



Audit Report



OIG-19-032

FINANCIAL MANAGEMENT

Management Letter for the Audit of the Alcohol and Tobacco Tax and Trade Bureau's Financial Statements Fiscal Years 2018 and 2017

December 21, 2018

Office of Inspector General
Department of the Treasury

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DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

OFFICE OF
INSPECTOR GENERAL

December 21, 2018

**MEMORANDUM FOR JOHN J. MANFREDA, ADMINISTRATOR
ALCOHOL AND TOBACCO TAX AND TRADE BUREAU**

FROM: James Hodge /s/
Director, Financial Audit

SUBJECT: Management Letter for the Audit of the Alcohol and Tobacco
Tax and Trade Bureau's Financial Statements for Fiscal Years
2018 and 2017

I am pleased to transmit the attached subject management letter. Under a contract monitored by our office, KPMG LLP (KPMG), a certified independent public accounting firm, audited the financial statements of the Alcohol and Tobacco Tax and Trade Bureau (TTB) as of September 30, 2018 and 2017, and for the years then ended. The contract required that the audit be performed in accordance with U.S. generally accepted government auditing standards, Office of Management and Budget (OMB) Bulletin No. 19-01, *Audit Requirements for Federal Financial Statements*, and the Government Accountability Office/Council of the Inspectors General on Integrity and Efficiency, *Financial Audit Manual*.

As part of its audit, KPMG LLP issued the attached management letter dated December 18, 2018, that discusses matters involving deficiencies in internal control over financial reporting that were identified during the audit. These matters relate to information produced by the entity control gap, and tax and trade receivable historical collection percentages review control gap.

In connection with the contract, we reviewed KPMG's management letter and related documentation and inquired of its representatives. KPMG is responsible for the letter and the conclusions expressed in the letter. However, our review disclosed no instances where KPMG did not comply, in all material respects, with U.S. generally accepted government auditing standards with respect to this letter.

Should you have any questions, please contact me at (202) 927-0009, or Shiela Michel, Manager, Financial Audit, at (202) 927-5407.

Attachment

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ALCOHOL AND TOBACCO TAX AND TRADE BUREAU

Management Letter

For the Year Ended September 30, 2018

Alcohol and Tobacco Tax and Trade Bureau

Management Letter

For the Year Ended September 30, 2018

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KPMG LLP
Suite 12000
1801 K Street, NW
Washington, DC 20006

December 18, 2018

Eric Thorson
Inspector General
Department of the Treasury
875 15th Street, NW,
Washington, DC 20005

John Manfreda
Administrator
Alcohol and Tobacco Tax and Trade Bureau
1310 G Street, NW, Box 12
Washington, DC20005

Mr. Thorson and Mr. Manfreda:

In planning and performing our audit of the financial statements of the Alcohol and Tobacco Tax and Trade Bureau (TTB), as of and for the years ended September 30, 2018 and 2017, in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 19-01, *Audit Requirements for Federal Financial Statements*, we considered the TTB's internal control over financial reporting (internal control) as a basis for designing our auditing 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 TTB's internal control. Accordingly, we do not express an opinion on the effectiveness of the TTB's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses and/or significant deficiencies and therefore, material weaknesses and/or significant deficiencies may exist that were not identified. In accordance with *Government Auditing Standards*, we issued our report dated December 18, 2018 on our consideration of the TTB'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, misstatement on a timely basis. During our audit, we identified deficiencies in internal control which are summarized in Appendix A. Appendix B presents the status of prior year comments.

The purpose of this letter is solely to describe the deficiencies in internal control identified during our audit. Accordingly, this letter is not suitable for any other purpose.

Very truly yours,

ALCOHOL AND TOBACCO TAX AND TRADE BUREAU

Fiscal Year 2018 Management Letter Comments

Non-IT Controls

A-1 Information Produced by the Entity (IPE) Control Gap

Management does not have a process and related controls in place to review the completeness and accuracy of Information Produced by the Entity (IPE) when it is used in the course of Management's controls and operations.

Recommendation

We recommend that management establish and implement controls to ensure that IPE is complete and accurate.

Management Response:

Management concurs with the finding.

A-2 Tax and Trade Receivable Historical Collection Percentages Review Control Gap

A control gap exists that led to the improper historical collection percentages being used. Specifically, management used the historical collection based on FY 08 – FY 14 instead of FY 11-FY 17. This resulted in an understatement of Allowances for Tax and Trade Receivable.

Recommendation

We recommend that management establish adequate controls over the accuracy of the data inputs used in the Allowance calculation.

Management Response:

Management concurs with the finding.

ALCOHOL AND TOBACCO TAX AND TRADE BUREAU

Status of Prior Year Management Letter Comments

Fiscal Year 2017 Management Letter Comments	Fiscal Year 2018 Status
General IT Controls	
A-1 Controls over HR Connect Third Party Applications Security Controls Monitoring Should be Strengthened	Closed
A-2 Information Produced by the Entity (IPE) Control Gap	Re-issued as A-1
A-3 Tax and Trade Receivable Allowance Review Control Gap	Closed



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