

# U.S. International Trade Commission

*Management Letter: Fiscal Year 2020 Financial Statement Audit*



OIG-ML-21-05

December 16, 2020



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.*



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## UNITED STATES INTERNATIONAL TRADE COMMISSION

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WASHINGTON, DC 20436

December 16, 2020

IG-SS-021

Commissioners:

This memorandum transmits the Management Letter Report (OIG-ML-21-05) from the audit of the Commission's financial statements for fiscal year 2020. We contracted with the independent certified public accounting firm, Castro and Company, LLC to conduct this audit. 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.

The management letter discusses three matters involving internal control and other operational matters that the auditors identified during the audit, but were not required to be included in the audit reports. One issue, related to improvements in the recording of undelivered orders and accounts payable, was a repeat condition from previous management reports issued by the auditors.

This issue has been found and reported over multiple years. The Commission had completed final action on the management decisions related to the recommendations from these previous reports. Repeat conditions indicate that the management actions taken to address the recommendations were not monitored to ensure they were properly designed, implemented, and operating effectively. I would like to emphasize the importance of performing ongoing monitoring activities as part of normal business operations to provide assurance that the controls in place are effective and achieving the desired results.

The report contains six 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. Thank you for the courtesies extended to the staff of Castro & Company during this audit.

Sincerely,

Michael J Haberstroh  
Acting Inspector General

# **U.S. INTERNATIONAL TRADE COMMISSION**



## **Fiscal Year 2020 Financial Statement Audit**

### **Management Letter Report**

November 13, 2020

Inspector General  
U.S. International Trade Commission

We have audited the accompanying balance sheets of the U.S. International Trade Commission (USITC) as of September 30, 2020 and 2019 and the related statements of net cost, changes in net position, and budgetary resources for the fiscal years then ended, and the related notes to the financial statements, and have issued our report thereon dated November 13, 2020.

In planning and performing our work, we considered the USITC's internal control over financial reporting by obtaining an understanding of the design effectiveness of the USITC's internal control, determining whether controls had been placed in operation, assessing control risk, and performing tests of the USITC'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 the USITC's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the USITC's internal control over financial reporting.

We noted certain matters involving internal control and other operational matters that are summarized in this letter. 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.

Our audit procedures are designed primarily to enable us to form an opinion on the financial statements, and therefore may not bring to light all weaknesses or deficiencies in internal control, policies or procedures that may exist.

We would like to express our appreciation to you and all other USITC personnel who assisted us in completing our work.

This report is intended solely for the information and use of the USITC management, the USITC Office of the Inspector General, and others within the organization and is not intended to be, and should not be, used by anyone other than these specified parties.

Sincerely,



Castro & Company, LLC  
Alexandria, VA

## **1. Improvements Are Needed in Internal Control over Management and Oversight of Journal Vouchers**

As a part of our testing of the USITC's financial statement preparation process, we performed an analysis of the Journal Voucher (JV) detail as of June 30, 2020. We noted the USITC prepared a total of 51 JVs for the period of October 1, 2019 to June 30, 2020. We selected 21 JVs to test. The purpose of our testing was to verify that JVs were accurate, adequately supported, and that proper review and approval was performed by the USITC. During our interim testing, we noted that six (6) of the 21 JVs were not reviewed and approved in a timely manner. These JVs were posted early in the calendar year and were not reviewed and approved until two to eight months after the JV period date, with most of the delayed approvals occurring in August 2020. We performed similar testing over JVs at year-end and noted one of the 12 JVs tested was not reviewed and approved in a timely manner.

GAO's *Standards for Internal Control in the Federal Government* (Green Book), Principle 10 – *Design Control Activities* and Principle 16 – *Perform Monitoring Activities*, states:

10.03 “Management designs appropriate types of control activities for the entity’s internal control system. Control activities help management fulfill responsibilities and address identified risk responses in the internal control system... Management clearly documents internal control and all transactions and other significant events in a manner that allows documentation to be readily available for examination.”

10.10 “Management may design a variety of controls activities for operational processes, which may include verifications, reconciliations, authorizations and approvals, physical control activities, and supervisory control activities.”

16.05 “Management performs ongoing monitoring of the design and operating effectiveness of the internal control system as part of the normal course of operations. Ongoing monitoring includes regular management and supervisory activities, comparisons, reconciliations, and other routine actions.”

The USITC prepared JVs for which the required approval was sometimes overlooked, or original approvals could not be located, in which case, the JV required a new approval. The USITC lacked proper management oversight controls to ensure that JVs were reviewed and approved in a timely manner and that all documentation of JV approvals are adequately maintained.

Without proper management oversight, discrepancies may exist but go undetected and uncorrected; thereby, potentially causing the financial information to be misstated.

### **Recommendations:**

#### **We recommend that the USITC management:**

1. Perform and document detailed management quality control reviews over the processing of journal vouchers.

2. Update policies, procedures, and processes over journal vouchers to ensure that they are reviewed and approved in a timely manner and that documentation supporting review and approvals is maintained.

## **2. Improvements Are Needed in the Recording of Undelivered Orders and Accounts Payable (Repeat Condition)**

During our testing of Undelivered Orders (UDO) and Accounts Payable (A/P), we selected a sample of 22 UDO transactions as of 6/30/20. The purpose of our testing was to assess management controls and compliance with applicable laws, regulations, and procedures relative to USITC's open obligations and corresponding accruals in order to support the validity of UDO balances. The results of our interim testing identified exceptions in seven (7) of the 22 transactions tested. The following conditions were noted:

- Differences noted as a result of incorrect accruals: Two (2) under-accruals totaling \$14,684 that understated the A/P balance and overstated the UDO balance and two (2) over-accruals which overstated the A/P balance by \$18,563 and understated the UDO balance. Specifically:
  - One (1) sample had an under-accrual difference of \$5,208 due to USITC not accruing for services received from April through June 2020, for which it had not been billed.
  - One (1) sample had an under-accrual difference of \$9,475.62 due to USITC not accruing for services received in June for which it had not been billed.
  - One (1) sample had an over-accrual difference of \$2,137 due to USITC miscalculating the necessary accrual amount for June 30.
  - One (1) sample had an over-accrual difference of \$16,426 due to USITC accruing for services received in June 2020 that were also posted in the General Ledger as of 6/30/2020.
- Difference noted as a result of an invalid obligation: USITC did not always oversee that IPACs/Invoices and Obligations were recorded correctly in the General Ledger, and deobligation amounts were accurate. Specifically:
  - For one (1) sample, an IPAC was reversed out of the GL in March 2020. Per Finance, this IPAC was moved in order to properly deobligate and reconcile records with the Department of Labor, which resulted in a UDO difference of \$5,215.
  - For one (1) sample, a UDO difference of \$5,893 was noted, of which \$8.40 was related to an obligation difference due to the award amount being entered in the GL incorrectly.

We identified one material UDO difference of \$560,025 which was caused by USITC deobligating the incorrect amount of \$709,365 due to issues posting the deobligation into the accounting system. The correct amount that should have been deobligated for June is \$149,340. These amounts were posted in July 2020, but they were included in the accounting period of June 2020. This caused the SBR's "New Obligations and Upward adjustments" to be understated by \$560k and "Unobligated balance end of year: Apportioned" to be overstated by the same amount. USITC made the correction and restated the interim financial statements and resubmitted the SBR as of June 30, 2020 to OMB.

Additionally, we reviewed the listing of all contracts with open balances to identify expired contracts that still have open balances as of 9/30/20 and need to be closed out and deobligated. As a result, we identified 23 commercial contracts that, as of 9/30/20, have been expired for over a year and still have open balances being reported of \$41,511.

A lack of monitoring of obligations, including timely close out of contracts and properly deobligating funds, as well as accurate calculation of accruals, resulted in misstatements in accounts payable and obligations.

GAO's *Standards for Internal control in the Federal Government* (Green Book), Section 1 *Fundamental Concepts of Internal Control*, Principle 16 – *Perform Monitoring Activities*, and Principle 10- *Design Control Activities*, state:

OV1.01 “Internal control comprises the plans, methods, policies, and procedures used to fulfill the mission, strategic plan, goals, and objectives of the entity. Internal control serves as the first line of defense in safeguarding assets. In short, internal control helps managers achieve desired results through effective stewardship of public resources.”

16.05 “Management performs ongoing monitoring of the design and operating effectiveness of the internal control system as part of the normal course of operations. Ongoing monitoring includes regular management and supervisory activities, comparisons, reconciliations, and other routine actions. Ongoing monitoring may include automated tools, which can increase objectivity and efficiency by electronically compiling evaluations of controls and transactions.”

10.03 “Transactions are promptly recorded to maintain their relevance and value to management in controlling operations and making decisions. This applies to the entire process or life cycle of a transaction or event from its initiation and authorization through its final classification in summary records. In addition, management designs control activities so that all transactions are completely and accurately recorded.”

10.03 “Management clearly documents internal control and all transactions and other significant events in a manner that allows the documentation to be readily available for examination. The documentation may appear in management directives, administrative policies, or operating manuals, in either paper or electronic form. Documentation and records are properly managed and maintained.”

Statement of Federal Financial Accounting Standards 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.”



The financial data used to generate management and financial reports required by applicable laws and regulations was not completely accurate. As a result, those charged with governance did not have completely reliable financial information to manage the operations of the Agency.

## **Recommendations:**

### **We recommend that USITC Management:**

3. Develop a detailed process for the review, monitoring and de-obligation of expired contracts.
4. Update the review and monitoring processes for deobligating expired contracts, including documenting the reason for maintaining certain obligations open passed expiration.
5. Update the review and monitoring processes over the accrual estimates to ensure they are consistently applied, and estimates are accurate.

### **3. Improvements are Needed in Internal Control over the Payroll Process**

During our internal control testing procedures as of March 31, 2020, we noted that one employee from our sample was not listed on either the Active or Separated Employee listings provided to us. We followed up with USITC to determine why this employee had not been included in the Active Employees listing as of 3/31/20. Per USITC, four (4) names were identified that were not on the original listing. We inquired if USITC could determine the reason for the omission of these employees from the original Employee Listings provided. Per USITC, there is no clear way of pinpointing exactly what occurred. It could have possibly been an error with the initial query or a glitch in the system at the time the report was run.

The office of Human Resources (HR) did not have an adequate process in place to review active and separated employee reports to verify the reports were complete and reliable data was provided.

GAO's *Standards for Internal control in the Federal Government* (Green Book), Section 1 *Fundamental Concepts of Internal Control*, Principle 16 – *Perform Monitoring Activities*, and Principle 10 - *Design Control Activities*, state:

OV1.01 “Internal control comprises the plans, methods, policies, and procedures used to fulfill the mission, strategic plan, goals, and objectives of the entity. Internal control serves as the first line of defense in safeguarding assets. In short, internal control helps managers achieve desired results through effective stewardship of public resources.”

16.05 “Management performs ongoing monitoring of the design and operating effectiveness of the internal control system as part of the normal course of operations. Ongoing monitoring includes regular management and supervisory activities, comparisons, reconciliations, and other routine actions. Ongoing monitoring may include automated tools, which can increase objectivity and efficiency by electronically compiling evaluations of controls and transactions.”

10.03 “A variety of control activities are used in information processing. Examples include edit checks of data entered; accounting for transactions in numerical sequences; comparing file totals with control accounts; and controlling access to data, files, and programs.”

10.03 “Management clearly documents internal control and all transactions and other significant events in a manner that allows the documentation to be readily available for examination. The documentation may appear in management directives, administrative policies, or operating manuals, in either paper or electronic form. Documentation and records are properly managed and maintained.”

By not performing reviews to ensure that active and separated employee reports are accurately generated, USITC increases the risk that Payroll reports may present inaccurate, misleading and/or inconsistent information.

**Recommendation:**

**We recommend that USITC Management:**

- 6. Develop a process to review Payroll reports to verify accuracy and completeness.

**Status of Prior Year Management Letter Comments**

The Fiscal Year (FY) 2019 Management Letter Report issued by Castro & Company identified the following control deficiencies, and one remains open at the end of FY 2020:

<b>Fiscal Year</b>	<b>Finding Identified</b>	<b>Status in FY 2020</b>
FY 2019	Improvements Are Needed in Internal Control over Disbursements under the Prompt Payment Act	Resolved
FY 2019	Improvements are Needed in the Recording of Property, Plant and Equipment	Resolved
FY 2019	Lack of Quality Review Procedures Related to the Reporting of Imputed Cost	Resolved
FY 2019	Inadequate Controls over Undelivered Orders and Accounts Payable	Unresolved



# U.S. International Trade Commission

## Appendix A

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### Appendix A: Management Comments



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UNITED STATES INTERNATIONAL TRADE COMMISSION

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WASHINGTON, DC 20436

C087-SS-011

December 11, 2020

MEMORANDUM

TO: Michael Haberstroh, Acting Inspector General

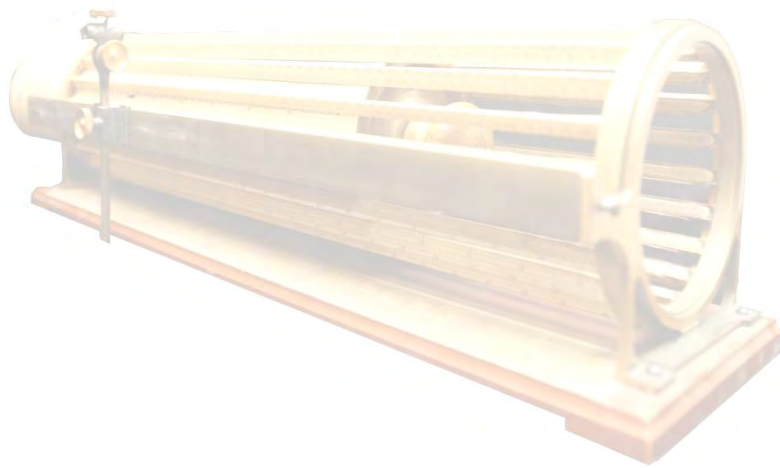
FROM: Jason Kearns, Chair 

SUBJECT: Response to Draft Management Letter – Audit of Commission’s FY 2020 Financial Statement

Thank you for the opportunity to review and provide comments to the draft management letter – Audit of FY 2020 Financial Statement.

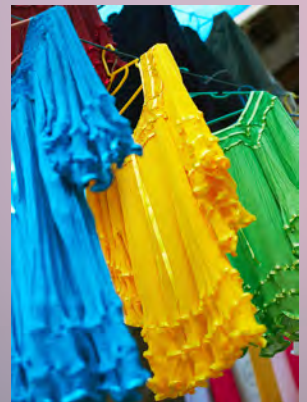
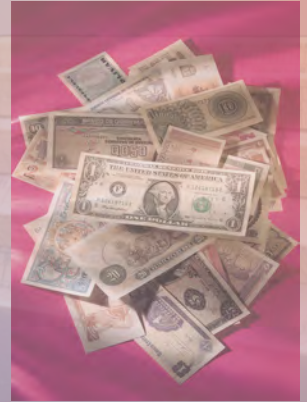
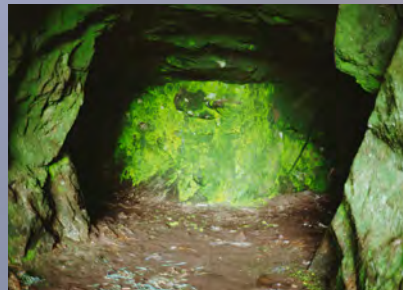
We agree with the audit findings that improvements are needed in internal control over management and oversight of journal vouchers; that improvements are needed in the recoding of undelivered orders and accounts payable; and that improvements are needed in internal control over the payroll process. The Commission will develop management decisions to address the six 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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