U.S. International Trade Commission

Management Letter: FY 2019 Financial Statement Audit

OIG-ML-20-10

December 20, 2019

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.

OFFICE OF INSPECTOR GENERAL

UNITED STATES INTERNATIONAL TRADE COMMISSION

WASHINGTON, DC 20436

December 20, 2019 IG-RR-40

Chairman Johanson:

This memorandum transmits the Management Letter Report (OIG-ML-20-10) from the audit of the Commission's financial statements for fiscal year 2019. 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 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 four matters involving internal control that the auditors identified during the audit but were not required to be included in the audit reports. Two of the matters, identified below were repeat conditions from previous reports management reports issued by the auditors in fiscal year 2017 and 2018.

- Recording Undelivered Orders, Accounts Payable, and Accruals, reported in fiscal year 2017 and 2018.
- Disbursements Under the Prompt Pay Act, reported in fiscal year 2018.

In both cases, the Commission had completed final action on the management decisions related to the recommendations from the 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 five 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 2019 Financial Statement Audit

Management Letter Report

Castro & Company
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November 15, 2019

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, 2019 and 2018 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 15, 2019.

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 Disbursements under the Prompt Payment Act

As part of our testing of cash disbursements, we selected a sample of 25 disbursements made to vendors during the period of 10/1/18 through 3/31/19. 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 11 of 25 disbursement transactions tested, payment for property or services was not made to the vendor within the required 30 days. 10 of the 11 transactions resulted in USITC paying interest penalties to the vendors.
- USITC made 78 interest payments during the period from 10/1/18 to 3/31/19 for a total dollar value of $5,254.24.

We also performed an analysis of interest penalties paid in FY 2019 and FY 2018. Based on our review, we determined that USITC had an 11% increase in interest payment transactions and a 138% increase in dollars paid from FY 2018 to FY 2019 and has steadily increased since FY 2016. Specifically:

- In FY 2019, USITC had 166 interest payments in the amount of $11,613.
- In FY 2018, USITC had 149 interest payments in the amount of $4,883.
- In FY 2017, USITC paid a total of $4,699 in interest payments.
- In FY 2016, USITC paid a total o $151 in interest payments.

Additionally, we noted that of the $11,613 in interest paid from October 1, 2018 to September 30, 2019, $861 (17 interest payment transactions) were related to invoices received between December 20, 2018 and January 25, 2019 and late penalties paid on those invoices could have been attributed to the government shutdown.

The main cause of the late payments was due to invoices and approval forms that had not been sent by the Office of Finance to the Contracting Officer Representative (COR) for approval in a timely manner. In addition, invoices sent to the COR did not indicate a specific due date to approve/disapprove the invoices, but rather had a due date that said “ASAP”.

The Financial Management Manual (FMM) was revised in April 2019 to address issues identified in the prior year. The FMM was revised to specify that invoices are to be sent to the COR within 3 business days of receiving the invoice; however, the Office of Finance did not consistently adhere to this timeline and continued to pay interest penalties on vendor invoices.

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.

Recommendation:

We recommend that USITC Management:

- Develop a procedure to monitor the invoice process from receipt through payment.

2. Improvements are Needed in the Recording of Property, Plant and Equipment

During our interim testing of the Property, Plant and Equipment (PP&E) balances as of June 30, 2019 and September 30, 2019, we obtained USITC's fixed asset schedule for equipment and noted that IT equipment with a total cost of $312,568 were listed on the fixed asset schedule; however, USITC was not depreciating those assets. After further inquiry of the Office of the Chief Information Officer (OCIO), it was noted that those assets were acquired in 2016 and 2017 and originally installed in the USITC HQ's computer room before being re-purposed and moved for use in the Sterling Data Center. Specifically,

- 6 Cisco Catalyst 3850 switches, associated software, miscellaneous parts and support (COMM. PRO Asset #258491) with a cost of $74,992 were installed in the USITC HQ computer room from 2016 – 2018 and were later moved/re-purposed to the Sterling Data Center as part of the buildout project.
- 4 Dell 930 servers (GOCSMART Asset #258492) with a cost of $153,774 were for the USITC Citric Environment as replacements for End of support equipment. The hardware was installed in the computer room at ITC HQ and remained connected to the ITC network until December 2018 where the hardware was physically moved and re-purposed for Virtualization hosts in the Sterling Data Center.
- 2 Dell R930 servers (Asset # 338519) with a cost of $83,802 were originally purchased for the Citrix environment hardware refresh. The hardware was installed in the HQ computer room but the service offering for the Citrix environment was ended around November of 2017 and the hardware was re-purposed for Virtualization hosts in the Sterling Data Center.

Finance did not have an adequate process in place to review and determine the proper status of IT equipment acquired but not depreciated to ensure capitalized assets were correctly reconciled on a quarterly and annual basis to the general ledger.

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.
>
> 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.

> Management establishes physical control to secure and safeguard vulnerable assets. Examples include security for and limited access to assets such as cash, securities, inventories, and equipment that might be vulnerable to risk of loss or unauthorized use. Management periodically counts and compares such assets to control records.

Statement of Federal Financial Accounting Standards (SFFAS) No. 6, *Accounting for Property, Plant, and Equipment,* states,

> General PP&E shall be reported in the basic financial statements: the balance sheet, and the statement of net cost. The acquisition cost of general PP&E shall be recognized as an asset… The depreciation expense shall be accumulated in a contra asset account—accumulated depreciation.
>
> Depreciation expense is calculated through the systematic and rational allocation of the cost of general PP&E, less its estimated salvage/residual value, over the estimated useful life of the general PP&E. Depreciation expense shall be recognized on all general PP&E, except land and land rights of unlimited duration. Depreciation expense shall be accumulated in a contra asset account— accumulated depreciation. Amortization expense shall be accumulated in a contra asset account—accumulated amortization.

USITC's FMM dated April 2019, states,

> Furniture, fixtures, equipment (to include IT), software, software leases, and leasehold improvements are recognized as assets. Generally Accepted Accounting Principles (GAAP) requires assets to be recorded at their cost, including all normal expenditures to bring the asset to a location and condition for its intended use. Agency assets that have a physical form are called "tangible assets" and:
>
> - have an estimated useful life of 2 or more years,
> - are not intended for sale in the ordinary course of operations, and
> - have been acquired or constructed with the intention of being used, or being available for use by the agency.
>
> Regardless of the method of capitalization, tangible and intangible assets are maintained in the Plant, Property, and Equipment account at their original cost and their associated depreciation or amortization is maintained in the appropriate contra account.
>
> The Director of Finance is responsible for the following:
>
> - Ensuring capitalized assets are assigned the proper asset category.
> - Determining the proper useful life of assets and ensure the useful life is reviewed annually.
> - Ensuring capitalized assets are reconciled on a quarterly and annual basis to the general ledger.
> - Ensuring that all costs related to capitalized assets are removed from the financial accounts upon notification of proper asset disposal.

Cost Center Managers (CCMs) are responsible for the following:

- Ensuring the proper budget object code (BOC) is identified when purchasing an asset.
- Ensuring the Office of Finance is notified in a timely manner regarding all capitalized property that is removed from service.
- Ensuring that the Office of Finance is provided the resulting annual inventory (to include any adjustments) with capital assets and the required elements identified.
- Ensuring that the Office of Finance is notified when: A leasehold improvement project is planned. A leasehold improvement project is complete and available for use.

By not performing detailed management reviews to ensure that PP&E assets are properly recorded, capitalized and disposed, USITC increases the risk that the PP&E balance on the financial statements can present inaccurate, misleading and/or inconsistent information.

Recommendation:

We recommend that USITC Management:

- Develop a process to meet with business owners of PP&E asset accounts that do not have a contra-depreciation account at least monthly to ensure capital assets are properly recorded.

3. Lack of Quality Review Procedures Related to the Reporting of Imputed Cost

Imputed Cost is the amount of costs incurred by a Federal entity for goods and services provided and paid for in total, or in part, by other Federal entities. Consistent with accounting standards, certain costs of the providing entity that are not fully reimbursed by the reporting entity are recognized as imputed cost and are offset by imputed revenue. Such imputed costs and revenues relate to business-type activities, employee benefits, and claims to be settled by the Treasury Judgment Fund. This includes Imputed Financing of certain costs by one Federal entity on behalf of another Federal entity (e.g., the payment of certain employee benefit costs by OPM for employees of other Federal agencies). For employee benefits, the imputed cost is the difference between employer and employee contributions and the total cost of the benefit.

During our review of the financial statements including related crosswalks and schedules, we identified errors on the reported balances for Imputed Cost, Imputed Financing Sources, Total Financing Sources, and Net Cost of Operations. Specifically, we noted:

- An error of $104,153 due to Finance not adjusting the Q1 2019 Imputed Cost amount to reflect the updated cost factors for FY 2019.
- An error of $49,865 as a result of a Journal Voucher entered in October 2019 that recorded an incorrect amount for the Q4 2019 Imputed Cost.

These errors were identified as a result of our audit procedures and corrected by USITC after we brought the errors to management's attention.

The Office of Finance did not perform sufficient quality review procedures to detect certain financial reporting and accounting errors until they were brought to their attention by the auditors.

Office of Personnel Management, Benefits Administration Letter, No. 19-304 dated February 2019 states,

> This letter provides the FY 2019 cost factors for the Federal civilian benefit programs. Agencies will use these factors to calculate their imputed costs relating to the Civil Service Retirement System (CSRS), the Federal Employees Retirement System (FERS), the Federal Employees Health Benefits Program (FEHB) and the Federal Employees' Group Life Insurance Program (FEGLI). The imputed costs are used to determine the actuarial liabilities which are included in Governmental financial statements.

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.

SFFAS No. 5, *Accounting for Liabilities of The Federal Government*, states

> The employer entity should recognize an annual pension expense as a cost of operations. When the employer entity's contributions are less than its pension expense, the employer entity should recognize an imputed financing source for the expenses paid by other entities. To the extent that it receives contributions from the employer entity, the administrative entity should recognize an intragovernmental revenue.
>
> These transactions are intragovernmental. For purposes of federal government-wide consolidated financial reports, the employer's pension expense should be offset against (1) the administrative entity's contributions received from employer entities and (2) the employer entity's imputed financing source, if applicable.

By not adequately performing management functions specific to monitoring, analysis, review and oversight, discrepancies may exist but go undetected and uncorrected; thereby, causing the financial information to be misstated. Effective management oversight greatly increases the USITC's ability to proactively identify and resolve issues that could result in misstatements in financial accounting and reporting records.

Recommendation:

We recommend that USITC Management:

- Develop a quality control procedure to review the accuracy of imputed cost JV entries.

4. Improvements Are Needed in the Recording of Undelivered Orders and Accounts Payable

During our testing of Undelivered Orders (UDO) and Accounts Payable (A/P), we selected a sample of 33 UDO transactions as of 9/30/19. 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 three (3) of the 33 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 one (1) transaction, the POP had expired in Fiscal Year 2018, but USITC had not de-obligated the remaining UDO balance of $64,148 as of 9/30/19.
    - For one (1) transaction, the remaining balance of $7,116 after services were billed and paid was subject to de-obligation; however, as of 9/30/19, the amount was not de-obligated.
- Differences noted as a result of incorrect accruals: One (1) under-accrual totaling $10,763 that understated the A/P balance and overstated the UDO balance.

Additionally, we selected a sample of 26 UDO transactions as of 6/30/19. The results of our interim testing identified the following exceptions in four (4) of the 26 transactions tested. Exceptions noted included the following:

- Differences noted as a result of incorrect accruals: Two (2) under-accruals totaling $14,844 that understated the A/P balance and overstated the UDO balance and one (1) over-accrual totaling $4,500 that overstated the A/P balance and understated the UDO balance as of 6/30/19.
- Differences noted as a result of incorrect recording in the General Ledger (GL): One (1) transaction due to an IPAC in the amount of $236,597 that was recorded in GL for $222,574 which resulted in a difference of $14,023.

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.

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:

- Develop a process to identify and close-out expiring contracts.
- Develop a process to review and validate accrual estimates.

Appendix A: Management Comments

UNITED STATES INTERNATIONAL TRADE COMMISSION

WASHINGTON, DC 20436

CO83-RR-020

December 19, 2019

MEMORANDUM

TO: Philip M. Heneghan, Inspector General

FROM: David S. Johanson, Chairman

SUBJECT: Response to Draft Management Letter – Audit of FY 2019 Financial Statement

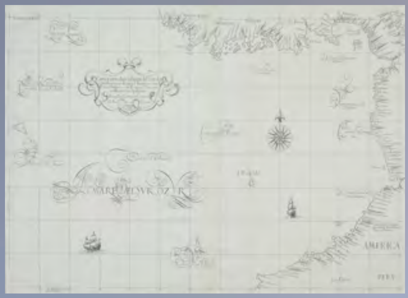
(19 Dec. 2019)

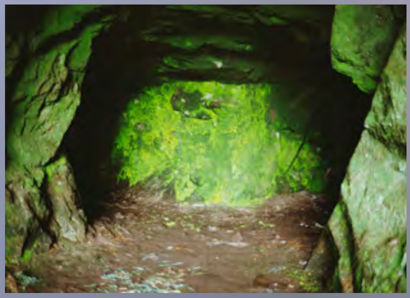
Thank you for the opportunity to review and provide comments to the draft management letter – Audit of FY 2019 Financial Statement.

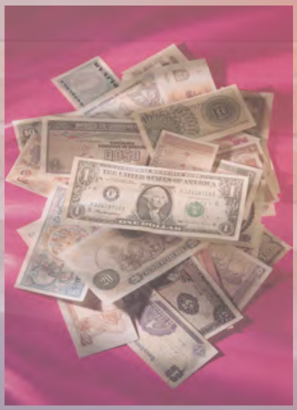
We agree with the audit findings that improvements are needed in internal control over disbursements under the Prompt Payment Act; that improvements are needed in the recording of property, plant and equipment; that better quality review procedures are needed related to the reporting of imputed cost; and that improvements are needed in the recording of undelivered orders and accounts payable. The Commission will develop management decisions to address the five recommendations in the report.

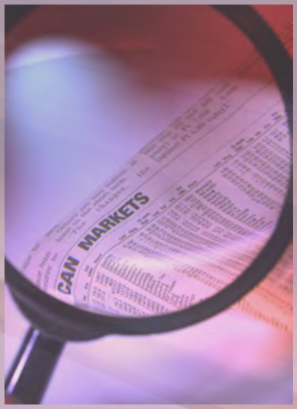
"Thacher's Calculating Instrument" developed by Edwin Thacher in the late 1870s. It is a cylindrical, rotating slide rule able to quickly perform complex mathematical calculations involving roots and powers quickly. The instrument was used by architects, engineers, and actuaries as a measuring device.

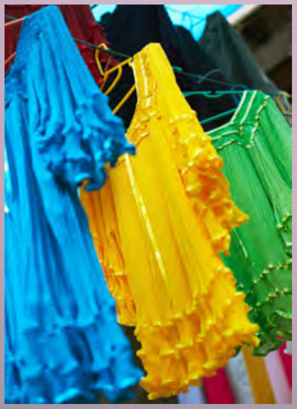
To Promote and Preserve
the Efficiency, Effectiveness, and Integrity of the
U.S. International Trade Commission











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