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UNITED STATES GENERAL ACCOUNTING OFFICE
WASHINGTON, D.C. 20548

ACCOUNTING AND FINANCIAL MANAGEMENT DIVISION

B-204393

JULY 20, 1983

The Honorable Alfred E. Eckes
Chairman, United States International
Trade Commission

121911

Dear Mr. Eckes:

Subject: International Trade Commission Needs a System of Internal Audit (GAO/AFMD-83-93)

As part of a study of the overall effectiveness of the internal audit and investigative functions at several agencies, we examined the capability of the United States International Trade Commission (ITC) to identify systemic problems that might adversely affect its ability to detect and prevent fraud, waste, and abuse. Our review included an examination of organizational structure, resource allocation, audit coverage, report quality, and management support of the internal audit function. We followed generally accepted government audit standards in making the review.

We found that ITC does not maintain an in-house audit and investigative capability. In June 1968, ITC signed an interagency agreement authorizing the General Services Administration (GSA) to provide ITC its payroll, accounting, and financial reporting services. GSA was not, however, granted audit responsibility in the interagency agreement. Thus, with the exception of imprest fund audits by the Department of the Treasury and GSA and a financial audit by the General Accounting Office (GAO) in 1966, ITC has not had a financial or operations audit within the last 16 years.

We discussed our observations with your budget and accounting officials to make sure we completely understood the audit situation. They explained that an audit function had not been established within the agency or specified as one of GSA's responsibilities in the interagency agreement because:

--ITC is a small agency, with limited resources, and does not have its own accounting system.

--GSA would have imposed additional charges if granted audit responsibility for ITC.

--Since GSA performed all accounting functions for ITC, the Commission reasoned that its transactions would be audited along with other transactions whenever GAO or GSA audited GSA functions and activities.

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While the services provided by GSA received periodic review by GSA internal auditors and by GAO, ITC's procurement, contracting, time and attendance, and related internal payroll procedures did not. Likewise, ITC's administrative controls were not reviewed. According to a GSA official, if ITC had granted GSA audit authority under the client agreement, these procedures and controls would have been reviewed.

The Budget and Accounting Procedures Act of 1950 requires executive agencies to establish and maintain systems of accounting and internal control--including appropriate internal audit--that will effectively control and account for all funds, property, and other assets for which the agency is responsible (31 U.S.C. 3512). The same legislation (31 U.S.C. 101) defines "executive agency" to be any executive department, agency, or independent establishment in the executive branch. This would include ITC (see 19 U.S.C. 1330).

The recently enacted Federal Managers' Financial Integrity Act (31 U.S.C. 3512) was designed to ensure compliance with the above requirements. The act requires, among other things, that heads of agencies transmit by December 31, 1983, a statement to the President and the Congress saying that their systems of internal accounting and administrative controls fully comply with standards prescribed by the Comptroller General or, in the event they do not, reporting any material weaknesses and a plan and schedule for correcting those weaknesses.

Office of Management and Budget Circular No. A-73 recognizes that audit is an integral part of the management process. The circular specifies that agencies are responsible for providing adequate audit coverage of their programs to help them determine whether resources have been safeguarded; information is reliable; and funds have been expended efficiently, economically, effectively, and in a manner consistent with laws, regulations, and policies. Circular A-73 makes clear that audit includes not only the examination of financial statements but also reviews of (1) compliance with laws and regulations, (2) economy and efficiency of operations, and (3) effectiveness in achieving program results.

We recommend that you provide or contract for and maintain a system of internal audit over all funds, property, and assets for which ITC is responsible, as required by the Budget and Accounting Procedures Act of 1950 and Circular A-73.

The director of ITC's Office of Finance and Budget agreed that periodic audit of ITC operations is needed. The director told us ITC is designing its own accounting and financial management system, and as part of this effort intends to develop plans to provide audit coverage either through a reimbursable project with an executive agency's inspector general or through a contract with a public accounting firm. If properly arranged and implemented, this should meet the requirements of the act and Circular A-73.

The Legislative Reorganization Act of 1970 (31 U.S.C. 720) requires the head of a Federal Agency to submit a written statement on actions taken on our recommendations to the Senate Committee on Governmental Affairs and the House Committee on Government Operations not later than 60 days after the date of the report, and to the House and Senate Committees on Appropriations with the agency's first request for appropriations made more than 60 days after the date of the report.

We are sending copies of this report to the Chairmen, Senate Committee on Governmental Affairs and House Committee on Government Operations. We appreciate the cooperation and courtesies extended to our staff during this review.

Sincerely yours,

W D Campbell

W. D. Campbell
Acting Director