U.S. International Trade Commission
OFFICE OF INSPECTOR GENERAL

Management Letter
Fiscal Year 2023
Financial Statement Audit

OIG-ML-24-03

December 18, 2023

UNITED STATES INTERNATIONAL TRADE COMMISSION

WASHINGTON, DC 20436

December 18, 2023 IG-VV-17

Commissioners:

This memorandum transmits the Management Letter Report (OIG-ML-24-03) from the audit of the Commission's financial statements for fiscal year 2023. 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 internal controls over Payroll Operating Expenses, Untimely Review of Monthly Reconciliations and Journal Vouchers, and Undelivered Orders. Strengthening internal controls in these three areas is important and presents an opportunity to improve system reliability and operational efficiency.

The letter contains eight 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

Rashmi Bartlett

Harper, Rains, Knight & Company

MANAGEMENT LETTER

U.S. INTERNATIONAL
TRADE COMMISSION

WASHINGTON, DC

SEPTEMBER 30, 2023

Harper, Rains, Knight & Company, P.A.
1425 K Street NW, Suite 1120
Washington, DC 20005
202-558-5162
www.hrkcpa.com

Harper, Rains, Knight & Company

November 27, 2023

Inspector General
U.S. International Trade Commission

In planning and performing our audit of the basic financial statements of the U.S. International Trade Commission (USITC) as of and for the year ended September 30, 2023, 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 probable 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.

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

1052 Highland Colony Parkway, Suite 100
Ridgeland, MS 39157
p: 601-605-0722 • f: 601-605-0733

1425 K Street NW, Suite 1120
Washington, DC 20005
p: 202-558-5162 • f: 601-605-0733

Office of Inspector General, are intended to improve internal control or result in other operating efficiencies 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.

Washington, DC

I. Internal Control Deficiencies

A. Internal Control Over Payroll Operating Expenses

<u>Condition:</u>

We tested a sample of forty-seven (47) payroll expense transactions. During our testing, we noted the following:

- For two (2) of the USITC employees tested, employee's retirement withholdings per support provided and FPPS did not match.
- For two (2) of the USITC employees tested, the FEGLI code on the SF-50 and the FEGLI form provided did not match and ITC could not provide the matching form.
- For four (4) of the USITC employees tested, either the TSP form could not be provided, or the TSP form provided did not match to the ELS and a matching form could not be provided.

<u>Criteria</u>:

Office of Personnel Management, Guide to Personnel Recordkeeping Operating Manual, states:

> "Each Office program that requires agencies to create personnel records, which may be used in making any determination about an individual, is responsible for establishing minimum standards of accuracy, relevancy, necessity, timeliness, and completeness of the record that would promote fairness to the individual in the determination. 5 U.S.C. 552a (e)(5). An agency holding an OPF concerning one of its employees is the custodian of the OPF during the period the person to whom it pertains is an employee of the agency and is responsible for the maintenance of that record regardless of format or media employed."
>
> "Agencies should have management controls to ensure personnel records can be located when necessary and are retained and disposed of as required by 'General Records Schedules 1'."

Office of Personnel Management, *Guide to Personnel Recordkeeping Operating Manual*, Chapter 3, <u>Filing Documents in the Personnel Folder</u>, specifically identifies and contains instructions for filing the following:

- Health Insurance
  - Standard Form 2809 – Health Benefits Registration Form
  - Standard Form 2810 – Notice of Change in Health Benefits
  - Transcript – OPM approved documentation of health benefits enrollments processed electronically (for example, through Employee Express

- Life Insurance – All life insurance forms must be filed in the OPF.
- Thrift Savings Plan
  - TSP1 – Thrift Savings Plan Election Form
  - Transcript – Transcript of thrift savings plan changes approved for use by the Federal Retirement Thrift Investment Board
- Notification of Personnel Action
  - Standard Form 50 – Notification of Personnel Action

Cause:

The internal controls in place over the record and maintenance of complete and accurate personnel records are not operating effectively.

Effect:

Failure to properly record and maintain official personnel records could lead to improper calculations of liabilities on the Balance Sheets and improper calculations of program costs on the Statements of Net Cost.

Improper official personnel records could adversely impact USITC personnel during their tenure with the Commission and upon separation of duty. Personnel may have valid complaints for inaccurate payments and the Commission is at risk for improper payments.

Recommendation:

We recommend that USITC:

1) Notify its service provider that its eOPF files are incomplete.
2) Implement policies, procedures, and/or controls for new, transfer, and promoted employees to verify completeness and accuracy of information in eOPF.
3) Remind USITC employees, at least semi-annually, to verify that the information in their files is complete and accurate.
4) Conduct reviews of eOPF documents for all employees to ensure that the deductions elected by employees are the deductions being taken on the earnings and leave statements and are present in FPPS and thereafter conduct reviews at least semi-annually.

Managements' Response

1) Concur. The Office of Human Resources will notify IBC that some actions have not resulted in automatic transfer to the eOPF and seek guidance on how to resolve the matter.
2) Concur. The Office of Human Resources will implement policies, procedures, and/or controls for new, transfer, and promoted employees to verify completeness and accuracy of information in eOPF.
3) Concur. The Office of Human Resources will send Semi-Annual Notice to all Commission employees to verify completeness and accuracy of information contained in their eOPF.
4) Concur. The Office of Human Resources will conduct an annual audit of all Commission employees to ensure correct deductions are being made for benefit deductions.

B. Internal Control Over Untimely Review of Monthly Reconciliations and Journal Vouchers

Condition:

We tested the controls over the completion and review of monthly and quarterly account reconciliations over the financial statement audit areas that are significant to the USITC's financial statements. During our internal control testing, we noted the following:

- For the March Capitalized Property Reconciliation, it was not completed or reviewed until May 23, 2023. For the June Capitalized Property Reconciliation, it was not completed or reviewed until August 2, 2023.
- For the December 2022 Account Payable Reconciliation, it was not completed or reviewed until February 8, 2023, and February 10, 2023, respectively.
- For the December 2022 Statement of Budgetary Resources Reconciliation, it was not completed or reviewed until February 6, 2023. For the March 2023 Statement of Budgetary Resources Reconciliation, it was not completed or reviewed until May 16, 2023.
- For the December 2022 Post Close Open Obligations Reconciliation (48xxs), it was not completed or reviewed until March 14, 2023. For the March 2023 Post Close Open Obligations Reconciliation (48xxs), it was not completed or reviewed until August 5, 2023.
- For the December 2022 Monthly Reconciliations & Reviews (Expenditures Paid/Unpaid), it was not completed or reviewed until February 13, 2023, and February 15, 2023, respectively. For the March 2023 Monthly Reconciliations & Reviews (Expenditures Paid/Unpaid), it was not completed or reviewed until May 15, 2023.
- For JV230001, it was created December 13, 2022, but not reviewed by the Director of Finance until February 7, 2023, and CFO until March 20, 2023.

Criteria:

USITC Office of Finance Closing Procedures states,

"Reconciliation of all PP&E accounts – Electronically Signed by the tenth business day of month after the period being reconciled."

"Post-Closing Accounts Payable Account Reconciliation – Electronically Signed by third business day after month close."

"Prepare Reconciliation between Statement of Budgetary Resources (SBR) and SF133 by the eighteenth business day of month after the period being reconciled."

"Post-Closing Obligations (SGL 48xx) Account Reconciliation – Electronically Signed by third business day after month close."

"Run ITC Audit Reports (Obligations, Expenditures Paid/Unpaid) and perform Account Reconciliations by the fifth business day of month after the period being reconciled."

"Prepare, Review, and Enter Quarterly Journal Voucher's for Accrued Expenses by the tenth business day of the month after the end of a quarter."

Cause:

The internal controls in place over monthly and quarterly account reconciliations and reviews are not being performed in a timely manner.

Effect:

Failure to complete monthly and quarterly account reconciliations in a timely manner could lead to incorrect account balances at monthly and quarterly close, resulting in the need to prepare Journal Voucher adjustments to correct the balance during the period. In addition, delays could cause collateral problems that would have not occurred if reconciliations were completed timely.

Recommendation:

We recommend that USITC:

1) Complete monthly and quarterly reconciliations in a timeline manner based on the complete by dates listed in USITC – Office of Finance – Closing Procedures document.
2) Reference adherence to the reconciliation schedule in their policy.
3) Schedule internal control reminders and track completion using workflow automation or other tools.

Managements' Response

The OCFO concurs with all the findings and recommendations. In particular, the OCFO will work with the OCIO to explore the feasibility of workflow automation and design and implement such automation to the extent possible.

C. Internal Control Over Undelivered Orders

Condition:

We tested a sample of 26 Undelivered Orders (UDO) and noted the following exceptions:

- Purchase order 34300021P0024 was listed as an undelivered order and had been fully delivered and should be de-obligated therefore no longer having a balance as of September 30, 2023. The balance of this exception is $132,933.
- Purchase order GP210003A was listed as an undelivered order and had been fully delivered and should be de-obligated therefore no longer having a balance as of September 30, 2023. The balance of this exception is $37,223.02.
- Purchase order 34300021P0040 was listed as an undelivered order and had been fully delivered and should be de-obligated therefore no longer having a balance as of September 30, 2023. The balance of this exception is $3,974.

The actual misstatement was $174,130.02 and the projected misstatement is $875,562.

Criteria:

USITC's Financial Management Manual states,

> "Each office director and CCM in coordination with the respective contracting officer's representative (COR) or interagency agreement project officer (IA project officer) should review their open obligations on a monthly basis to ensure funds that will not be expended are deobligated and proper contract closeout procedures are initiated."
>
> "Each COR and IA project officer will:
>
> - Review the quarterly Open Obligation Report, provided by the Office of Finance during the accrual process, to ensure COR/IA project officer records agree to the accounting system.
> - Monitor assigned contract to ensure unexpended obligated funds are deobligated after receipt of last invoice and proper closeout procedures are initiated in a timely manner."

Cause:

The internal controls in place over the review of outstanding UDO balance and de-obligating are not being consistently applied in a timely manner.

Effect:

Failure to review the balance could lead to an over- or under-statement of the UDO balance and ultimately a misstatement in the Statement of Budgetary Resources.

Recommendation:

HRK recommends that periodically (e.g. annually or semiannually), the Office of the Chief Financial Officer (OCFO) prepare and send a listing of UDOs, by office, that meet pre-defined criteria for de-obligation (e.g. period of performance has expired) to each office within USITC. Each office should then provide a timely response (e.g. within 30 days) notating which UDOs are ready for de-obligation and an explanation beside those that are not ready for de-obligation. Upon receipt of the responses, the CFO will then initiate the de-obligation process for those identified as ready for de-obligation.

Managements' Response

The USITC's Office of the Chief Financial Officer will periodically, but no less than annually, prepare and send a listing of UDOs whose periods of performance have expired to each office within the USITC. Each office will be instructed to respond within 30 days notating which UDOs are ready for de-obligation and an explanation beside those that are not ready for de-obligation. Upon receipt of the responses, the OCFO will then initiate the de-obligation process for those identified as ready for de-obligation. In addition, Contracting Officer's Representatives will still be requested to notate which contracts are ready for de-obligation during the quarterly review of open obligations.

UNITED STATES INTERNATIONAL TRADE COMMISSION

WASHINGTON, DC 20436

C083-VV-006 December

December 15, 2023

MEMORANDUM

TO: Rashmi Bartlett, Inspector General

FROM: David S. Johanson, Chairman

SUBJECT: Response to Draft Management Letter – Audit of Commission's Financial Statements for Fiscal Year 2023

Thank you for the opportunity to review and provide comments to the draft management letter – Audit of Commission's Financial Statements for Fiscal Year 2023.

We agree with the audit findings on the identified internal control matters. The Commission will develop management decisions to address the eight recommendations in the draft report.

David S. Johanson, Chairman
U.S. International Trade Commission

U.S. International Trade Commission
Office of Inspector General
500 E Street, SW
Washington, DC 20436

REPORT WASTE, FRAUD, ABUSE, OR MISMANAGEMENT

Hotline: 202-205-6542
OIGHotline@usitcoig.gov
usitc.gov/oig/hotline