

U.S. International Trade Commission

Management Letter: Fiscal Year 2021 Financial Statement Audit



OIG-ML-22-06

December 15, 2021



Office of Inspector General

The U.S. International Trade Commission is an independent, nonpartisan, quasi-judicial federal agency that provides trade expertise to both the legislative and executive branches of government, determines the impact of imports on U.S. industries, and directs actions against certain unfair trade practices, such as patent, trademark, and copyright infringement. USITC analysts and economists investigate and publish reports on U.S. industries and the global trends that affect them. The agency also maintains and publishes the Harmonized Tariff Schedule of the United States.



UNITED STATES INTERNATIONAL TRADE COMMISSION

WASHINGTON, DC 20436

December 15, 2021

IG-TT-020

Commissioners:

This memorandum transmits the Management Letter Report (OIG-ML-22-06) from the audit of the Commission's financial statements for fiscal year 2021. We contracted with the independent certified public accounting firm of Harper, Rains, Knight & Company, P.A. to perform an audit of the Commission's financial statements. The audit resulted in an unmodified opinion. A draft of the management letter was provided to you for comment, and your comments are included in their entirety as an appendix to the report.

When performing an audit of an agency's financial statements, auditors may identify certain matters involving internal controls that do not rise to a level of significance to be reported in the independent auditors' opinion report; instead, these matters are communicated in a management letter. Harper, Rains, Knight & Company noted conditions pertaining to two areas, Property, Plant & Equipment and Deferred Rent. Strengthening internal controls in these areas is important and presents an opportunity to improve operational efficiency.

The letter contains two recommendations for corrective action. In the next 30 days, please provide me with your management decisions describing the specific actions you will take to implement each recommendation.

Harper, Rains, Knight & Company is responsible for the attached management letter and the conclusions expressed in it. Thank you for the cooperation and courtesies extended to both our staff and the external audit firm's employees during the audit.

Sincerely,

Rashmi Bartlett

MANAGEMENT LETTER

U.S. INTERNATIONAL
TRADE COMMISSION

WASHINGTON, D.C.

FOR THE YEAR ENDED
SEPTEMBER 30, 2021

Harper, Rains, Knight & Company, P.A.
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Washington, DC 20005
202-558-5162
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December 9, 2021

Inspector General
U.S. International Trade Commission

We have audited the balance sheet of the U.S. International Trade Commission (USITC) as of September 30, 2021, and the related statements of net cost, changes in net position, and budgetary resources for the fiscal year then ended, and the related notes to the financial statements, and have issued our report thereon dated November 10, 2021.

In planning and performing our audit of the basic financial statements of the USITC as of and for the year ended September 30, 2021, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, we considered USITC's internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the USITC's internal control. Accordingly, we do not express an opinion on the effectiveness of USITC's internal control over financial reporting.

A deficiency in internal control 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 and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis. A reasonable possibility exists when the likelihood of an event occurring is either reasonably possible or probably as defined as follows:

- *Reasonably possible.* The chance of the future event or events occurring is more than remote but less than likely.
- *Probable.* The future event or events are likely to occur.

Our consideration of internal control was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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Inspector General
U.S. International Trade Commission (continued)

During our audit we noted certain matters related to internal control and other operational matters that are presented for your consideration in Appendix A. These comments and recommendations, all of which have been discussed with the appropriate members of management and the USITC Office of Inspector General, are intended to improve internal control or result in other operating efficiencies and are not considered to reflect significant deficiencies, or material weaknesses in internal control over financial reporting. All deficiencies, in internal control over financial reporting have been previously communicated to management, as applicable.

The purpose of this communication, which is an integral part of our audit, is to describe, for management and those charged with governance, the scope of our testing of internal control and the results of that testing. Accordingly, this communication is not intended to be and should not be used for any other purpose.

Harper, Rains, Knight & Company, P.A.

Harper, Rains, Knight & Company P.A.
Washington, D.C.

I. Internal Control Deficiencies

A. Internal Control Over Property, Plant & Equipment

Condition:

We tested the year-end balances of USITC's capitalized property by looking at all current year activity. To obtain sufficient evidence regarding the year-end balances, we recalculated depreciation expense (SGL 671001) and tested a sample of nine (9) asset addition transactions represented by GL activity for FY21. During our testing, we noted the following:

- For one (1) of the asset additions samples, HRK determined that the asset should not have been capitalized per agency policy.
- For three (3) of the depreciated assets, assets were moved from an "in progress" account to an asset account and placed in service in the current year. Depreciation was incorrectly calculated on the purchase date instead of the placed in-service date.

Criteria:

Per the USITC Financial Management Manual (FMM), "An item is capitalized when it meets two criteria: (1) Must have an estimated useful life of 2 or more years; (2) The total cost must equal or exceed the agency's capitalization threshold."

Per the USITC FMM, "Expenditures associated with tenant improvements that are unique to the needs of the lessee are accumulated in a subsidiary construction account until completion of the project. The expenditures are then capitalized in the appropriate PP&E account. The amount charged as tenant improvements should be amortized to current expense as depreciation over the shorter of the lease term or five years. In the event that the agency leaves before the expiration of the lease, any remaining unamortized amount should be charged to current expense as a loss on disposal of fixed assets."

Per the USITC FMM, "Depreciation is defined as the accounting process of allocating the cost of tangible assets to current expense in a systematic and rational manner in those periods expected to benefit from the use of the asset. Depreciation begins when an improvement is complete, or the month following the date equipment is placed into production."

Cause:

The internal controls in place over the recording of assets and determining placed in service dates are not operating effectively.

Appendix A

Internal Control Deficiencies

Effect:

Failure to properly record transactions into correct BOCs could lead to improper recording of assets. One of USITC's assets was incorrectly recorded into an asset BOC, resulting in an overstatement of SGL 1750 (Equipment) of \$81,866.80 for FY21.

Failure to properly record placed in service dates for assets could lead to improper depreciation calculations. Three of USITC's assets had an incorrect placed in-service date that caused depreciation to be miscalculated, resulting in an overstatement of depreciation of \$350,065 for FY21.

Recommendation:

We recommend that USITC review, at least monthly, its process of monitoring its controls over capitalized property to ensure that assets are being recorded properly and depreciation is being calculated correctly.

I. Control Deficiencies (continued)

B. Internal Control Over Deferred Rent Liability

Condition:

We obtained the Deferred Rent Schedule and recalculated the Deferred Rent Liability for FY21. During our testing, we noted the following:

- One quarter of amortization of rent abatement was entered with incorrect debit and credit entries of \$119,375.92 each.

Criteria:

Per the USITC Financial Management Manual, "The Director of Finance reviews the JV and documentation for completeness, validity, and accuracy ensuring that the correct accounts are being debited and credited, and signs and dates the JV. The Director of Finance forwards the signed JV and documentation to the CFO for final review and electronic signature. The accountant enters the JV in the accounting system and prints a trial balance and reviews it to ensure that the transaction posted correctly."

Cause:

The internal controls in place over the recording of amortization of rent abatement is not operating effectively.

Effect:

Failure to properly record amortization of rent abatement could lead to improper calculations of liabilities on the Balance Sheets and improper calculations of program costs on the Statements of Net Cost.

Recommendation:

We recommend that USITC follow the controls as designed or develop more robust controls over this area to ensure that transactions are thoroughly reviewed before posting into the accounting system.



UNITED STATES INTERNATIONAL TRADE COMMISSION

WASHINGTON, DC 20436

C087-TT-004

December 9, 2021

MEMORANDUM

TO: Rashmi Bartlett, Inspector General

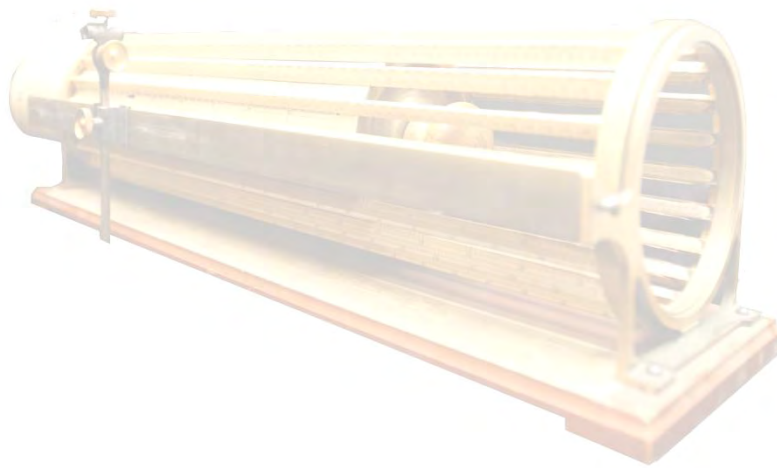
FROM: Jason Kearns, Chair

A handwritten signature in blue ink, appearing to read "J. Kearns", is placed next to the name "Jason Kearns, Chair".

SUBJECT: Response to Draft Management Letter – Audit of Commission’s FY 2021 Financial Statement

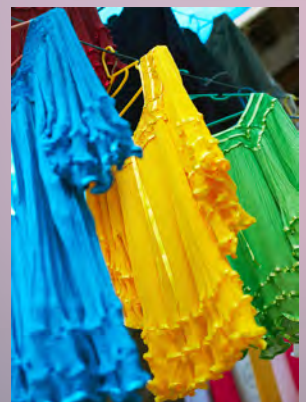
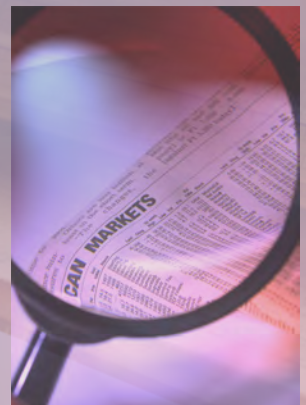
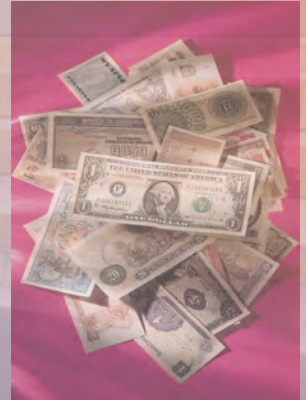
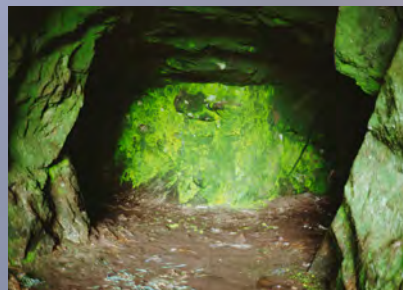
Thank you for the opportunity to review and provide comments to the draft management letter – Audit of FY 2021 Financial Statement.

We agree with the audit findings that improvements are needed in internal controls over property, plant and equipment as well as deferred rent liability. The Commission will develop management decisions to address the two recommendations in the letter.



"Thacher's Calculating Instrument" developed by Edwin Thacher in the late 1870s. It is a cylindrical, rotating slide rule able to quickly perform complex mathematical calculations involving roots and powers quickly. The instrument was used by architects, engineers, and actuaries as a measuring device.

To Promote and Preserve the Efficiency, Effectiveness, and Integrity of the U.S. International Trade Commission



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