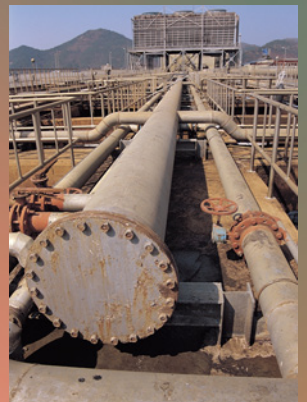


U.S. International Trade Commission

Management Letter for 2017 Financial Statement



OIG-ML-18-07

December 20, 2017



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.

Commissioners

*Rhonda K. Schmidlein, Chairman
David S. Johanson, Vice Chairman
Irving A. Williamson
Meredith M. Broadbent*

OFFICE OF INSPECTOR GENERAL



UNITED STATES INTERNATIONAL TRADE COMMISSION

WASHINGTON, DC 20436

December 20, 2017

IG-PP-029

Chairman Schmidlein:

This memorandum transmits the Management Letter report (OIG-ML-18-07) from the audit of the Commission's financial statements for fiscal year 2017. We contracted with the independent certified public accounting firm, Castro & Company LLC, to conduct this audit. The management letter discusses matters involving internal control that the auditors identified during the audit but were not required to be included in the audit reports.

A draft of the letter was provided to you for comment, and your comments are included in their entirety with the report.

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

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

Sincerely,

Philip Heneghan
Inspector General

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U.S. INTERNATIONAL TRADE COMMISSION



Fiscal Year 2017 Financial Statement Audit Management Letter Report

December 9, 2017

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, 2017 and 2016 and the related statements of net cost, changes in net position, and budgetary resources for the fiscal years then ended.

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

1. Improvements in the Management of Government Charge Cards are Needed (Repeat Condition from FY 2016)

As part of our testing of cash disbursements, we selected a sample of 45 disbursements made during the period of October 1, 2016 through March 31, 2017. The purpose of our testing was to assess management controls and compliance with applicable laws, regulations, and procedures relative to cash disbursement transactions. The following conditions were noted:

- USITC did not always oversee the establishment and maintenance of master file/official travel cardholder records, including training related records. Specifically, we noted that:
 - For one (1) travel cardholder, there was no certificate on file to support the cardholder's completion of the required training.
 - For three (3) travel cardholders, there was no record of the cardholder's original GSA training certificate when the related transactions occurred between October through December of 2016. Subsequent to, the cardholders completed the GSA training in May 2017.

Responsibilities of the charge card coordinator include maintaining an up-to-date list of purchase cardholders and periodically reviewing individual cardholder accounts and files to ensure compliance with agency policies, applicable training requirements are met and proper cardholder records are retained.

In the prior fiscal year, we recommended that USITC management review, implement and monitor control activities related to the training of cardholders. We reviewed management's corrective action plan regarding this recommendation and USITC has established procedures for the tracking of the cardholder's training. However, due to the three-year time lag between trainings, exceptions were still noted.

The USITC *Charge Card Management Plan*, enacted in April 2017, states,

Purchase cardholders and travel cardholders must complete the GSA online training and provide their training certificate to their charge card coordinator. Training must be repeated every three years.

Public Law *Government Charge Card Abuse Prevention Act of 2012*, enacted in October 2012, states,

§ 1909(a) The head of each executive agency that issues and uses purchase cards and convenience checks shall establish and maintain safeguards and internal controls to ensure the following:

(1) There is a record in each executive agency of each holder of a purchase card issued by the agency for official use, annotated with the limitations on single transactions and total transactions that are applicable to the use of each such card or check by that purchase card holder.

(9) Appropriate training is provided to each purchase card holder and each official with responsibility for overseeing the use of purchase cards issued by the executive agency.

OMB Circular A-123, Appendix B, Revised, *Improving the Management of Government Charge Card Programs*, states,

“...each agency must develop and maintain written policies and procedures for the appropriate use of charge cards consistent with the requirement of this guidance. The plan should be updated annually, or more frequently, if necessary to maintain current. Agencies shall submit a copy of their plan to OMB, Office of Federal Financial Management, on an annual basis, not later than January 31 of each calendar year.”

Government Accountability Office’s (GAO) Standards for Internal Control in the Federal Government states:

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.

Management clearly documents internal control and all transactions and other significant events need to be clearly documented, and the documentation should be readily available for examination.

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 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.

The establishment of written, formal policies and procedures are critical in assuring that a system of internal controls is followed. The lack of monitoring compliance with established procedures can increase the risk of fraud, waste, and abuse occurring in government charge cards.

Recommendation:

Our testing confirmed a lack of remediation of the previous year’s findings; therefore, new recommendations are not deemed necessary at this time.

2. Inadequate Controls over Recording Accruals for Undelivered Orders and Accounts Payable

As part of our testing of Undelivered Orders (UDO) and Accounts Payable (A/P), we selected a sample of 27 UDO transactions as of September 30, 2017. The results of our year-end testing

identified exceptions in two (2) of the 27 transactions tested. Exceptions noted included the following:

- Differences noted as a result of incorrect accruals which understated the A/P balance and overstated the UDO balance as of September 30, 2017: For one (1) transaction, we noted an accrual difference off \$27,512 due to USITC not recording an accrual for services received for the month of January 2017. For one (1) transaction, we noted an accrual difference of \$39,132 due to an error in the USITC accrual calculation based on the average of the last 6 month which excluded an invoice from the calculation.

Additionally, we selected a sample of 25 UDO transactions as of June 30, 2017. The results of our interim UDO and A/P testing identified exceptions in three (3) of the 25 transactions tested. Exceptions noted included the following:

- Differences noted as a result of incorrect accruals which understated the A/P balance and overstated the UDO balance as of June 30, 2017. For two (2) transactions, we noted accrual differences of \$206,639 and \$33,083 due to USITC not properly recognizing an accrual for the entire period for which services were received. For one (1) transaction, we noted an accrual difference of \$93,313 due to USITC not recording an accrual for 60 percent of services completed as of 6/30/17.

GAO's *Standards for Internal control in the Federal Government* states,

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.

Management perform 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.

Management should remediate identified internal control deficiencies on a timely basis.

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.

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 (SFFAS) 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.

31 U.S.C § 1501 (a)(1) states, in part, that an amount shall be recorded as an obligation of the United States Government only when supported by documentary evidence of a binding agreement between the agency and another person, including an agency, that is in writing and executed before the end of the period of availability of the funds.

Not performing an accurate review of open obligations, expenditures, and accounts payable resulted in an under/overstatement in A/P and under/overstatement in the obligations. Additionally, 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:

- Have the Office of Contracts conduct a quarterly review of accruals on of major contracts to ensure accrual estimates are accurate and complete.

3. Insufficient Quality Control Procedures Caused Financial Reporting Discrepancies

The Accountability of Tax Dollars Act of 2002 requires that the USITC submit audited financial statements to Congress and the Director of OMB on an annual basis. OMB Circular No. A-136, *Financial Reporting Requirements*, defines the form and content of financial statements to be prepared by the USITC that must also comply with Federal Accounting Standards. The statements must be prepared from an integrated financial management system containing sufficient structure, effective internal control, and reliable data.

During our testing of the USITC's financial statement preparation, we noted that the USITC did not perform sufficient quality control reviews of the financial statements to detect certain financial

reporting errors until brought to their attention by the auditors. Examples of the financial reporting errors noted during our review of the quarterly June 30, 2017 and year-end September 30, 2017 financial statements included the following:

- Totals on the Balance Sheet, Statement of Changes in Net Position, and Statement of Budgetary Resources did not foot correctly on the face of the financial statements.
- On the Statement of Net Position, the 2016 amount for Cumulative Results of Operations as of June 30, 2016 did not calculate to the \$585,783 which was reflected across the statements and on the prior year Statement of Net Position but instead calculated to \$585,784 and wouldn't match the prior year Cumulative Results of Operations total.
- Beginning balance amounts on the financial statements did not match ending balances from the prior year.

We noted that although the USITC completes the GAO Financial Audit Manual (FAM) 2020 *Checklist for Federal Reporting and Disclosures* as part of the 3rd and 4th quarter financial statement compilation and review process, errors were still noted on the June 30 and September 30, 2017 financial statements.

OMB Circular A-136, Revised, states,

Round dollar amounts to the nearest whole dollar, thousand dollar, or million dollar based upon informative value and maintain the chosen rounding level throughout the principal statements and notes. Ensure individual line items add to the totals by adjusting the line items for differences created by rounding rather than adjusting column totals.

GAO's *Standards for Internal Control in the Federal Government* states,

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.

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 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.

Management designs control activities in response to the entity's objectives and risks to achieve an effective internal control system. Control activities are the policies, procedures, techniques, and mechanisms that enforce management's directives to achieve the entity's objectives and address related risks. As part of the control environment component, management defines responsibilities, assigns them to key roles, and delegates authority to achieve the entity's objectives...

If USITC does not perform detailed management reviews of the financial statements and notes, discrepancies may exist but go undetected and uncorrected, thereby increasing the risk that the USITC's financial statements and notes can present inaccurate, misleading, and/or inconsistent financial information.

Recommendations:

We recommend that USITC Management:

- Establish a process for detailed management quality control reviews of the quarterly financial statements and notes including an in-depth review of the USITC's use of the GAO FAM Checklist to ensure they are properly and timely reported and recorded.
- Develop a financial statement review cross-check to ensure that related financial statement balance properly reconcile across the statements, carryover beginning balance amounts equal the prior year ending balance, and that the financial statement totals are clerically accurate without rounding issues.

Status of Prior Year Management Letter Comments

The FY 2016 Management Letter Report issued by Castro & Company identified the following control deficiencies:

Fiscal Year	Findings Identified	Status in FY 2017
FY 2016	Improvements in the Internal Controls over the Management of Government Charge Cards are Needed	Unresolved
FY 2016	Improvements in the Internal Controls over the Management and Monitoring of Negative Leave are Needed	Resolved



UNITED STATES INTERNATIONAL TRADE COMMISSION

WASHINGTON, DC 20436

C086-PP-010

December 18, 2017

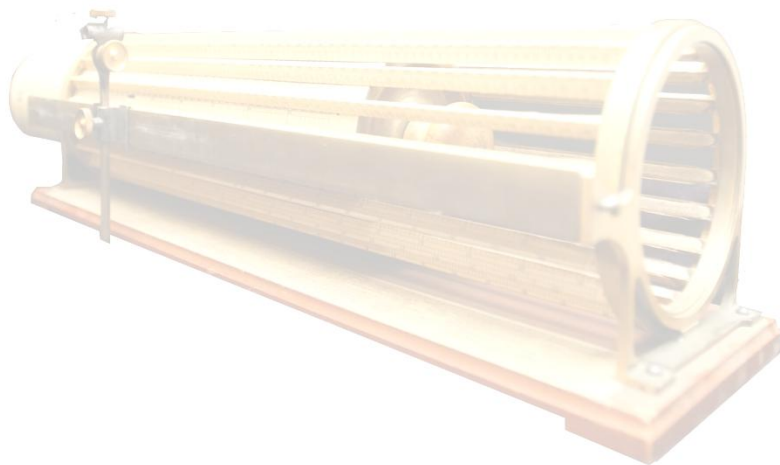
MEMORANDUM

TO: Philip M. Heneghan, Inspector General
FROM: Rhonda K. Schmidlein, Chairman *RRS*
SUBJECT: Response to Draft Report – Audit of 2017 Financial Statement

Thank you for the opportunity to review and provide comments to the draft report -- Audit of 2017 Financial Statement.

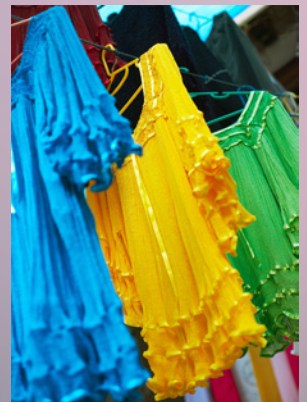
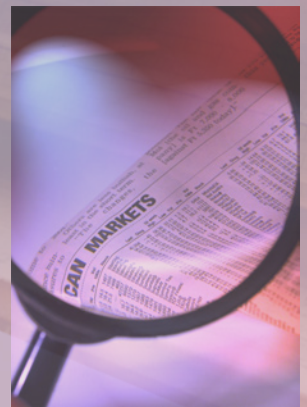
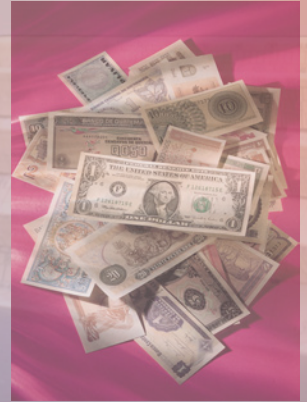
We agree that there were inadequate controls over recording accruals for undelivered orders and accounts receivable and that insufficient quality control procedures caused minor financial reporting discrepancies. The Commission will develop management decisions to address the three new recommendations in the report.

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“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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