

U.S. International Trade Commission

Management Letter for 2018 Financial Statement



OIG-ML-19-06

December 17, 2018



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

David S. Johanson, Chairman

Irving A. Williamson

Meredith M. Broadbent

Rhonda K. Schmidlein

Jason E. Kearns

OFFICE OF INSPECTOR GENERAL



UNITED STATES INTERNATIONAL TRADE COMMISSION

WASHINGTON, DC 20436

December 17, 2018

IG-QQ-25

Chairman Johanson:

This memorandum transmits the Management Letter Report (OIG-ML-19-06) from the audit of the Commission's financial statements for fiscal year 2018. We contracted with the independent certified public accounting firm, Castro and Company LLC, to conduct the audit. The audit resulted in an unqualified opinion. 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 as an appendix to the report.

The report contains three 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,

Philip Heneghan
Inspector General

U.S. INTERNATIONAL TRADE COMMISSION



Fiscal Year 2018 Financial Statement Audit

Management Letter Report

November 9, 2018

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, 2018 and 2017 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 9, 2018.

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. Improvement in the Internal Controls over Disbursements under the Prompt Payment Act Are Needed

As part of our testing of cash disbursements, we selected a sample of 45 disbursements made during the period of 10/1/17 through 3/31/18. 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 that disbursements were made within 30 days after receipt of a proper invoice. Specifically, we noted that for nine (9) of 45 transactions tested, payment for property or services was not made to the vendor within the required 30 days. Eight (8) of these transactions resulted in USITC paying interest penalties to the vendors.

Contracting Officer Representatives (CORs) were not notified in a timely manner of invoices received from vendors. Additionally, the Financial Management Manual (FMM) does not specify the timeframe for sending invoices to CORs for approval/disapproval from the date invoices are received.

The Office of Management and Budget's *Prompt Payment Act*, enacted in September 1982 states,

§ 1315.4 (g) (1) Except as provided in paragraphs (g)(2) through (5) of this section, the payment is due either: (i) On the date(s) specified in the contract;

(2) ...The payment due date for interim payments under cost-reimbursement service contracts shall be 30 days after the date of receipt of a proper invoice.

§ 1315.10 (a) (1) Interest will be calculated from the day after the payment due date through the payment date at the interest rate in effect on the day after the payment due date;

(3) For up to one year, interest penalties remaining unpaid at the end of any 30 day period will be added to the principal and subsequent interest penalties will accrue on that amount until paid;

(4) When an interest penalty is owed and not paid, interest will accrue on the unpaid amount until paid...

(7) Interest penalties of less than one dollar need not be paid;

(9) Interest calculations are to be based on a 360 day year.

Government Accountability Office's (GAO) *Standards for Internal Control in the Federal Government* states,

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. 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.

The establishment of written, formal policies and procedures are critical in assuring that a system of internal controls is followed. Failing to ensure that payments are made on a timely basis may constitute a breach of contract, while also increasing the risk of waste and inaccurate financial reporting.

Recommendations:

We recommend that USITC Management:

- Revises the policy in the FMM related to invoice payment for nonfederal vendors to include specifying the required timeframe for sending invoices to CORs for approval/disapproval from the date invoices are received.
- Ensure that invoices are dated once received by Finance, due dates are calculated and noted on invoices prior to sending to the CORs, and follow-up is done as needed to ensure payments are made prior to those due dates.

2. Inadequate Controls over Undelivered Orders and Accounts Payable

During our testing of Undelivered Orders (UDO) and Accounts Payable (A/P), we selected a sample of 30 UDO transactions as of 9/30/18. 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 year-end testing identified exceptions in four (4) of the 30 transactions tested. The following conditions were noted:

- Difference noted as a result of an invalid obligation: USITC did not always oversee that contracts were closed out in a timely manner after the expiration of the contract's period of performance (POP). Specifically:
 - For two (2) transactions, the POP had expired in Fiscal Year 2017, but USITC had not de-obligated the remaining UDO balance as of 9/30/18. Both exceptions were identified and discussed with management during our interim testing as of 6/30/18 but still had an open obligation amount as of 9/30/18.
 - For one (1) transaction, Modification 1 to extend the POP from 9/20/16 to 9/30/17 was signed on 8/18/17 after the contract's original POP had ended. The modification extended the POP to 9/30/17, yet USITC approved IPAC billings of approximately \$33,000 for the expired contract during FY 2018. The contract was still open as of 9/30/18 and the UDO balance had not been de-obligated.
- Differences noted as a result of incorrect recording in the General Ledger (GL): For one (1) transaction, payment was recorded and paid against the wrong contract with resulted in a UDO difference of \$14,226. The error was caught by USITC management as part of the 9/30/18 accrual review; however, it was not corrected until October 2018.

A lack of monitoring obligations including expired contracts and initiating the contract-close-out procedures in a timely manner to properly de-obligate funds resulted in an under/overstatement in accounts payable and under/overstatement in the obligations.

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.

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.

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.

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's Management:

- Perform periodic reviews and monitoring of open obligations to ensure that all contracts are closed out and de-obligated in a timely manner after the expiration of the period of

performance. Explanations should be properly documented and maintained for any obligations not closed within six (6) months after the expiration of the period of performance.

Status of Prior Year Management Letter Comments

The FY 2016 and 2017 Management Letter Report issued by Castro & Company identified the following control deficiencies:

Fiscal Year	Findings Identified	Status in FY 2018
FY 2016	Improvements in the Management of Charge Cards are Needed	Resolved
FY 2017	Inadequate Controls over Recording Accruals for Undelivered Orders and Accounts Payable	Resolved
FY 2017	Insufficient Quality Control Procedures Caused Financial Reporting Discrepancies	Resolved

U.S. International Trade Commission

Appendix A

Appendix A: Management Comments



UNITED STATES INTERNATIONAL TRADE COMMISSION

WASHINGTON, DC 20436

C083-QQ-003

December 13, 2018

MEMORANDUM

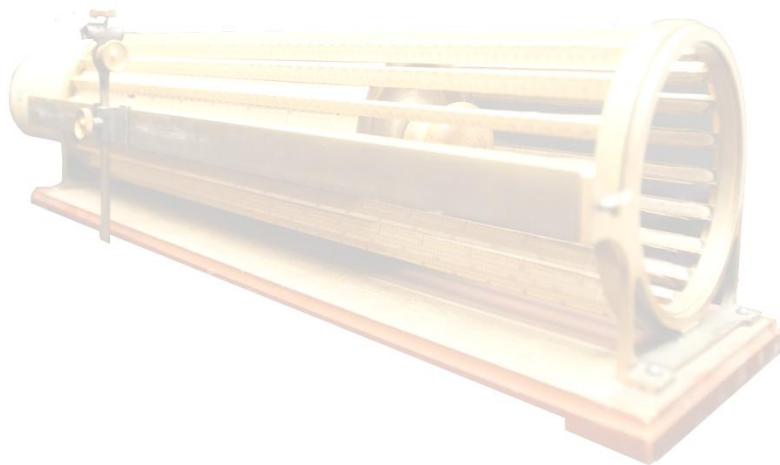
TO: Philip M. Heneghan, Inspector General

FROM: David S. Johanson, Chairman *DSJ*

SUBJECT: Response to Draft Report – Audit of FY 2018 Financial Statement

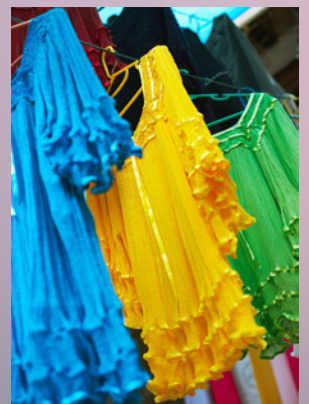
Thank you for the opportunity to review and provide comments to the draft report -- Audit of FY 2018 Financial Statement.

We agree that improvements are needed in the internal controls over disbursements under the Prompt Payment Act and that there are inadequate controls over undelivered orders and accounts receivable to ensure that all contracts are closed out and de-obligated in a timely manner after the expiration of the period of performance. The Commission will develop management decisions to address the three recommendations in the report.



“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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