

Office of INSPECTOR GENERAL

Audit Report

*Audit of Procurement Policies
and Procedures Within the USITC*

Report No. IG-08-91



September 1991

Date Issued



UNITED STATES INTERNATIONAL TRADE COMMISSION

WASHINGTON, D.C. 20436

September 13, 1991

AUDIT OF PROCUREMENT POLICIES AND PROCEDURES WITHIN THE USITC

Executive Order 12352, which was signed in 1982, required all Federal agencies to implement major procurement reforms "to ensure effective and efficient spending of public funds..." One goal of the Executive Order was to establish a system in each agency to manage procurement.

In accordance with a Federal requirement that a detailed evaluation of agency financial systems shall be conducted on a cyclical basis, an audit of the USITC procurement policies and procedures was conducted. The objectives of this audit were to evaluate the procurement policies and procedures to identify any areas of non-compliance with applicable regulations and Commission directives, improvements to internal controls, or increased efficiency.

The audit was conducted by Cotton & Company in accordance with the Government Auditing Standards issued by the Comptroller General of the United States. The results of their review are presented as an attachment to this report. The auditors found that the system of internal accounting control in effect during Fiscal Year 1990 appeared sufficient to meet the objectives of the procurement system and that, for the items tested, USITC complied, in all material respects, with the provisions of applicable laws and regulations.

The auditors did find certain conditions in the internal accounting control system that, while not individually or collectively considered material weaknesses, warrant management's attention and corrective action. The auditors found that the procurement process could be improved in that:

Certain aspects of USITC procedural guidance do not conform to the Federal Acquisition Regulations;

Receiving reports were not always completed to indicate that goods were actually received or to indicate the quantity received;

Not all USITC Advisory and Assistance Services Checklists were properly completed;

There is no off-site storage of procurement computer data files; and

Excess telephone equipment had not been returned for credit or refund after it was determined that the equipment did not meet USITC needs.

The auditors also found that controls over USITC's payment process could be improved in the following areas:

Inadequate separation of duties for payment vouchers under \$5,000;

Procedural weaknesses involving signature cards, date-stamping, accounting system entries, and receiving reports;

Payment procedures were not always followed, for example certifications and approvals were missing;

A payment was improperly made from a prior year's appropriation;

The exact date when goods or services were received, which is needed for compliance with the Prompt Payment Act, could not always be determined; and

Funds were deobligated based upon documentation other than an amended purchase order.

Recommendations relating to the findings are presented on pages 12 through 15 of the report. We recommend that the Director of Administration take appropriate action to implement those recommendations which are summarized below:

Improve the procurement process by revising USITC Directive 3601; ensure receiving reports are fully and accurately completed; properly complete advisory and assistance services checklists; arrange for off-site storage; return excess telephone equipment; and

Improve the payment process by separating duties; implementing procedural controls; ensuring all invoices for goods and services are approved and certified for payment; exercising due care in the payment of invoices; obtaining the actual date of receipt on the receiving report or invoice; and ensuring proper authorization is received prior to deobligating funds.

While the above areas do warrant management's attention, we would like to recognize that in the entire context, the procurement process was substantially operating in an efficient and effective manner. The Office of Administration has done a commendable job in improving the procurement process since external management reviews were completed in December 1986 and January 1989 which found multiple areas needing improvement.

The Director, Office of Administration agreed with all but two of the findings and recommendations. He partially agreed with our finding on the return of unneeded goods and disagreed with our finding on separation of duties. In both cases, however, he agreed to take the recommended corrective action. On pages 10 and 11 of the attachment, we summarize the Director's comments and provide our response. The Director's comments are presented in entirety as an appendix to the report.

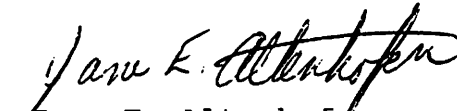

Jane E. Altenhofen
Inspector General

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**REPORT ON THE
INTERNAL CONTROL REVIEW OF THE
UNITED STATES
INTERNATIONAL TRADE COMMISSION'S
PROCUREMENT POLICIES AND PROCEDURES**

Prepared by:

**Cotton & Company
Certified Public Accountants
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May 24, 1991

Ms. Jane E. Altenhofen
Inspector General
United States International Trade Commission
500 E Street, SW
Washington, DC 20436

Dear Ms. Altenhofen:

We conducted an internal control review of the United States International Trade Commission's (ITC) procurement policies and procedures in effect during Fiscal Year 1990. Our review was limited to controls pertaining to:

- Initiation and award of procurement actions.
- Receipt of goods and services.
- Prompt payment of vendor invoices.
- Obtaining competition to the maximum extent practicable.
- Maintenance of contract and purchase order files and supporting documentation.
- Compliance with applicable laws, regulations, and rules.
- Safeguarding of procurement records, forms, and processing areas.
- Purchase adjustments.
- Accuracy and timeliness of the accounting and recording of procurement transactions.

We performed our review in accordance with guidelines and standards established by the American Institute of Certified Public Accountants, Office of Management and Budget, and the U.S. General Accounting Office. Our review was more limited than would be necessary to express an opinion on ITC's system of internal control taken as a whole.

ITC's management is responsible for establishing and maintaining a system of internal accounting control. In fulfilling this responsibility, estimates and judgements by management are required to assess the expected benefits and related costs of control procedures. The objectives of a system of internal control are to provide management with reasonable, but not absolute, assurance

that assets are safeguarded against loss from unauthorized use or disposition and that transactions and program management activities are executed in accordance with management's authorization and recorded properly to permit the preparation of financial reports in accordance with generally accepted accounting principles and agency policies and procedures.

Because of inherent limitations in any system of internal accounting control, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the system to future periods is subject to the risk that procedures may become inadequate as a result of changes in conditions, or that the degree of compliance with the procedures may deteriorate.

The specific control objectives associated with the ITC procurement system are as follows:

- Procurement policies and procedures should be in accordance with existing laws and regulations.
- Competition should be obtained to the maximum extent practicable.
- ITC contracting officers' technical representatives should monitor contractors' technical performance on a continuing basis to provide reasonable assurance that the contractors are performing in accordance with contract terms and specifications.
- The Procurement Division should record and maintain control over procurement requests and maintain adequate documentation on all procurements.

Our review, made for the limited purposes described in the first paragraph of this report, would not necessarily disclose all material weaknesses in ITC's internal control system. Accordingly, we do not express an opinion on ITC's internal control system taken as a whole. Based on our review of the specific procurement system control objectives listed above, however, the system of internal accounting control in effect during FY 1990 appeared sufficient to meet the objectives stated above insofar as those objectives pertain to the prevention or detection of errors or irregularities in amounts that would be material in relation to procurement system data.

In addition, generally accepted Government auditing standards require that financial-related audits include tests of the organization's compliance with applicable laws and regulations. Compliance with laws and regulations applicable to the procurement process is the responsibility of ITC's management. In connection with the review referred to above, we performed tests of compliance with certain provisions of the laws and regulations identified in the Methodology section of the accompanying report.

Ms. Jane E. Altenhofen
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Our test results indicate that, for the items tested, ITC complied, in all material respects, with the provisions of applicable laws and regulations. Nothing came to our attention with respect to the items not tested that caused us to believe that ITC was not in compliance with those provisions.

We conducted the audit fieldwork from April 29 to May 24, 1991.

We discussed the results of our review with the Director, Office of Administration; the Director, Office of Finance and Budget; the Director, Office of Management Services; the Chief, Procurement Division; and other headquarters personnel responsible for the policy direction and overall management of the procurement process. The Commission's formal written response is included in its entirety as an appendix to the report. We have incorporated Commission comments into the report as appropriate.

The accompanying report describes our review objectives, scope, and methodology and the resultant findings, conclusions, and recommendations. It is intended solely for ITC's information and use and should not be used for any other purpose.

Very truly yours,

COTTON & COMPANY

By: Kevin P. McFadden
Kevin P. McFadden, CPA

Enclosure

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**REPORT ON THE INTERNAL CONTROL REVIEW OF THE
UNITED STATES INTERNATIONAL TRADE COMMISSION'S
PROCUREMENT SYSTEM**

PART I: INTRODUCTION

In this part, we discuss study background, objectives, scope, and methodology.

BACKGROUND

The United States International Trade Commission (ITC) is an independent Federal agency with six commissioners, a staff of about 500, and a Fiscal Year (FY) 1990 budget of \$38,477,000.

Congress' basic goal in establishing Federal procurement guidelines is to assure fair and reasonable prices by promoting competition to the maximum extent practicable. Federal regulations divide procurements into two size categories: those over \$25,000 and those \$25,000 or less. Contract awards over \$25,000 are subject to formal procedures to obtain full and open competition. This process permits all sources capable of meeting the Government's needs to compete, unless a specific statutory exception applies. Contract awards of \$25,000 or less are considered small purchases and, to reduce administrative costs, are subject to less formal and more simplified procedures; they are, however, required to be competed to the maximum practical extent.

The Procurement Division (PRD) in the Office of Management Services (OMS) processes all procurement actions, except for General Services Administration (GSA) work orders, which are the responsibility of OMS' Administrative Services Division. ITC procured approximately \$6 million in goods and services in FY 1990. On October 1, 1989, the Chairman delegated procurement authority to the Director, Office of Administration (AD) with authority to redelegate procurement authority at certain dollar levels to the Director, Office of Management Services (OMS); Chief, Procurement Division (PRD); and other personnel within PRD. In paragraph 5b(2) of ITC Directive 3603, the Director, AD, was authorized to delegate procurement authority to designated credit card holders.

The Director, AD, in an administrative notice dated February 27, 1990, delegated procurement authority at certain levels to the Director, OMS; Chief, PRD; other PRD personnel; and designated credit card holders. This notice expired February 26, 1991, and had not been reissued as of completion of fieldwork. Subsequent to our bringing this to the attention of management, the administrative notice was reissued on June 21, 1991, retroactively effective as of February 27, 1991.

OBJECTIVES

We conducted this review of ITC's procurement internal control system to

identify: (1) noncompliance with applicable laws, regulations, and Commission directives; (2) improvements needed in internal controls; and (3) areas that would benefit from increased efficiency. The specific objectives were to:

- Evaluate procurement policies and procedures and compliance with laws, regulations, and policy.
- Determine if purchasing adjustments are made in accordance with policy.
- Evaluate the economy and efficiency of the procurement cycle.
- Evaluate the control over the receipt of goods and services.
- Evaluate the accuracy and timeliness of the accounting and recording of procurement transactions.
- Determine compliance with the Prompt Payment Act.
- Determine if records, forms, and purchasing activities are properly safeguarded.
- Determine the adequacy of actions taken on prior report findings.

SCOPE

We conducted our review at ITC headquarters in Washington, D.C., between April 29 and May 24, 1991. The review focused on the procurement system in effect and transactions occurring during FY 1990.

We met with PRD representatives regarding:

- Procedures to obtain maximum practicable competition.
- Duties of contracting officers' technical representatives (COTRs).
- Processing of contracts, contract modifications, purchase orders, and purchase order amendments.
- Use of Government credit cards.
- Safeguarding and maintaining procurement files, documents, and records.
- PRD's role and responsibilities.

We met with Office of Finance and Budget (OFB) representatives regarding:

- OFB's role and responsibilities.

- Recording of procurement transactions in the financial management system.
- Receipt and payment of vendor invoices.

We interviewed selected COTRs to determine if they are properly carrying out their responsibilities for monitoring contractors' technical progress, including surveillance and assessment of performance, and the inspection and acceptance of all items required by the contract.

We also met with receiving personnel in OMS to determine if the receipt of goods and services is being properly administered and how adjustments are processed.

METHODOLOGY

We gathered data for our review through structured interviews; questionnaires; sample tests of procurement documents, invoices, and payment schedules; and by analyzing other documents and reports identified as representing input to the procurement system.

We sampled contract and procurement files and invoices from the following groups:

<u>Activity</u>	<u>Number Processed in FY 1990</u>	<u>Number Sampled</u>
Contracts	6	5 °
Procurements in excess of \$25,000	11	11
Procurements \$1,000 to \$25,000	268	15
Procurements up to \$1,000	2,865	10
Modifications	80	8 (2 are FY 1991)
Credit card transactions	<u>10</u>	<u>11</u> (1 is FY 1991)
Total	<u>3,240</u>	<u>60</u>

The major guidelines and operating regulations we used to determine the adequacy of internal controls and procedures and to assess the degree of ITC's compliance with the relevant requirements were:

- *Federal Acquisition Regulation (FAR).*
- *Office of Management and Budget (OMB) Circular A-125, Prompt Payment Act.*
- *OMB Circular A-120, Guidelines for the Use of Advisory and Assistance Services.*

- *GAO's Policy and Procedures Manual for Guidance of Federal Agencies.*
- *GAO's Audit Guide: Evaluating Internal Controls in Computer Based Systems.*
- *ITC Policy Directives:*
 - *3550: Property Management: Policies and Procedures*
 - *3601: Contracting and Procurement Policy and Procedures*
 - *3601A: Advance Procurement Planning System*
 - *3603: Governmentwide Commercial Credit Card Service*
- *ITC's Procurement Policy and Procedures Guide.*

We conducted our review in accordance with the Comptroller General's *Government Auditing Standards* (1988 revision).

REPORT ON THE INTERNAL CONTROL REVIEW OF THE
UNITED STATES INTERNATIONAL TRADE COMMISSION'S
PROCUREMENT SYSTEM

PART II: AUDIT RESULTS

Our findings, conclusions, and recommendations are discussed in this part.

FINDINGS

We noted certain conditions in the internal accounting control system that, while not individually or collectively considered material weaknesses, warrant management's attention and corrective action. A weakness in internal accounting control is a condition in which the specific control procedure or the degree of compliance with the procedure is not sufficient to achieve a specific control objective. That is, errors or irregularities may occur and not be detected within a timely period by employees during the normal course of performing their assigned functions. These conditions are discussed in the following sections.

Procurement Process

Every agency or organization generally has a system to procure the goods and services it needs for the effective operation of its activities. This system begins with the identification of a need for items such as supplies, materials, equipment, rent, utilities, maintenance, printing, and other services. The system includes the forms, policies, procedures, and controls to identify sources, arrange for delivery, and receive and inspect the goods or services.

Controls over ITC's procurement process can be improved in the following areas:

1. Certain aspects of ITC written procedural guidance do not conform to the FAR. We observed the need for improved guidance in the following areas:
 - ITC Directive 3601, *Contracting and Procurement Policy and Procedures*, is not consistent with the recent change to the FAR requirements, or the ITC *Procurement Policy and Procedures Guide*. Directive 3601 requires contacting at least 3 sources for procurements between \$1,000 and \$2,500 while FAR paragraph 13.106b and paragraph B.3.a. of the guide require only that the contracting officer determine the price is reasonable. This disparity in requirements is not conducive to an effective procurement process. Directive 3601 has not been updated since the FAR section was revised in July 1990.

- Information required on delivery tickets, as described in ITC's blanket purchase agreements (BPAs), does not include all the items cited in FAR paragraph 13.203-1(j). In addition to the BPA requirements, the FAR requires delivery tickets to include numerous items. BPAs issued by ITC do not require delivery tickets to include the following FAR requirements: quantity, date of delivery or shipment, and unit price and extension of each item. Improper invoicing could result if the necessary information is not required of the vendor.
2. Receiving reports are not always completed to indicate that goods were actually received or the quantity received. GAO's *Standards for Internal Controls in the Federal Government* require all significant transactions to be clearly documented. In addition, OMB Circular A-125, paragraph 5c, specifies that receiving reports will contain item description, quantity received, date received, and signature of the receiving official. Without the required information, OFB cannot be sure what was received or when it was received and may have difficulty complying with the prompt payment process. The lack of availability of this information could lead to improper, late, or even early payments.
 3. Not all ITC Advisory and Assistance Service Checklists were properly completed. For example, in 11 of 12 instances tested, 5 of which were covered in a recent OIG review of advisory and assistance services (IG-04-91), the Director of Administration's approval was not obtained, as required by the instructions provided on the checklist.

This instruction meets OMB Circular A-120 requirements that the approval for such services be at a level above the organization sponsoring the activity. In one instance, the Chairman approved the request but did not sign the form as required by the instructions. This instruction also meets the additional OMB Circular A-120 requirement that approval is required during the fourth fiscal quarter at the second level or higher above the organization sponsoring the activity. Failure to obtain required approvals may result in expenditure of funds for services that are not consistent with management's intentions.

4. There is no off-site storage of procurement computer data files. In the event of a building fire or other catastrophe, procurement data files could be lost or severely damaged. The GAO audit guide, *Evaluating Internal Controls in Computer Based Systems* (page 87), specifies that copies of critical files, programs, and documentation should be stored at an off-site location.
5. Excess telephone equipment (\$4,610) has not been returned by OMS for credit or refund approximately 1 year after it was determined that the equipment did not meet ITC needs. This denies use of the funds for other purposes and could result in additional borrowing costs for the Government. In addition, the longer the unneeded equipment is retained, the greater is the opportunity for the equipment to be misappropriated or damaged, and the vendor is less likely to accept the returned equipment for a credit or refund. ITC has neither written procedures for the

return of unneeded goods nor set timeframes for accomplishing returns. Appropriate ITC policy would be to require the prompt return of equipment for which a need no longer exists.

Payment Process

The payment process involves ensuring that the appropriate goods or services are actually received and, upon proper authorization, payment is made to the vendor in the correct amount within prompt payment parameters.

Controls over ITC's payment process can be improved in the following areas:

1. An operating accountant is involved in all phases of the invoice payment process except for payment vouchers over \$5,000, including confirming treasury payments. To reduce the risk of error or wrongful acts as well as the risk of their going undetected, no one individual should be involved in all key aspects of a transaction (GAO's *Standards for Internal Controls in the Federal Government*). The operating accountant's responsibilities include approving schedules of payment that authorize Treasury to make payments to ITC vendors. Without adequate separation of duties, errors or irregularities could occur and go undetected.
2. Certain procedural weaknesses exist in the payment process, as follows:
 - OFB does not maintain signature cards on personnel authorized to certify invoices or sign receiving reports.
 - OFB does not date-stamp incoming procurement documents.
 - Procurement documents are not always entered into the accounting system in a timely manner. When this occurs, the month-end reports may not be accurate.
 - Incorrect dates are shown on receiving reports for furniture received from vendors through a third-party ITC contractor.

Procedures need to be developed to ensure that pertinent transactions are entered into the accounting system in a timely manner and that OFB receives proper authorization (GAO's *Standards for Internal Controls in the Federal Government*) and accurate receiving information (OMB Circular A-125, paragraph 1n and 5c) prior to processing the invoice for payment. Failure to do so could result in inaccurate information being provided to cost center managers, improper payment of invoices, and increased interest cost to the Federal Government.

3. Payment procedures were not always followed. We noted the following instances where the appropriate procedures were not followed:
 - Two invoices were paid without certification by an authorizing official.

- Of 11 actions tested in our review of COTR activities, we noted 1 invoice for \$1,000 that was approved for payment by the cost center manager, but was not approved by the COTR.
- One invoice was paid before it was approved for payment. (The invoice was subsequently approved.)
- Payment was made in full for one invoice even though one item had not been received at the time of payment. (This item was subsequently received.)

The Finance Division's *Standard Operating Procedures*, Chapter III C, requires that invoices be paid only after proper certifications have been obtained, indicating that goods and services have been received. PRD instructions to COTRs require that all invoices for payment under contracts be approved by the COTR prior to payment of the invoices. The failure to follow established procedures could result in improper payments.

4. One payment for contractor travel expenses was not applied to the appropriate purchase order, resulting in the payment being improperly made from the prior year's appropriation. In addition, the payment exceeded the line item price in the proper purchase order and the total purchase order amount was exceeded by \$191.09. GAO instructions require that transactions be correctly classified and properly recorded (GAO's *Policy and Procedures Manual*, Title II, Appendix III, page 2-5, 1st paragraph).
5. In 8 of 17 invoices tested for compliance with the Prompt Payment Act, we could not determine the exact date when goods or services were received. To determine when the payment for goods or services should be processed, the exact date of receipt should be shown on the receiving report or certified invoice (OMB Circular A-125, paragraph 5c). Failure to know the precise date of receipt could result in invoices being paid prior to the time prescribed for prompt payment by OMB Circular A-125.
6. OFB deobligated funds for a purchase order upon receipt from OMS of a receiving report that indicated the order was canceled. The deobligation should have been based on an amendment to the purchase order, which is the official document for this type of action. ITC does not have a written policy applicable to the cancellation of purchase orders. Obligation information must be reported promptly and accurately (GAO's *Policy and Procedures Manual*, Title II, page 60, paragraph .04). The absence of a written policy for deobligating funds when an order for goods or services is canceled, coupled with payments being made without proper authorization (as previously described), presents the opportunity for payments to be made for goods or services that are not received by ITC.

CONCLUSIONS

Our review disclosed no material findings pertaining to the procurement and payment systems. Both processes appear to meet the needs of ITC manage-

ment in accord with its policies and applicable laws and regulations, in all material respects. As noted in this report, however, we observed certain areas where the processes could be improved.

RECOMMENDATIONS

Our recommendations to strengthen ITC's internal controls are presented below.

Procurement Process

1. The Chief, PRD, should revise ITC Directive 3601 as it relates to the method for determining a reasonable price for procurements of \$2,500 or less, to make it consistent with the recent change to the FAR requirements and the ITC *Procurement Policy and Procedures Guide*. The Chief should also revise the BPA instructions to vendors to require delivery tickets to contain all pertinent information as specified in the FAR.
2. The Director, OMS, should ensure that receiving reports are fully and accurately completed to provide a complete record of what was received, when it was received, who received it, and the condition of the goods received.
3. The Chief, PRD, should ensure that advisory and assistance services checklists are properly completed.
4. The Chief, PRD, and the Director, Office of Information Resources Management, should coordinate arrangements for off-site storage of critical computer files, programs, and documentation.
5. The Director, OMS, should take immediate action to return and obtain a credit or refund for telephone equipment that exceeds ITC's requirements. The Director, OMS, should also develop and implement procedures for return of unneeded goods (including the establishment of reasonable timeframes).

Payment Process

1. To provide proper separation of duties, the operating accountant should not be authorized to certify the SF 1166, Voucher and Schedule of Payments.
2. Controls related to the procedural weaknesses we observed in the payment process can be strengthened by the following actions:
 - The Chief, FD, should maintain signature cards for personnel authorized to sign receiving reports and certify invoices for payment. The signatures on these documents should be compared to those on the signature cards. The signature cards should be periodically updated to reflect current authorizations.

- OFB should date-stamp incoming procurement documents and ensure timely entry into the accounting system.
 - The Director, OMS, should establish procedures to ensure that receiving reports for equipment received through a third-party ITC contractor reflect the date the contractor receives the property from the vendor. For prompt payment purposes, this is the date ITC receives the property.
3. Prior to the payment of invoices, the Chief, FD, should ensure that all invoices for goods and services are approved and certified for payment, and that all receiving reports are accounted for and completed before payment is made.
 4. The Director, OFB, should inform the appropriate ITC officials (e.g. COTRs and technical points of contact) that they are to adhere to the existing approval procedures so that all invoices are paid in an appropriate manner and on a timely basis. The Director should also exercise due care in the payment of invoices to ensure that invoices are paid in the proper amount, from the correct funding source, and with proper authorization.
 5. The Director, OFB, should require certifying officials to indicate the actual date of receipt of goods or services on the receiving report or invoice.
 6. OFB should ensure it has received a proper authorization document prior to deobligating funds. The Chief, PRD, should develop and distribute a written policy covering the process used to cancel a purchase order, BPA, or contract and deobligate funds.

COMMISSION COMMENTS

The Office of Administration (Office) responded to each of our recommendations. The response is included in its entirety in the appendix. The Office agreed with all but two recommendations. It only partially agreed with one (Procurement Process Finding No. 5) and disagreed with another (Payment Process Finding No. 1). In both cases, however, it agreed to take the recommended corrective action. In the section that follows, we summarize the Office's comments and provide our response related to Procurement Process Finding No. 5.

Overall, the Office has initiated improvements in its procurement policies and procedures based on our recommendations. These actions should result in an improved procurement process.

Procurement Process

The Office partially agreed with our recommendation to return and obtain credit or a refund for unneeded telephone equipment. The Office explained that the materials in question had been held as backup equipment during a multi-year transition to a more efficient telephone system. It added that it

had arranged with the vendor to return any unneeded equipment for a credit at the appropriate time. (Included in the Office's comments was a copy of a July 1991 statement evidencing the return of telephone equipment for credit.)

On May 16, 1991, the OMS management analyst involved with the transaction informed us that ITC had experienced maintenance problems during the installation phase and users were not satisfied with certain components. A decision was made to return the equipment in August 1990. The contracting officer amended the purchase order to delete it. At the time of our review, however, it had yet to be returned.

Based on this information, there were plans to return the unwanted equipment long before it was actually returned. This increased the likelihood that the vendor would not accept the returned goods for credit. We continue to be of the opinion that OMS needs procedures for returning unwanted goods. These procedures should include timeframes for making returns.



Appendix

AD-O-526

UNITED STATES INTERNATIONAL TRADE COMMISSION

WASHINGTON, DC 20436

August 15, 1991

MEMORANDUM

TO: Inspector General

FROM: Director, Office of Administration *Laura L. Fochuk*

SUBJECT: Draft Report, "Audit of Procurement Policies and Procedures Within the USITC"

As requested by your memorandum dated July 16, 1991 (IG-O-064), submitted herewith is the Office of Administration's response to the subject draft audit report issued July 1991. In accordance with Section 11 of the USITC Directive 1701, the Commissioners have had an opportunity to comment on the response and the Acting Chairman has approved it.

The Office of Administration for the most part agrees with the audit recommendations. The attached response includes the action to be taken and the target completion dates.

The Office of Administration appreciates the credit you have recognized in your statement concerning the considerable improvement it has made to the procurement process following earlier external management reviews.

Please call me at 205-3131 or Bill Stuchbery at 205-3135 if you have any questions.

Attachments

cc: Director, Office of Finance and Budget
Director, Office of Management Services
Chief, Procurement Division
Chief, Finance Division

AUDIT OF PROCUREMENT POLICIES AND PROCEDURES

OFFICE OF ADMINISTRATION'S COMMENTS

PROCUREMENT PROCESS

1. Recommendation

The Chief, PRD should revise ITC Directive 3601 as it relates to the method for determining a reasonable price for procurements of \$2,500 or less, to make it consistent with the recent change to the FAR requirements and the ITC "Procurement Policy and Procedures Guide." She should also revise the BPA instructions to vendors to require delivery tickets to contain all pertinent information as specified in the FAR.

Response

AGREE

As is provided for in the FAR, the Chief, PRD has determined that three is the optimum number of bids when possible. She was awaiting a more comprehensive rewrite of ITC 3601 to make this change. After this change is made, PRD Desktop Procedures will be amended to reflect the desire to obtain three bids where possible.

TARGET COMPLETION DATE: December 1, 1991

2. Recommendation

The Director, OMS should ensure that receiving reports are fully and accurately completed to provide a complete record of what was received, when it was received, who received it, and the condition of the goods received.

Response

AGREED

The Chief, PRD has already accomplished the appropriate changes to Procurement Division procedures to implement the recommendation.

STATUS: Completed

The Director of Administration amended this response on 9/10/91 to state that appropriate changes will be made by 12/1/91.

3. Recommendation

The Chief, PRD should ensure that advisory and assistance services checklists are properly completed.

Response

AGREE

The Chief, PRD has taken steps to ensure that the few advisory and assistance requests are carefully handled.

STATUS: Completed

4. Recommendation

The Chief, PRD and the Director, Office of Information Resources Management should coordinate on arrangements for off-site storage of critical computer files, programs, and documentation.

Response

AGREE

The Procurement Division is coordinating with the Office of Information Resources Management to provide for the immediate restoration of procurement capability in an emergency. Arrangements are being made to capture and transport backup media.

TARGET COMPLETION DATE: September 30, 1991

5. Recommendation

The Director, OMS should take immediate action to return and obtain a credit or refund for telephone equipment that exceeds ITC's requirement. The Director, OMS should also develop and implement procedures for return of unneeded goods (including the establishment of reasonable timeframes).

Response

PARTIALLY AGREE

The auditors correctly set forth the concept that unneeded equipment should be returned for credit. In each case where OMS staff finds itself in possession of unnecessary materials, the situation is brought to the attention of OMS management. The issue here is whether management failed to exercise due care in this particular case by failing to return unneeded materials thereby causing fiscal harm.

Administration attempted to explain to the auditors that the materials in question were being held as backup equipment during the ITC's multiyear transition to a more efficient telephone system, and that appropriate arrangements had been made with the vendor to obtain the credit when appropriate.

With the Acting Chairman's recent June 1991 approval of equipment to complete the system transition, the return for credit has been consummated (copy

attached). It should be noted that OMS staff was able to return additional used equipment at the same time for a credit exceeding the original amount.

STATUS: Completed

PAYMENT PROCESS

1. Recommendation

To provide proper separation of duties, the operating accountant should not be authorized to certify the SF 1166, Voucher and Schedule of Payments.

Response

DISAGREE, however we will comply with the audit recommendation.

Current procedures provide for the operating accountant or the Chief of the Finance Division to certify payments below \$5,000, and for the Director, Office of Finance and Budget to certify all payments for \$5,000 and above. In addition, at the end of each month the Director, Office of Finance and Budget randomly selects and reviews a sample of all payments made during the previous month. These procedures were instituted in agreement with the accounting firm of Arthur Anderson & Company during its audit of the Commission's FY 1987 and FY 1988 financial statements to provide reasonable assurance against fraud, waste and abuse. We still believe that these procedures provide adequate safeguards. However, in order to comply with this audit report recommendations the Chief of the Finance Division will certify all payments below \$5,000. The Director, Office of Finance and Budget will continue to certify all payments for \$5,000 and above and review a sample of all payments made (even though these controls were not recommended in the current audit we feel that they should remain in place). The operating accountant will remain authorized to certify payments below \$5,000 if the Chief of the Finance Division is not available. All payments certified by the operating accountant will be reviewed by the Chief of the Finance Division.

TARGET COMPLETION DATE: September 30, 1991

2.a. Recommendation

The Chief, FD, should maintain signature cards for personnel authorized to sign receiving reports and certify invoices for payment. The signatures on these documents should be compared to those on the signature cards. The signature cards should be periodically updated to reflect current authorizations.

Response

AGREE.

There are a limited number of persons authorized to sign receiving reports and certify invoices, and in an agency the size of the Commission we can quickly recognize these signatures. However, while we do not believe that there is a problem in this area, we will comply with the audit recommendation. The Chief of the Finance Division will design an applicable form and maintain a file of those authorized to approve receiving reports and invoices.

TARGET COMPLETION DATE: September 30, 1991

2.b. Recommendation

OFB should date-stamp incoming procurement documents and ensure timely entry into the accounting system.

Response

AGREE.

Finance Division operating procedures has provided for date stamping all incoming invoices, bills, travel voucher, etc., but not internal obligating documents coming from the Procurement Division. These operating procedures have been modified to include date stamping of all incoming documents.

To the best of our knowledge all documents are entered into the accounting system timely. We believe further action is not required on this recommendation.

TARGET COMPLETION DATE: Completed

2.c. Recommendation

The Director, OMS should establish procedures to ensure that receiving reports for equipment received by a third party ITC contractor reflect the date the contractor receives the property from the vendor; for prompt payment purposes, this is the date the ITC receives the property.

Response

AGREE

Appropriate communications have been arranged with the single vendor involved. Appropriate language will be added to the Blanket Purchase Agreement (BPA) establishing the service relationship.

TARGET COMPLETION DATE: September 30, 1991

3. Recommendation

Prior to the payment of invoices, the Chief, FD, should ensure that all invoices for goods and services are approved and certified for payment, and that all receiving reports are accounted for and completed before payment is made.

Response

AGREE.

The Chief of the Finance Division has discussed these requirements with Finance Division staff and will follow-up with periodic meetings. These requirements are included in the Finance Division's standard operating procedures, and the Chief of the Finance Division will ensure compliance through staff meetings and review of the payment documents.

TARGET COMPLETION DATE: Completed

4. Recommendation

The Director, OFB, should inform the appropriate ITC officials (e.g. COTR's and technical points of contact) that they are to adhere to the existing approval procedures so that all invoices are paid in an appropriate manner and on a timely basis. The Director should also exercise due care in the payment of invoices to insure that invoices are paid in the proper amount, from the correct funding source, and with proper authorization.

Response

AGREE.

The Director, Office of Finance and Budget, has reminded appropriate officials of approval procedures. The Chief, of the Finance Division has reminded Finance Division staff of these requirements and will ensure compliance through review of the work performed.

TARGET COMPLETION DATE: Completed

5. Recommendation

The Director, OFB, should require certifying officials to indicate the actual date of receipt of goods or services on the receiving report or invoice.

Response

AGREE

For the receipt of services (consultant reports, language translations, etc.) dates of receipt and acceptance are supplied by appropriate certifying officials. To ensure the best possible information, a revised stamp is being procured to require certifying officials to insert two dates so that payment

can be made: one reflecting the "date of receipt of the service"; and a second date reflecting the "date of acceptance of the service or approval of the invoice".

For receipt of goods (supplies, equipment, etc.) appropriate dates of receipt have been, and continue to be, reflected on the receiving reports. Certifying officials, such as Cost Center Managers, are authorizing the payment of funds from their Cost Center Budget Allocation and for the most part we do not rely on the date of their approval for the date of receipt. However, for simplicity, the new date stamp described above will also be used for Cost Center payment authorization on goods received as well as for services.

TARGET COMPLETION DATE: September 30, 1991

6.a. Recommendation

OFB should ensure it received a proper authorization document prior to deobligating funds.

Response

AGREE.

As an interim measure until appropriate procedures are agreed upon OFB will advise PRD of complete document deobligations as they are made during the fiscal year.

TARGET COMPLETION DATE: Completed

6.b. Recommendation

The Chief, PRD, should develop and distribute a written policy covering the process used to cancel a purchase order, BPA, or contract and to deobligate funds.

Response

AGREE

The Chief, PRD, will accomplish the recommended action regarding the development of an acquisition document cancellation policy. The Procurement Division and the Office of Finance and Budget have recently developed the proper procedures and activities to be accomplished in the deobligation of funds.

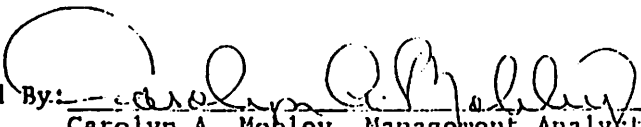
TARGET COMPLETION DATE: December 31, 1991

NORTHERN TELECOM
TELEPHONE EQUIPMENT
RETURNED TO:

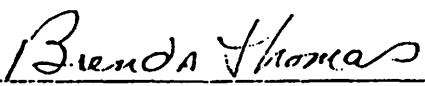
BELL ATLANTIC WAREHOUSE
8502A Tyco Road
Vienna, Virginia 22182
ATTN: Brenda Thomas

Friday, July 12, 1991

Unity Controllers - Ash	9 @ \$283.86 =	\$2,554.74
Unity Controllers - Black	4 @ \$283.86 =	\$1,135.44
Unity Controller/Addons - Ash	14 @ \$177.10 =	\$2,479.40
Unity III - Ash	28 @ \$63.91 =	\$1,789.48
Unity III - Black	6 @ \$63.91 =	\$383.46
TOTAL-----		\$8,342.52

Returned By: 
Carolyn A. Mobley, Management Analyst
U.S. International Trade Commission
Office of Management Services
Administrative Services Division
500 E Street, SW, Room 201
Washington, DC 20436

Date: 7-12-91

Received By: 
Brenda Thomas
Bell Atlantic
8502A Tyco Road
Vienna, Virginia 22182

Date: 7-12-91

