconciliations of significant account balances. An adequate reconciliation contains evidence of management's review and

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approval which provides assurance that transactions have been properly processed and recorded in the accounting records. Another key control is performing detailed management review and approval of transactions recorded in the financial system, and of financial reports.

GAO's *Standards for Internal Control in the Federal Government* states:

> Internal control should generally be designed to assure that ongoing monitoring occurs in the course of normal operations. It is performed continually and is ingrained in the agency's operations. It includes regular management and supervisory activities, comparisons, reconciliations, and other actions people take in performing their duties. Internal control and all transactions and other significant events need to be clearly documented, and the documentation should be readily available for examination.
>
> Control activities are an integral part of an entity's planning, implementing, reviewing, and accountability for stewardship of government resources and achieving effective results…They include a wide range of diverse activities such as approvals, authorizations, verifications, reconciliations, performance reviews, maintenance of security, and the creation and maintenance of related records which provide evidence of execution of the activities as well as appropriate documentation.
>
> Management sets the objectives, puts the control mechanisms and activities in place, and monitors and evaluates the control. However, all personnel in the organization play important roles in making it happen. All personnel need to possess and maintain a level of competence that allows them to accomplish their assigned duties, as well as understand the importance of developing and implementing good internal control. Management needs to identify appropriate knowledge and skills needed for various jobs and provide needed training, as well as candid and constructive counseling, and performance appraisals.

In the prior fiscal year, we recommended to ITC to document quality control procedures performed related to the review and approval of financial statements and related account reconciliations. We reviewed ITC Management's Decision regarding this recommendation, and even though ITC management created policies, the policies were not consistent and not always followed.

Effective internal control provides assurance that significant weaknesses in the design or operation of internal control, that could adversely affect the ITC's ability to meet its objectives, would be prevented or detected in a timely manner. However, based on the issues noted above, ITC management needs to strengthen its internal control surrounding financial management to ensure compliance with applicable laws and regulations throughout the year.

By not adequately performing management functions specific to monitoring, analysis, oversight, and reconciliations, discrepancies may exist but go undetected and uncorrected; thereby causing the financial information to be misstated. Effective management oversight greatly increases ITC's ability to proactively identify and resolve issues that could result in misstatements in financial accounting and reporting records.

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Recommendations

We recommend that ITC management:

1. Perform a detailed review of all manual JVs to determine which JVs should be eliminated by posting at the detailed general ledger transaction level.

2. Revise its procedures to require management's review and approval of quarterly financial statements are clearly documented.

3. Revise its procedures to require management's review and approval of all account reconciliations are clearly documented.

Chairman's Response to Independent Auditor's Report on Internal Control

UNITED STATES INTERNATIONAL TRADE COMMISSION

WASHINGTON, DC 20436

November 8, 2012

Thomas Castro, Partner
Castro & Company, LLC
2121 Eisenhower Avenue, Suite 606
Alexandria, VA 22314

The Audit Report on Internal Control identified one material weakness and a significant deficiency. I concur with your assessment that in the financial management area the Commission has inadequate controls over undelivered orders, accounts payable, and expenditures. I also concur that we have to enhance our controls over financial reporting.

The Commission has made significant progress in addressing financial management deficiencies and challenges over the past two years. We have eliminated the material weaknesses reported in fiscal year 2011 that related to the procurement process and insufficient resources and personnel with appropriate skill sets. For example, the newly formed Office of the Chief Financial Officer is now staffed with highly skilled personnel in Procurement, Finance, and Budget. In addition, our comprehensive strategy, being implemented under our new Chief Financial Officer, has resulted in significant progress in addressing control weaknesses in undelivered orders and financial reporting.

We recognize that we have much more to do to change the financial management culture within the Commission and will continue to aggressively address each of your recommendations.

Sincerely,

Irving A. Williamson

cc: Philip M. Heneghan
Inspector General

Inspector General's Transmittal on Independent Auditor's Report on Compliance with Laws and Regulations

UNITED STATES INTERNATIONAL TRADE COMMISSION

WASHINGTON, DC 20436

November 9, 2012 OIG-KK-021

Chairman Williamson:

This memorandum transmits the Independent Auditor's Report on Compliance with Laws and Regulations (OIG-AR-13-05) associated with the audit of the Commission's financial statements for fiscal year 2012.

We contracted with the independent certified public accounting firm, Castro & Company LLC, to conduct the financial statement audit. The contract required that the audit be conducted in accordance with U.S. generally accepted government auditing standards and these auditing standards require a report on Compliance with Laws and Regulations to be produced as part of the audit.

The auditors did not identify any instances of noncompliance that would have a direct or material effect on the determination of financial statement amounts.

Throughout the audit and at its conclusion, my office followed procedures and conducted a final review designed to assure that the work performed by non-Federal auditors complied with the auditing standards. Our final review disclosed no instances where Castro & Company did not comply, in all material respects, with the U.S. generally accepted government auditing standards; however, this final review cannot be construed as an audit, and is not intended to enable us to express, and we do not express, any opinion on the Commission's compliance with laws and regulations. Castro & Company is solely responsible for this report dated November 8, 2012, and the conclusions expressed in the report.

Thank you for the cooperation and courtesies extended to both Castro & Company and my staff during this audit.

Sincerely,

Philip M. Heneghan
Inspector General

Independent Auditor's Report on Compliance with Laws and Regulations

Castro & Company
Auditors ✓ Advisors

2121 Eisenhower Ave.
Suite 606
Alexandria, VA 22314
Phone: 703.229.4440
Fax: 703.859.7603
www.castroco.com

Independent Auditor's Report on Compliance with Laws and Regulations

Inspector General
U.S. International Trade Commission

We have audited the financial statements of the U.S. International Trade Commission (ITC) as of and for the year ended September 30, 2012, and have issued our report thereon dated November 8, 2012.

The management of ITC is responsible for complying with laws and regulations applicable to ITC. 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, and certain other laws and regulations specified in the Office of Management and Budget (OMB) Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements,* as amended, including the requirements referred to in the Federal Managers' Financial Integrity Act of 1982 (FMFIA). We limited our tests of compliance to these provisions, and we did not test compliance with all laws and regulations applicable to ITC.

The results of our tests of compliance with applicable laws and regulations, and government-wide policies described in the preceding paragraph identified no instances of noncompliance that is required to be reported under *Government Auditing Standards* or OMB guidance.

Providing an opinion on compliance with certain provisions of laws and regulations, and government-wide policies 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 management and the Office of Inspector General of ITC, OMB, GAO, and Congress, and is not intended to be and should not be used by anyone other than these specified parties.

Castro & Company, LLC

November 8, 2012
Alexandria, VA

Principal Financial Statements

U.S. INTERNATIONAL TRADE COMMISSION
BALANCE SHEET
As of September 30, 2012 and 2011
(in dollars)

	2012	2011
Assets:		
Intragovernmental:		
Fund balance with Treasury (Note 2)	$ 14,524,916	$ 15,978,367
Accounts receivable (Note 3)	26,752	26,752
Total intragovernmental	14,551,668	16,005,119
Accounts receivable (Note 3)	11,945	21,467
Property, plant, and equipment, net (Note 4)	8,222,084	5,147,809
Total Assets	**$ 22,785,697**	**$ 21,174,395**
Liabilities:		
Intragovernmental:		
Accounts payable (Note 6)	$ 3,152,100	$ 1,267,530
Employer contributions and payroll taxes payable (Note 5)	212,727	200,775
Unfunded FECA liability (Note 5)	3,567	25,076
Total intragovernmental	3,368,394	1,493,381
Accounts payable (Note 6)	2,501,168	1,704,165
Accrued funded payroll (Note 5)	885,770	887,214
Actuarial FECA liability (Note 5)	94,453	100,256
Unfunded leave (Note 5)	3,699,857	3,571,471
Total Liabilities	**$ 10,549,642**	**$ 7,756,487**
Net position:		
Unexpended appropriations	7,773,152	11,918,684
Cumulative results of operations	4,462,903	1,499,224
Total Net Position	**$ 12,236,055**	**$ 13,417,908**
Total Liabilities and Net Position	**$ 22,785,697**	**$ 21,174,395**

The accompanying notes are an integral part of these statements.

U.S. INTERNATIONAL TRADE COMMISSION
STATEMENT OF NET COST
For the years ended September 30, 2012 and 2011
(in dollars)

	2012	2011
Program Costs:		
Total Program Costs	**$ 84,782,135**	**$ 83,016,706**

The accompanying notes are an integral part of these statements.

U.S. INTERNATIONAL TRADE COMMISSION
STATEMENT OF CHANGES IN NET POSITION
For the years ended September 30, 2012 and 2011
(in dollars)

	2012		2011	
Cumulative Results of Operations:				
Beginning balance	$	1,499,224	$	2,747,157
Budgetary Financing Sources:				
Appropriations used		84,145,532		77,840,481
Other Financing Sources (Non-Exchange):				
Imputed financing costs (Note 9)		3,600,282		3,928,292
Total Financing Sources		87,745,814		81,768,773
Net Cost of Operations (+/-)		(84,782,135)		(83,016,706)
Net Change		2,963,679		(1,247,933)
Total Cumulative Results of Operations	**$**	**4,462,903**	**$**	**1,499,224**
Unexpended Appropriations:				
Beginning balance	$	11,918,684	$	8,062,885
Budgetary Financing Sources:				
Appropriations received		80,000,000		81,860,000
Less: Other adjustments		-		(163,720)
Less: Appropriations used		(84,145,532)		(77,840,481)
Total budgetary financing sources		(4,145,532)		3,855,799
Total Unexpended Appropriations		7,773,152		11,918,684
Net Position	**$**	**12,236,055**	**$**	**13,417,908**

The accompanying notes are an integral part of these statements.

U.S. INTERNATIONAL TRADE COMMISSION
STATEMENT OF BUDGETARY RESOURCES
For the years ended September 30, 2012 and 2011
(in dollars)

	2012	2011
Budgetary Resources:		
Unobligated balance, brought forward, October 1	$ 508,952	$ 2,071,623
Recoveries of prior year unpaid obligations	3,759,118	1,081,654
Appropriations (Note 1)	80,000,000	81,696,280
Spending authority from offsetting collections	67,522	(53,464)
Total Budgetary Resources	**$ 84,335,592**	**$ 84,796,093**
Status of Budgetary Resources:		
Obligations Incurred (Note 13)	$84,001,431	$84,287,141
Unobligated Balance, End of Year:		
Apportioned	334,161	508,952
Total Status of Budgetary Resources	**$ 84,335,592**	**$ 84,796,093**
Change in Obligated Balance:		
Unpaid Obligations, Brought Forward, October 1	$ 15,496,167	$ 11,692,985
Uncollected customer payments from federal sources, Brought Forward Oct 1	(26,752)	(80,216)
Obligated balance, start of year (net)	$ 15,469,415	$ 11,612,769
Obligations incurred	84,001,431	84,287,141
Outlays (gross)	(81,520,973)	(79,402,305)
Change in uncollected payments from federal sources	-	53,464
Recoveries of prior year unpaid obligations	(3,759,118)	(1,081,654)
Obligated balance, end of year		
Unpaid obligations, end of year (gross)	14,217,507	15,496,167
Uncollected customer payments from federal sources, end of year	(26,752)	(26,752)
Obligated balance, end of year (net)	**$ 14,190,755**	**$ 15,469,415**
Budget Authority and Outlays, Net:		
Budget Authority, gross	$ 80,067,522	$ 81,642,816
Actual offsetting collections	(67,522)	-
Change in uncollected payments from federal sources	-	53,464
Budget Authority, net	$ 80,000,000	$ 81,696,280
Outlays, gross	81,520,973	79,402,305
Actual offsetting collections	(67,522)	-
Outlays, net	**$ 81,453,451**	**$ 79,402,305**

The accompanying notes are an integral part of these statements.

United States International Trade Commission
Notes to Financial Statements
September 30, 2012 and 2011

Note 1. Significant Accounting Policies

A. Reporting Entity

The Commission 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 USITC's budget constitutes a single program in the Budget of the United States. Accordingly, the USITC receives a lump sum appropriation. The appropriated funds are "no year" funds and may be obligated for goods and services that are provided in subsequent fiscal years.

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

B. Basis of Accounting and Presentation

The USITC's financial statements conform to Generally Accepted Accounting Principles (GAAP) as promulgated by the Federal Accounting Standards Advisory Board (FASAB). The American Institute of Certified Public Accountants (AICPA) recognizes FASAB Standards as GAAP for federal reporting entities. These principles differ from budgetary reporting principles. The differences relate primarily to the capitalization and depreciation of property, plant, and equipment, as well as the recognition of other long-term assets and liabilities. The statements were prepared in conformity with OMB Circular No. A-136, *Financial Reporting Requirements*.

The financial statements have been prepared from the books and records of the USITC and include all accounts of all funds under the control of the USITC. Accounting principles generally accepted in the United States of America encompass both accrual and budgetary transactions. Under the accrual method, revenues are recognized when earned and expenses are recognized when a liability is incurred, without regard to receipt or payment of cash. Budgetary accounting facilitates compliance with legal constraints and controls over the use of federal funds. The accompanying financial statements are prepared on the accrual basis of accounting. FY 2012 and FY 2011 financial statements are presented to allow comparison.

Assets: Intragovernmental assets are those assets that arise from transactions with other federal entities. Funds with the U.S. Treasury represent intragovernmental assets on the USITC's balance sheet. Fiduciary assets are not assets of the USITC and are not recognized on the balance sheet. The USITC holds cease and desist bonds, which are held for non-federal parties that the USITC does not have the authority to use in its operations. See Note 12, Fiduciary Activities, for additional disclosure.

Financing Sources: The USITC has received "no year" appropriations for operations since FY 1993. Appropriations are recognized as a financing source and expensed when related operating expenses are incurred. Differences between appropriations received and those expensed are included as unexpended appropriations. Congress appropriated to the USITC $80,000,000 and $81,860,000 for salaries and expenses in FY 2012 and in FY 2011, respectively. In FY 2011 there was a rescission of $163,720.

Fund Balance with the U.S. Treasury: Cash receipts and disbursements are processed by the Treasury. The fund balance with the U.S. Treasury represents appropriated entity funds in the custody of the U.S. Treasury and is available to pay current liabilities and to finance authorized purchase commitments. The USITC's obligated and unobligated fund balances are carried forward until goods or services are received and payments are made, or until such time as funds are deobligated.

C. Property, Plant, and Equipment, Net

The USITC's portfolio of assets includes IT-related equipment, furniture, software, and leasehold improvements. For financial statement reporting purposes, the USITC does not own heritage assets or plant, as defined in the FASAB Statements of Federal Financial Accounting Standards (SFFAS) No. 6, *Accounting for Property, Plant, and Equipment*. The USITC therefore reports only property and equipment in its financial statements. The USITC's operations are housed in a leased structure. In FY 2007, the USITC entered into a 10-year operating lease with the General Services Administration (GSA) for the facility that houses its day-to-day mission operations.

The USITC capitalizes all equipment and furniture when an asset acquisition costs $50,000 or more and when the acquired asset has a useful life of two or more years. Depreciation expense for equipment and furniture is calculated using the straight-line method over an estimated economic useful life. Maintenance and license fees associated with equipment are expensed in the accounting period that purchased maintenance and licenses are received.

The USITC capitalizes internal use software (IUS) using the standards defined and prescribed in the SFFAS No. 10, the *Accounting for Internal Use Software* and further explained and clarified in the "Federal Financial Accounting and Auditing Technical Release 5, Implementation Guidance on Statement of Federal Financial Accounting Standards 10: Accounting for Internal Use Software." Accordingly, the USITC begins to accumulate IUS development costs for equipment integral to the functioning and operation of the software, as well as costs for development work associated with an IUS project when accumulated costs reach $10,000. When the combined accumulated equipment and IUS development costs reach $100,000, the IUS project is classified for financial statement reporting purposes as a capital asset and reported in the financial statements as an "in development" capital asset. Equipment integral to the functioning and operation of the software is not depreciated until the software is placed in service. Upon completion and user acceptance testing, IUS and its associated equipment are reclassified as IUS equipment and software. The equipment is depreciated and the software is amortized using the straight-line (S/L) method over an estimated economic useful life. Maintenance and license fees associated with an IUS capital asset are accrued, expensed, and allocated between accounting periods based on period-of-performance timeframes specified in contractual agreements. Commercial software costs that do not meet the capitalization criteria and thresholds are expensed in the accounting period that the purchased software is received.

The USITC capitalizes all leasehold improvement acquisition costs that are $50,000 or more and that have a useful life of two or more years. The USITC applies the same accounting treatment and standards to leasehold improvements as it does for IUS, when the leasehold improvement involves multiple stages of completion before work acceptance. For financial reporting purposes, all accumulated costs are captured in an "in progress" account and reported on the financial statements. Upon completion and acceptance of work, the costs are reclassified and reported on the financial statements as a leasehold improvement subject to amortization. Leasehold improvements are amortized over either the remaining life of lease term or the estimated economic useful life of the leasehold improvement, whichever is less.

D. Accrued Annual Leave

Accrued annual leave is paid from future funding sources and accordingly is reflected as a liability not covered by budgetary resources. Each quarter the balance in the accrued leave account is adjusted to reflect the current leave balances and pay rates. Sick leave and other types of non-vested leave are expensed as taken.

E. Employee Retirement Plans

Commission employees participate in either the Civil Service Retirement System (CSRS) or the Federal Employees Retirement System (FERS), which became effective on January 1, 1987. Most federal employees hired after December 31, 1983, are automatically covered by FERS and Social Security. For employees covered by CSRS, the USITC withheld 7.0 percent of base pay earnings. The Commission matches this withholding, and the sum of the withholding and the matching funds is transferred to the Civil Service Retirement System.

FERS contributions made by employer agencies and covered employees are comparable to the U.S. Government's estimated service costs. For FERS covered employees, the Commission made contributions of 11.9 percent of basic pay. Employees participating in FERS are covered under the *Federal Insurance Contribution Act (FICA)* for which the Commission contributes 6.2 percent and employees contribute 4.2 percent of salaries (up to $110,100 during calendar year 2012 and up to $106,800 during calendar year 2011) into the Old-Age, Survivors, and Disability Insurance (OASDI) program, and both the Commission and employees contribute 1.45 percent of salaries (with no upper limit) to Medicare's Hospital Insurance (HI) program.

F. Net Position

Net position is the residual difference between assets and liabilities and is composed of unexpended appropriations and the cumulative results of operations. Unexpended appropriations represent the amount of unobligated and unexpended budget authority. Unobligated balances are the amount of appropriations or other authority remaining after deducting the cumulative obligations from the amount available for obligation. Cumulative results of operations are the net result of the USITC's operations since inception.

G. Intragovernmental Activities

The USITC records and reports only those government-wide financial matters for which it is responsible and identifies only those financial matters that the USITC has been granted the budget authority and resources to manage.

H. Use of Estimates

The financial statements are based on the selection of accounting policies and the application of certain accounting estimates, some of which require management to make significant assumptions. Further, the estimates are based on current conditions that may change in the future. Actual results could differ materially from the estimated amounts. The financial statements include information to assist in understanding the effect of changes in assumptions to the related information.

I. Reclassifications

Certain prior-year amounts have been reclassified to conform to classifications adopted in FY 2012 as required by OMB Circular A-136. This reclassification had no impact on USTIC's results of operations.

Note 2. Fund Balance with Treasury

Fund Balance with Treasury is an intragovernmental asset. The entity fund balance represents funds appropriated by Congress for use by the USITC. 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.

No discrepancies exist between the Fund Balance reflected in the general ledger and the balance in the Treasury accounts.

Fund Balance with Treasury	2012	2011
A. Fund balance		
Appropriated funds	$ 14,524,916	$ 15,978,367
Total	$ 14,524,916	$ 15,978,367
B. Status of Fund Balance with Treasury		
Unobligated balance available	334,161	508,952
Obligated balance not yet disbursed	14,190,755	15,469,415
Total	**$ 14,524,916**	**$ 15,978,367**

Note 3. Accounts Receivable

The balance of accounts receivable was $38,697 and $48,219 at September 30, 2012 and September 30, 2011, respectively. The intragovernmental receivable is the amount GSA overcharged the Commission for prior period real estate taxes, while the non-governmental amount is principally the amount due from a former employee.

Receivable Type	2012	2011
Intragovernmental	26,752	26,752
Non-governmental	11,945	21,467
Total	**$ 38,697**	**$ 48,219**

Note 4. Property, Plant, and Equipment, Net

Depreciation expense was $1,674,595 and $1,630,319 for fiscal years ending September 30, 2012 and 2011, respectively, and is included in the accumulated depreciation.

Comparative asset tables summarized by class of property appear below:

Property, Plant, and Equipment as of September 30, 2012

Class of Property	Depreciation/ Amortization Method	Capitalization Threshold for Individual Purchases	Service Life (Years)	Acquisition Cost	Accumulated Depreciation/ Amortization	Book Value
Equipment and Furniture	S/L	$ 50,000	5	$ 5,290,890	$ 2,852,113	$ 2,438,777
Software	S/L	100,000	5	3,639,811	2,507,553	1,132,258
Leasehold Improvements	S/L	50,000	5-13	6,107,107	1,503,675	4,603,432
Leasehold Improvements in Progress	-	-	-	47,617	-	47,617
Total	-	-		**$ 15,085,425**	**$ 6,863,341**	**$ 8,222,084**

Property, Plant, and Equipment as of September 30, 2011

Class of Property	Depreciation/ Amortization Method	Capitalization Threshold for Individual Purchases	Service Life (Years)	Acquisition Cost	Accumulated Depreciation/ Amortization	Book Value
Equipment and Furniture	S/L	$ 50,000	5	$ 3,893,054	$ 2,284,262	$ 1,608,792
Software	S/L	100,000	5	3,639,811	1,779,519	1,860,292
Leasehold Improvements	S/L	50,000	5-13	2,612,284	1,124,966	1,487,318
Leasehold Improvements in Progress	-	-	-	191,407	-	191,407
Total	-	-		**$ 10,336,556**	**$ 5,188,747**	**$ 5,147,809**

Note 5. Liabilities Not Covered by Budgetary Resources

Liabilities not covered by budgetary authority are not charged to the USITC's appropriation. These liabilities include unfunded Federal Employees' Compensation Act (FECA) liability, accrued annual leave, and actuarial FECA liability.

Unfunded FECA Liability: The FECA program is administered by the Department of Labor (DOL). DOL pays valid claims against the USITC and subsequently seeks reimbursement. Reimbursements are paid by the USITC out of current funds.

Accrued Annual Leave: Accrued annual leave is paid from future funding sources and accordingly is reflected as a liability not covered by budgetary resources. Each quarter the balance in the accrued leave account is adjusted to reflect the current leave balances and pay rates. Sick leave and other types of non-vested leave are expensed as taken.

Actuarial FECA Liability: This represents an estimated liability for future workers compensation claims based on data provided from DOL. DOL calculates the estimate based principally on benefit payments made over the prior 12 quarters.

Liabilities Covered by Budgetary Resources: In contrast to the liabilities identified above, all other liabilities are charged to the USITC's appropriation and thus are covered by budgetary resources. These liabilities include accounts payable, employer contributions and payroll taxes, and accrued funded payroll. The composition of accounts payable is described in more detail in Note 6, below.

Liabilities Not Covered by Budgetary Resources		2012		2011
Intragovernmental				
Unfunded FECA liability	$	3,567	$	25,076
Total Intragovernmental	$	3,567	$	25,076
Accrued annual leave		3,699,857		3,571,471
Actuarial FECA liability		94,453		100,256
Total liabilities not covered by budgetary resources	$	3,797,877	$	3,696,803
Total liabilities covered by budgetary resources		6,751,765		4,059,684
Total Liabilities	**$**	**10,549,642**	**$**	**7,756,487**

Note 6. Accounts Payable

The amounts reported on the Balance Sheet for Accounts Payable represent amounts owed by the USITC to other federal agencies (intragovernmental) and to non-federal entities for goods and services received but not paid by the USITC as of the Balance Sheet date.

Amounts payable to trading partners were $2,619,026 and $128,844 as September 30, 2012 and 2011, respectively. For FY 2012, amounts are principally owed to the General Services Administration (GSA), Office of Personnel Management (OPM), and Government Printing Office (GPO) for leasehold improvements, human resources training and support services, and printing services respectively. Accounts payable to trading partners fluctuate from year to year and the large increase as of September 30, 2012, is due to the completion of the 2nd floor leasehold improvement project at the USITC headquarters building.

The amounts reported below as real estate taxes payable, $533,074 and $1,138,686, represent unpaid property taxes for the periods (1) January 1, 2012 to September 30, 2012, and (2) January 1, 2010 to September 30, 2011, respectively. These amounts represent taxes that are invoiced and generally paid annually in August for the previous calendar year to the GSA. Thus, each fiscal year the Commission recognizes twelve months of real estate tax expense – three months of actual expense (Oct.-Dec.) and nine months of accrued expense (Jan.-Sep.) – as payable at the end of the fiscal year. As of September 30, 2011, the GSA had not yet invoiced the Commission for the calendar year 2010 property taxes, resulting in a large increase in the amount payable for FY 2011. The Commission's real estate tax liability has fluctuated in recent periods, decreasing due to a reduction in the assessed property value, and then increasing because the Commission started leasing the 2nd floor.

Amounts shown on the Balance Sheet as payable to vendors represent amounts owed by the USITC to nonfederal entities for goods and services received by the USITC in support of mission operations as of the Balance Sheet date.

Accounts Payable		2012		2011
Intragovernmental				
Accounts payable to trading partners	$	2,619,026	$	128,844
Real estate taxes payable		533,074		1,138,686
Total Intragovernmental	$	3,152,100	$	1,267,530
Non-federal				
Accounts payable to vendors		2,501,168		1,704,165
Total Accounts Payable	**$**	**5,653,268**	**$**	**2,971,695**

Note 7. Leases

The USITC has no capital leases. The USITC has operating leases for its buildings and for certain equipment (e.g., copiers). The USITC's lease for its headquarters building amounted to $9.5 million and $9.3 million for FY 2012 and FY 2011, respectively. The total cost of equipment rental is less than $500,000 annually. In FY 2007, the USITC entered into a 10-year operating lease with the General Services Administration (GSA) for the facility that houses its day-to-day mission operations. Future minimum lease payments under leases of commercial property due as of September 30, 2012 are as follows:

Fiscal Year		
2013	$	9,565,505
2014		9,647,121
2015		9,731,186
2016		9,817,773
2017		8,026,523
After 5 years		-
Total Future Minimum Lease Payments	**$**	**46,788,108**

Note 8. Commitments and Contingencies

The USITC has certain claims and lawsuits pending against it. USITC management and legal counsel believe that losses, if any, from other claims and lawsuits will not be material to the fair presentation of the USITC's financial statements.

Note 9. Other Financing Sources (Non-Exchange)

Imputed Financing: The amounts remitted to OPM for employees covered by the federal civilian benefit programs generally do not cover the actual cost of the benefits those employees will receive after they retire. As a consequence, the USITC has recognized an "imputed financing" equal to the difference between the cost of providing benefits to USITC's employees and the contributions the USITC remitted for them. The amount of imputed financing is calculated based on a formula provided by OPM.

Note 10. Undelivered Orders at the End of the Period

Undelivered orders consist of goods and services ordered and obligated that have not been received. Undelivered orders may be indicative of potential deobligations or may represent obligations to cover future delivery of good and services. Since the USITC has "no year" funds, it often funds contracts, particularly service contracts, on a calendar year or other annual basis, rather than on a fiscal year basis. Undelivered orders were $7,465,741 and $11,436,483 in FY 2012 and FY 2011, respectively. The decrease in undelivered orders is due largely to the completion of the second floor renovation of the USITC headquarters building.

Note 11. Explanation of Differences between the Statement of Budgetary Resources and the Budget of the United States Government

For FY 2011 there were no material differences between amounts reported in the Commission's Statement of Budgetary Resources and the actual amounts reported on the President's Budget. The President's Budget with actual numbers for FY 2012 has not yet been published. It is expected to be published by the Office of the President in February 2013.

Note 12. Fiduciary Activities

Fiduciary activities are the collection or receipt, and the management, protection, accounting, investment and disposition by the federal government of cash or other assets in which non-federal individuals or entities have an ownership interest that the federal government must uphold.

Fiduciary cash and other assets are not assets of the federal government and accordingly are not recognized on the balance sheet.

Fiduciary net assets held by the USITC consist of cease and desist bonds held for non-Federal recipients.

Fiduciary Assets		2012		2011
Fiduciary net assets, beginning of year	$	407,098	$	395,326
Cash collections from cease and desist bonds		36,225		57,947
Cash disbursements to beneficiaries		(79,151)		(46,175)
Fiduciary Net Assets, end of year	**$**	**364,172**	**$**	**407,098**

Note 13. Reconciliation of Net Cost of Operations to Budget

A reconciliation of net cost of operations to budget is presented below to show the relationship between accrual-based (financial accounting) information in the statement of net cost and obligation-based (budgetary accounting) information in the statement of budgetary resources. This reconciliation ensures that the proprietary and budgetary accounts in the financial management system are in balance. For FY 2012, the USITC reconciled the difference between the $84.0 million in obligated resources and the $84.8 million in the net cost of operations by adjusting for offsetting collections/adjustments/recoveries, imputed financing, financing resources not part of the net cost of operations, and depreciation. The details of this reconciliation are as follows:

Reconciliation of Net Cost of Operations to Budget	2012	2011
Resources Used to Finance Activities:		
Budgetary resources obligated:		
Obligations incurred	$ 84,001,431	$ 84,287,141
Less: Spending authority from offsetting collections and recoveries	3,826,640	1,081,654
Obligations net of offsetting collections and recoveries	80,174,791	83,205,487
Other Resources:		
Imputed financing from costs absorbed by others	3,600,282	3,928,292
Total Resources Used to Finance Activities	**83,775,073**	**87,133,779**
Resources Used to Finance Items Not Part of the Net Cost of Operations:		
Change in budgetary resources obligated for goods, services, and benefits ordered but not yet provided	(3,970,742)	5,365,006
Resources that fund expenses recognized in prior periods	(9,520)	(115,287)
Resources that finance the acquisition of assets	4,748,869	273,189
Total Resources Used to Finance Items Not Part of the Net Cost of Operations	**768,607**	**5,522,908**
Total Resources Used to Finance the Net Cost of Operations	**83,006,466**	**81,610,871**
Components of Net Cost of Operations that will Not Require or Generate Resources in the Current Period:		
Components Requiring or Generating Resources in Future Periods:		
Increase / decrease in annual leave liability	128,386	(182,870)
Increase / decrease workers' compensation	(27,312)	(41,614)
Components Requiring or Generating Resources in Future Periods	**101,074**	**(224,484)**
Components Not Requiring or Generating Resources:		
Depreciation and amortization	1,674,595	1,630,319
Total Components of Net Cost of Operations that will Not Require or Generate Resources in the Current Period	**1,775,669**	**1,405,835**
Net Cost of Operations	**$ 84,782,135**	**$ 83,016,706**

OTHER ACCOMPANYING INFORMATION

Management and Performance Challenges

Inspector General's Summary of Management and Performance Challenges

UNITED STATES INTERNATIONAL TRADE COMMISSION

WASHINGTON, DC 20436

October 15, 2012 OIG-KK-016

Chairman Williamson:

This memorandum transmits the Inspector General's summary of the top management and performance challenges facing the Commission and briefly assesses management's progress in addressing these challenges.

I have identified three management and performance challenges for fiscal year 2013; Internal Controls, Financial Management, and Using Information Technology to Improve Staff Productivity. These challenges were identified based on work by the Office of Inspector General, input from Commission management, and knowledge of the Commission's programs and operations.

Internal Controls: The Commission's management is responsible for establishing and maintaining a system of internal controls that can ensure effective and efficient operations, reliable financial reporting, and compliance with laws and regulations. Recent reviews have identified issues associated with weak or non-existent internal controls. The most significant weaknesses identified were noncompliance with the *Federal Manager's Financial Integrity Act* and OMB Circular A-123, *Management's Responsibility for Internal Control*.

Although initially identified in the financial management area, the internal control weaknesses appear to be a systemic problem throughout the Commission. The Commission has a long standing culture of undocumented and informal processes to complete daily tasks. Documented and consistent processes and procedures are necessary to provide a reasonable level of assurance that offices are operating in an efficient and cost-effective manner.

The most significant challenge will be to manage the cultural changes associated with the implementing new systems of internal control throughout the Commission. This will require first line supervisors to check, inspect, or review the work of subordinates to make sure the new procedures are being followed.

Financial Management: The Commission is responsible to ensure that managers have access to timely, reliable, and practical information to make informed decisions. The Commission does not have the systems or core competencies required to integrate and coordinate budget formulation, execution, and financial reporting into a comprehensive financial management program that provides accountability for agency funds and provides essential data to managers for decision making purposes.

The Commission's budget formulation and execution process is not transparent because information on past execution is not available to decision makers. This means that decisions impacting resource allocations for agency operations are being made without sufficient input from key stakeholders who have the necessary information. The lack of communication with stakeholders, documented procedures, and defined methodologies for determining budget priorities does not provide reasonable assurance that all the Commission priorities are being considered when budget decisions are being made.

Budget formulation, budget execution, accounting, and financial reporting should be fully integrated and have transparent processes that promote accountability and deter potential fraud, waste, and abuse of agency budgetary resources. The management challenge will be to transform the current approach to financial management from an accounting exercise to a process that provides transparency and accountability in the formulation, execution, performance, and management of agency budgetary resources. The lack of timely and practical financial reports deprive managers of information needed to effectively monitor the expenditure of funds, evaluate program performance, and make informed financial decisions on their programs and operations.

As a result of its disclaimer on the 2009 financial statements the Commission recognized the importance and necessity of instituting a system of stronger internal controls and is implementing corrective actions to address financial management deficiencies. Improvements resulted in a qualified opinion on the 2010 financial statements and an unqualified opinion on the 2011 financial statements. In addition the Commission recently hired a Chief Financial Officer to oversee the financial management activities of the Commission.

Using Information Technology to Improve Staff Productivity: Knowledge workers require a stable, productive information technology platform to efficiently and effectively perform their work. Skilled staff are expected to perform their mission whether on or off premises, and the platform supporting their work should be resilient enough to allow work to continue even in the absence of the primary data center.

The CIO has taken steps to prepare for an alternate data center through virtualization and expanded bandwidth. However, the complexity introduced with virtualization and difficulties encountered with the bandwidth upgrade must be understood and addressed to ensure that the alternate data center can function as intended.

Temporary outages such as full fileservers have negatively impacted staff working locally, and a remote access platform inconsistent with the desktop experience has lowered the productivity of Commission staff working offsite. To improve productivity, the Commission should prioritize the appropriate skills and resources in the right areas to ensure that both basic and enhanced services work well and contribute to a stable, consistent environment to effectively serve its staff regardless of their location, or the situation at the primary data center.

In closing, I would like to recognize that the Commission has made improvements in each of these areas during this past year. The cultural challenges that I identified can only be overcome by your continued support and emphasis on improving the integrity of the Commission programs and operations. I will continue to work with you, the other Commissioners, and management to reassess our goals and objectives to ensure that my focus remains on the risks and priorities of the Commission.

Philip M. Heneghan
Inspector General

Chairman's Response to Inspector General's Summary of Management and Performance Challenges

UNITED STATES INTERNATIONAL TRADE COMMISSION

WASHINGTON, DC 20436

COMMENTS ON MANAGEMENT CHALLENGES IDENTIFIED BY THE INSPECTOR GENERAL

In his memorandum dated October 15, 2012, the USITC Inspector General identified three management challenges for FY 2013: (1) Internal Controls, (2) Financial Management, and (3) Using Information Technology to Improve Staff Productivity. As required by the Reports Consolidation Act of 2000, he also assessed the USITC's progress in addressing these challenges.

The Commission concurs with the Inspector General on the management challenges and is pleased that progress has been made during FY 2012. The Commission will continue its efforts in FY 2013 to address successfully these challenges.

Management Challenge: Internal Control

The Commission takes its responsiblity for establishing and maintaining an effective system of internal controls seriously. It has already taken or is in the process of taking a number of steps to ensure the Commission's control environment meets the Federal Managers' Financial Integrity Act's objectives of effective and efficient operations, reliable financial reporting, and compliance with laws and regulations.

In the financial management area, where control weaknesses were initially identified, the USITC has developed its first comprehensive accounting manual that establishes policies and procedures on how financial management transactions should be accounted for on a consistent basis. Moreover, the Commission made significant progress with respect to strengthening its ability to maintain an effective system of internal control when it hired an experienced Chief Financial Office (CFO) who has recruited well-qualified people to assist him. The CFO recognizes the importance of proper agency-wide training on internal controls and his office has held several training sessions across the Commission in order to enhance agency awareness on what proper internal controls are, why they are important, and how to ensure that they continue operating as designed.

As a result of these intiatives, the Commission has begun to change its culture as it relates to adherence to internal controls. Following initiatives begun last year, program managers have continued to document detailed procedures of their operations through process mapping, with the objective of gaining a better understanding of how they can carry out their mission more effectively and efficiently.

The Commission is committed to a comprehensive program of documenting and improving its processes to ensure that daily tasks are performed in accordance with management's intentions. The sustained commitment to this system of internal controls will help ensure that we are on the right track to accomplishing our goals.

Management Challenge: Financial Management

The Commission recognizes that in order for managers to make well informed business decisions it needs a comprehensive financial management program that provides a tailored view of its data. Such a program must include systems that integrate and coordinate budget formulation, execution, and financial reporting. To move towards this capability, the Commission is upgrading the type and format of budget data available through current systems.

The development of a new financial management program, the formation of the Office of the Chief Financial Officer (OCFO), and the recruitment of highly qualified staff are steps the Commission has taken to ensure that all stakeholders are well informed of budget priorities and methodologies. These steps should help address the management challenge of transforming financial management from an accounting exercise to a process that provides transparency and accountability in the formulation, execution, performance, and management of agency budgetary resources.

The Commission has also established a new communications and management structure to ensure that all senior managers can effectively contribute toward setting agency-wide objectives, including those related to financial management. This new system has the benefit of better integrating agency-wide objectives, including those related to strategic and performance objectives, human capital planning, and financial management.

Management Challenge: Using Information Technology to Improve Staff Productivity

Information technology is integral to the Commission's operations and the productivity of its staff. The Commission recognizes that more needs to be done in this area to support and improve staff productivity, and is committed to doing so. Staff frequently perform Commission work while off premises, and should be able to do so in the event that the primary data center becomes unavailable. The Chief Information Officer (CIO) has already taken steps to prepare for an alternate data center through virtualization and expanded bandwidth. In the coming Fiscal Year, the Commission will complete its work in support of the alternate data center and enhanced remote access capabilities.

Irving A. Williamson
November 15, 2012

SUMMARY OF FINANCIAL STATEMENT AUDIT AND MANAGEMENT ASSURANCES

Table 1. Summary of Financial Statement Audit (as of September 30, 2012)

Audit Opinion: Unqualified					
Restatement: No					
Material Weaknesses	**Beginning Balance**	**New**	**Resolved**	**Consolidated**	**Ending Balance**
Inadequate Internal Controls over Financial Reporting	✓		✓[1]		
Inadequate Controls Surrounding the Procurement Process	✓		✓		
Inadequate Controls over Accounts Payable, Expenditures, and Obligations	✓				✓
Insufficient Resources and Personnel with Appropriate Skill Sets	✓		✓		
Total	4	0	3	0	1

1 Inadequate Internal Controls over Financial Reporting was a material weakness in FY 2010; however, it was moved to a significant deficiency in FY 2011 and remains a significant deficiency in FY 2012.

Table 2. Summary of Management Assurances (as of September 30, 2012)

Effectiveness of Internal Control over Financial Reporting (FMFIA Section 2)					
Statement of Assurance: Qualified					
Material Weaknesses	**Beginning Balance**	**New**	**Resolved**	**Consolidated**	**Ending Balance**
Inadequate Internal Controls over Financial Reporting	✓		✓[2]		
Inadequate Controls Surrounding the Procurement Process	✓		✓		
Inadequate Controls over Accounts Payable, Expenditures, and Obligations	✓				✓
Insufficient Resources and Personnel with Appropriate Skill Sets	✓		✓		
Total	4	0	3	0	1
Compliance with Federal Financial Management Improvement Act (FFMIA)[3]					
	Commission		**Auditor**		
Overall Substantial Compliance	Yes		Yes		
1. System requirements	Yes		Yes		
2. Accounting Standards	Yes		Yes		
3. USSGL at Transaction Level	Yes		Yes		

2 Inadequate Internal Controls over Financial Reporting was a material weakness in FY 2010; however, it was moved to a significant deficiency in FY 2011 and remains a significant deficiency in FY 2012.

3 The Commission uses the Department of Interior’s financial management system and that system is FFMIA compliant. Thus, the Commission’s financial management system complied with the requirements of FFMIA and produced records in accordance with USSGL at the transaction level.

IMPROPER PAYMENTS INFORMATION REPORTING DETAILS

The IPERA of 2010, enacted on July 22, 2010, requires the development of policies and procedures for the prevention and detection of improper payments in the federal government. The Act defines an improper payment to mean any payment that should not have been made or that was made in an incorrect amount (including overpayments and underpayments) under statutory, contractual, administrative, or other legally applicable requirements. In addition, an improper payment includes any payment to an ineligible recipient, any payment for an ineligible good or service, any duplicate payment, any payment for a good or service not received (except for such payments where authorized by law), and any payment that does not account for credit for applicable discounts. The Act also defines a payment for an ineligible good or service to mean making a payment for any good or service that is rejected under any provision of any contract, grant, lease, cooperative agreement, or any other funding mechanism.

Risk assessment

The USITC has only one program for budget purposes and for FY 2012 the Commission expended approximately $84.8 million. Sixty-nine percent of that program was obligated for salaries and benefit payments for federal employees. The FY 2012 Statement on Standards for Attestation Engagements (SSAE) 16 examination and testing of the controls applicable to the processing of personnel transactions by the Oracle Federal Financials (OFF) application indicated that processes and controls in place as of June 30, 2012 were operating effectively to safeguard data from waste, fraud, abuse and destruction. Also, controls associated with the Federal Personnel Payroll System (FPPS) prevent the likelihood of over payments at the transaction level. As a result, salaries and benefits are not susceptible to significant risk of material improper payment. In addition, none of the USITC's other major cost centers are funded at more than $10 million. Thus, it is unlikely that the USITC has any programs that are susceptible to significant risks of material improper payments as defined in the Act.

Nonetheless, it is USITC's policy to classify both over and under payments as improper payments, regardless of the amount. It is also USITC's policy to use the absolute value of over and under payments to determine reportable improper payments. It is USITC's policy to track and report on controllable improper payments. Controllable improper payments include payments specifically approved in advance by USITC. In addition, the USITC will report on the status of recovered and unrecovered improper payments. However, IPAC withdrawals from the Treasury account by other government agencies are uncontrollable payments. These are considered transfers of funds rather than improper payments because there is no cost to the Treasury. As a result, IPAC transfers are not tracked and reported for improper payment purposes.

Recovery auditing

The Improper Payments Elimination and Recovery Act of 2010 replaced the recovery auditing program contained in the National Defense Authorization Act of 2002. The 2010 Act requires agencies to conduct recovery audits with respect to each program and activity of the agency that expends $1,000,000 or more annually, if conducting such audits would be cost-effective. Once USITC has identified an improper payment, it is USITC's policy to aggressively correct the improper payment.

Accountability for Reducing and Recovering Improper Payments

The Chief Financial Officer is the designated official responsible for establishing policies and procedures to assess USITC program risks of improper payments. The Director of Finance is responsible for taking actions to reduce improper payments and reporting results of the actions taken to reduce and recover improper payments. In addition, USITC reviews, in coordination with the Inspector General, internal policies and procedures on an annual basis to ensure that cost-beneficial control procedures are in place to prevent and detect improper payments. In FY 2010, the USITC implemented a cost effective recovery auditing program to recover improper payments as mandated by the Act. Specifically, on a quarterly basis, USITC reviews the accounts receivable subsidiary ledgers, randomly selects transactions from the cash disbursements subsidiary ledger, and reviews personnel payroll transactions to identify improper payments. When an underpayment is identified, the Office of Finance promptly pays the additional amount upon identification of, and receipt of appropriate documentation for, the correct amount. When overpayments are identified, the Office of Finance promptly sets up a receivable and notifies the party of the amount(s) to be recovered. During FY 2012 the Office of Finance collected $9,522 in improper payments that were identified in previous fiscal years. For ongoing contracts, the Office of Finance offsets the amount to be recovered on the next billing. In the event that a party does not refund an overpayment within three months of receiving notification of the improper payment, the Office of Finance notifies the Office of the General Counsel of the disputed amount and requests remedial action.

APPENDIX A

U.S. International Trade Commission Staff Offices

Office of the Administrative Law Judges

The Commission's administrative law judges (ALJs) hold hearings and make initial determinations in investigations under section 337 of the Tariff Act of 1930. If after receipt of a petition, the Commission decides to institute an investigation, the matter is referred to this office. The Chief ALJ assigns each case on a rotational basis to one of the Commission's six ALJs. After a discovery process, a formal evidentiary hearing is held in accordance with the Administrative Procedure Act (APA) (5 U.S.C. 551 et seq.). The ALJ considers the evidentiary record and the arguments of the parties and makes an initial determination (ID), including findings of fact and conclusions of law. The ID becomes the Commission's determination unless the Commission determines to review and modify it or send the matter back to the ALJ for further consideration. Temporary relief may be granted in certain cases.

Office of the General Counsel

The General Counsel (GC) serves as the Commission's chief legal advisor. The GC and the staff attorneys provide legal advice and support to the Commissioners and staff on investigations and research studies, represent the Commission in court and before dispute resolution panels and administrative tribunals, and provide assistance and advice on general administrative matters, including personnel, labor relations, and contract issues.

Office of Operations

The Commission's core of investigative, industry, economic, nomenclature, and technical expertise is found within the Office of Operations (OP). The following six offices are under the supervision of the Director:

- The Office of Economics (EC) conducts investigations primarily under section 332 of the Tariff Act of 1930, section 131 of the Trade Act of 1974, and section 2104 of the Trade Act of 2002. The Office of Economics also provides expert economic analysis for import injury investigations, as well as other industry and economic analysis products.

- The Office of Industries (IND) conducts investigations primarily under section 332 of the Tariff Act of 1930, section 131 of the Trade Act of 1974, and section 2104 of the Trade Act of 2002. The Office of Industries maintains technical expertise related to the performance and global competitiveness of U.S. industries and the impact of international trade on those industries for these studies and import injury investigations.

- The Office of Investigations (INV) conducts import injury investigations to fulfill the Commission's investigative mandates, including those specified in the Tariff Act of 1930, the Trade Act of 1974, the North American Free Trade Agreement (NAFTA) Implementation Act of 1993, and the Uruguay Round Agreements Act (URAA) of 1994.

- The Office of Tariff Affairs and Trade Agreements (TATA) implements the Commission's responsibilities with respect to the HTS and the International Harmonized System.
- The Office of Unfair Import Investigations (OUII) participates in adjudicatory investigations, usually involving patent and trademark infringement, conducted under section 337 of the Tariff Act of 1930, both during the pre-institution phase and as a party to the litigation with no commercial interest in the outcome.
- The Office of Analysis and Research Services (OARS) provides research and investigative support. It comprises the library, editorial, knowledge resources, and statistical services.

Office of External Relations

The Office of External Relations (ER) develops and maintains liaison between the Commission and its diverse external customers and is the point of contact with USTR and other executive branch agencies, Congress, foreign governments, international organizations, the public, and the media. The Commission's Trade Remedy Assistance Office, located in the Office of External Relations, provides information about the benefits and remedies available under the U.S. trade laws and assists small businesses seeking relief under those laws.

Office of the Chief Information Officer

The Office of the Chief Information Officer (OCIO) provides information technology leadership, a comprehensive services and applications support portfolio, and a sound technology infrastructure to the Commission and its customers. Through its staff and subsidiary offices, the OCIO seeks to promote, deliver, and manage the secure and efficient application of technology to the Commission's business activities. Component offices include Information Technology Services (ITS) and Enterprise Security Management.

Office of the Chief Financial Officer

The Office of the Chief Financial Officer (OCFO) compiles the Commission's annual budget, prepares the appropriation and authorization requests, and closely monitors budget execution. The OCFO also provides support for acquisitions and is responsible for financial reporting. In addition, the OCFO manages the Commission's internal control program in accordance with FMFIA guidance. Component offices include the Office of Budget, Office of Procurement, and the Office of Finance.

Office of Administrative Services

The Office of Administrative Services (OAS), provides human resource services—including collective bargaining with union representatives—information and document management; management of work life issues; facilities management services, and is responsible for all Commission physical and personnel security matters. Component offices include Human Resources, Security and Support Services, and the Office of the Secretary.

Office of Inspector General

The Office of Inspector General (OIG) provides audit, evaluation, inspection, and investigative support services covering all Commission programs and strategic operations. The mission of the OIG is to promote and preserve the effectiveness, efficiency, and integrity of the Commission. The OIG activities are planned and conducted based on requirements of laws and regulations, requests from management officials, and allegations received from Commission personnel and other sources.

Office of Equal Employment Opportunity

The Office of Equal Employment Opportunity (OEEO) administers the Commission's affirmative action program. The Director advises the Chairman, the Commission, and USITC managers on all EEO issues; manages and coordinates all EEO activities in accordance with relevant EEO laws and EEO Commission regulations; evaluates the sufficiency of the agency's EEO programs and recommends improvements or corrections, including remedial and disciplinary action; encourages and promotes diversity outreach; and monitors recruitment activities to assure fairness in agency hiring practices.

APPENDIX B

Glossary of Acronyms and Abbreviations

ATDA	Accountability of Tax Dollars Act
AD/CVD	Antidumping and Countervailing Duty
AICPA	American Institute of Certified Public Accountants
ALJs	Administrative Law Judges
Commission	United States International Trade Commission
CSRS	Civil Service Retirement System
DataWeb	Interactive Tariff and Trade DataWeb
DHS	Department of Homeland Security
DOL	Department of Labor
EC	Office of Economics
EDIS	Electronic Document Information System
ER	Office of External Relations
FASAB	Federal Accounting Standards Advisory Board
FECA	Federal Employees' Compensation Act
FERS	Federal Employees Retirement System
FFMIA	Federal Financial Management Improvement Act
FICA	Federal Insurance Contribution Act
FISMA	Federal Information Security Management Act
FMFIA	Federal Managers' Financial Integrity Act
GAAP	Generally Accepted Accounting Principles
GATT/WTO	General Agreement on Tariffs and Trade/World Trade Organization
GC	General Counsel
GPRA	Government Performance and Results Act
GSA	General Services Administration
HTS	Harmonized Tariff Schedule

ID	Initial Determination
IG	Inspector General
IND	Office of Industries
INV	Office of Investigations
IPERA	Improper Payments Elimination and Recovery Act
IPIA	Improper Payments Information Act
IT	Information Technology
ITDS	International Trade Data System
ITS	Information Technology Services
IUS	Internal Use Software
NAFTA	North American Free Trade Agreement
NIST	National Institute of Standards and Technology
OARS	Office of Analysis and Research Services
OAS	Office of Administrative Services
OCIO	Office of the Chief Information Officer
OEEO	Office of Equal Employment Opportunity
OIG	Office of Inspector General
OMB	Office of Management and Budget
OP	Office of Operations
OPM	Office of Personnel Management
OUII	Office of Unfair Import Investigations
SFFAS	Statement of Federal Financial Accounting Standards
TATA	Office of Tariff Affairs and Trade Agreements
Treasury	U.S. Department of Treasury
URAA	Uruguay Round Agreements Act
USITC	United States International Trade Commission
USSGL	United States Standard General Ledger
USTR	United States Trade Representative
WCO	World Customs Organization
WTO	World Trade Organization

Contact Information

United States International Trade Commission	500 E Street, SW Washington, DC 20436
General Information Number	202-205-2000
Internet Home Page	http://www.usitc.gov/
Strategic Plan Internet Site	http://www.usitc.gov/press_room/documents/strategic_plan_2009-2014.pdf
Agency Financial Report (AFR)	
AFR Internet Site	http://www.usitc.gov/press_room/annual_reports.htm/
AFR Contact	John Ascienzo
AFR Telephone	202-205-3175
AFR E-mail Address	john.ascienzo@usitc.gov
AFR Fax Number	202-205-1914

500 E Street, SW
Washington, DC 20436