UNITED STATES INTERNATIONAL TRADE COMMISSION

WASHINGTON, DC 20436

March 24, 2005 IG-CC-006

MEMORANDUM

TO: THE COMMISSION

We hereby submit Audit Report No. OIG-AR-03-05, Management Letter: Audit of the U.S. International Trade Commission's Financial Statements for the Year Ended September 30, 2004. We conducted this work as part of our audit of the Commission's 2004 financial statements as required by the Accountability of Tax Dollars Act of 2002.

Generally, the Commission's accounting records reasonably and fairly represented financial transactions, and internal controls were in place. However, the Commission should strengthen certain internal control areas related to accountable property, depreciation expense, disbursement cutoff, and the timely deposit of cash receipts. In addition, the Commission must abide by all the rules specified by the Federal Managers' Financial Integrity Act of 1982. We made five recommendations that, in our opinion, will assist the Commission in correcting these deficiencies.

The Commission's response to our draft report concurred with our findings, and the planned actions met the intent of the recommendations. The response is evaluated and summarized in the body of this report and included in detail as Appendix A.

We appreciate the courtesies and cooperation provided to our auditors during this audit.

Kenneth F. Clarke
Inspector General

cc: Office Directors
O'Connor & Drew, P.C.

OFFICE OF INSPECTOR GENERAL

MANAGEMENT LETTER: AUDIT OF THE U.S. INTERNATIONAL TRADE COMMISSION'S FINANCIAL STATEMENTS FOR THE YEAR ENDED SEPTEMBER 30, 2004

Audit Report
OIG-AR-03-05

March 24, 2005

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I. SUMMARY OF RESULTS

As a result of the audit of the financial statements of the U.S. International Trade Commission (USITC/Commission) for the year ended September 30, 2004, the Office of Inspector General (OIG) issued an unqualified opinion. The audit did not detect internal control deficiencies deemed to be reportable conditions or material weaknesses. However, the Commission needs to improve several internal control areas. This letter summarizes our findings and related recommendations.

As part of our analysis, we followed up on recommendations made in the previous year's audit titled Audit of the U.S. International Trade Commission's Financial Management System Controls (Report No. OIG-AR-02-03, dated July 24, 2003). We noted that management took the prior year audit seriously and implemented changes to reflect our recommendations. However, improving systems of internal control is a constant work in progress and should be continuously monitored so that systems and related documentation are reliable, accurate and depict timely and useful information.

Generally, the Commission's accounting records reasonably and fairly represented financial transactions, and internal controls were in place. We found no instances of fraud. However, the Commission should strengthen certain internal controls related to accountable property, depreciation expense, disbursement cutoff, and the timely deposit of cash receipts. In addition, the Commission must abide by all the rules specified by the Federal Managers' Financial Integrity Act of 1982.

We made five recommendations to correct the identified deficiencies. The Commission agreed with the findings, and the planned actions met the intent of the recommendations. Management's complete response is presented as Appendix A of this report.

II. BACKGROUND

With the enactment of the Accountability of Tax Dollars Act of 2002 (Public Law 107-289, November 7, 2002), the Commission is now required annually to submit to Congress and the Office of Management and Budget (OMB) audited financial statements. The financial statements must be prepared in accordance with the policies prescribed in OMB Bulletin 01-09, Form and Content of Agency Financial Statements.

The annual financial statements of the Commission consisted of the following:

1. Management discussion and analysis
2. Basic statements and related notes, which included the following:
   - Balance Sheet

- Statement of Net Cost
- Statement of Changes in Net Position
- Statement of Budgetary Resources
- Statement of Financing
- Statement of Custodial Activity

Commission Directive 2102.0, Financial Management System Policies, illustrates the Commission's policies and procedures regarding the financial management system. The Directive assigns general responsibilities for maintaining the financial management system to the following individuals:

- The Chairman is responsible for ensuring that the financial management system is properly established and maintained.

- The Director, Office of Administration, is responsible for coordinating the overall agency-wide effort of reviewing, improving, and reporting on the financial management system.

- The Director, Office of Administration, and subordinates, are responsible for their assigned subsystems. This responsibility includes ensuring that the system is established, maintained, reviewed, improved and reported upon in accordance with OMB Circular A-127, Management Accountability and Control.

- The Director, Office of Finance, is responsible for providing technical assistance and advice for reviewing and improving the Commission's financial management system; performing reviews of the financial management system; and advising the Director, Office of Administration, whether the Commission's financial management system is in accordance with OMB guidelines.

III. OBJECTIVES

The overall objective is to present findings and recommendations for improvements in internal control that were identified during the audit of the Commission's financial statements and were not required to be included in the auditor's report[1].

[1] Inspector General's Independent Audit Report of the U.S. International Trade Commission's FY 2004 Financial Performance and Statement on the Commission's Management Challenges (OIG-AR-02-05, November 9, 2004)

IV. METHODOLOGY AND SCOPE

We engaged O'Connor & Drew, P.C. to assist in conducting the audit of the financial statements for the year ended September 30, 2004. The internal control and compliance phase of the audit was performed during the months of July and August 2004. The fieldwork relating to the audit of the financial statements occurred during the month of October 2004.

We reviewed applicable policies and procedures and interviewed Commission employees to identify and evaluate the Commission's implementation of recommendations made in our prior financial system audit titled Audit of the U.S. International Trade Commission's Financial Management System Controls (Report No. OIG-AR-02-03, dated July 24, 2003), and tested controls over financial data. We interviewed Commission employees in the Offices of Administration, Finance, Facilities Management and Chief Information Officer. Specifically, we evaluated:

- Internal control policies and procedures over disbursements. We tested 45 transactions for:
  - Proper authorization for the disbursement;
  - Compliance with purchase thresholds;
  - Allowable purchases under the Commission's guidelines;
  - Documentation for transaction;
  - Receipt of the merchandise; and
  - Timely payment of the purchase.

- Internal control policies and procedures over payroll. We examined 40 payroll transactions to determine whether:
  - All required personnel forms were completed;
  - Time and attendance information for selected pay periods agreed with source documents;
  - Payroll for selected pay periods was properly authorized;
  - Voluntary withholdings were properly administered;
  - Compliance with federal guidelines as noted within the Financial Audit Manual (FAM) relating to payroll withholdings; and if
  - Employees existed.

- Internal control policies and procedures regarding accountable property items. We randomly selected 45 items, and determined whether:
  - Each item was physically present;
  - Property was bar coded;

- Property Action Form 110 was completed, if applicable; and
- The Cost Center Manager performed the annual inventory.

➢ Policies and procedures over capital property. We evaluated all current year additions with the supporting documentation.

➢ Internal control policies and procedures over cash reporting and accounts receivable. We reviewed all cash related reconciliations and deposits for FY 2004.

➢ We verified compliance with applicable laws and regulations including compliance with the Federal Managers' Financial Integrity Act (FFMIA) of 1982.

The review was conducted in accordance with Government Auditing Standards, 2003 Revision, as amended, promulgated by the Comptroller General of the United States; and OMB Bulletin No. 01-02.

V. DETAILS OF RESULTS

A. Policies and Procedures Were Effective

Overall, the Commission reasonably and fairly stated the FY 2004 financial transactions, and established effective internal control systems over cash, accounts receivable, property, and disbursements.

The Commission took action to correct most of the weaknesses identified from the Audit of the U.S. International Trade Commission's Financial Management System Controls. Specifically, the Commission:

- Strengthened internal controls over payroll reconciliations by assuring that adjustments and variances are properly supported. Office of Finance personnel investigated all variances between Forms 442 and 224. Forms 442 and 224 are used by the Commission and U.S. Department of the Interior (DOI) respectively to report data entered into DOI's Federal Payroll and Personnel System and Federal Financial System. The Office of Finance investigated all variances and recorded the necessary adjusting entries to the proper organization code and object class.

- Strengthened internal controls over accounts receivable by recording all amounts relating to the employees' share of the subsidized parking and reducing the receivable at the time of reimbursement.

- Strengthened internal controls over the cash receipt function by segregating duties among several individuals.

- Recorded prior period adjustments relating to the: (a) capitalization of a leased printer, and (b) accumulation of costs for the development and implementation of a major automated system.

The Commission also effectively implemented internal controls over disbursements and payroll. We tested 45 disbursements related to purchase cards, travel, the Intra-governmental Payment and Collection System, and vendor payments, and determined that all disbursements were made in accordance with the Commission's Directives and Handbooks. Employees obtained proper approval; purchases made were within maximum thresholds and were allowable under the Federal Acquisition Regulation; supporting documents were obtained; and payments were made timely. Of the 40 employees selected for our payroll test, all personnel files contained all required completed forms. Also, the employees' time and attendance information was properly authorized and maintained, voluntary withholdings were properly administered, and all employees existed.

While the above internal controls were effective, the Commission needs to take additional actions to ensure accurate and complete financial statements are produced. As discussed in the remaining sections of this report, the Commission needs to: strengthen its oversight of property and improve the accuracy of the financial records relating to the calculation of depreciation expense; timely deposit cash receipts and improve procedures for the year-end cutoff of disbursements; and fully comply with FMFIA.

B. Oversight of Property Should be Strengthened

Financial records may be misstated because the Commission did not maintain an accurate automated data processing (ADP) inventory list or follow its depreciation schedule. The Commission could not immediately determine the location of 5 (11 percent) items. Additionally, the Office of Finance inaccurately expensed depreciation on four items because it did not follow the associated item's depreciation schedule.

ADP Property

Using the Office of Information Technology Services (ITS) master accountable property list, we were initially unable to locate 5 of 45 randomly selected items. An ITS official determined that three were moved to another location and were being used by other Commission employees and two were surplused. For the three relocated computers, ITS maintained the ADP inventory on a spreadsheet but did not always update it to reflect changes. For the two surplused items, an ITS official did not complete Form 110A, Transfer Form for Surplus Furniture and Equipment. Instead, an official completed Form 110, Property Action Form but did not include the property tag number which is used to identify the item. Failure to implement the required controls increases the risk of misstated financial records and the undetected loss of assets.

Commission Directive 3550.3, Property Management, states that the Director, Office of Facilities Management, is responsible for overall supervision and technical direction of the property management system, including disposition of property and the resolution of missing items. The Office of Facilities Management maintains a master property list of fixed assets and all accountable property other than ADP equipment. The Commission defined accountable property as sensitive and/or subject to potential theft—ADP equipment, televisions, video recorders, and cameras—and designated the ITS Director as the Accountable Officer for ADP equipment. This Accountable Officer is responsible for maintaining the master accountable ADP property list and providing the list to the Office of Facilities Management. Furthermore, ITS must conduct an annual physical ADP inventory and report the results to the Office of Facilities Management.

We reported this problem in our prior year audit, but the Commission had not fully implemented the recommendation. The Director, Office of Administration revised the Property Action Form 110, but the Commission had not revised and issued the Property Management Directive to provide further guidance for controlling accountable property.

While the ITS Director took corrective action during this audit by developing a new inventory database and updating the records, the Property Management Directive should be revised to provide guidance and assign responsibility for controlling all types of accountable property. Guidance should clearly identify: the office responsible for moving and disposing of accountable property; the appropriate Form to be completed based on the action; and the office responsible to receive the completed Form and update the inventory database. Although accountable property items are expensed in the period of acquisition, they must be reported within the proper period to ensure an accurate property list.

Calculation of Depreciation Expense

The Office of Finance depreciated three items below the residual value, which is ten percent of the capital property's estimated value at the end of its useful life. Also, the Office of Finance classified one item with a 5-year life but depreciated it over 10 years. This particular asset should have been fully depreciated during 2004. Due to these errors, the combination of the four items resulted in an understatement of depreciation expense of $24,372.04. Since $25,000 was below our materiality threshold, we did not report this issue as a material weakness in our audit of the Commission's FY 2004 financial statements. However, future statements will be affected if management does not make the $24,372.04 adjustment.[2]

Recommendation 1

The Director, Office of Administration should issue an Administrative Notice to provide guidance for controlling both fixed assets and accountable property. The guidance should clarify procedures and assign responsibilities for controlling all types of assets.

Management Response

The Commission concurred with the recommendation. The Director of Finance will issue detailed guidance to improve controls over fixed assets and accountable property. The guidance will be issued by May 30, 2005.

OIG Comment

When accomplished, the above action will satisfy this recommendation if the above mentioned guidance clearly identifies the responsible official and associated duties to control fixed assets, accountable property other than ADP equipment, and ADP equipment. If the responsible official is not within the Office of Finance, the Director of Finance should obtain their agreement to the new guidance.

Recommendation 2

The Director, Office of Finance should review the depreciation schedules and develop a process to ensure the correct calculation of expense is recorded for each asset during the year.

[2] The OIG provided the details associated with each item to the Office of Finance.

Management Response

The Commission concurred with the recommendation. The Director of Finance will issue procedures that will clarify the methods to correctly calculate and record the expenses for each asset during the course of the fiscal year. The procedures will be finalized by May 30, 2005.

OIG Comment

When accomplished, the above action will satisfy this recommendation.

C. Procedures Over Cash Receipts and Disbursement Cutoff Should Be Improved

While the Commission strengthened controls over cash receipts since our previous audit, it did not always make timely deposits. Additionally, in anticipation of meeting the tight time frame for providing its first audited annual financial statements to the Office of Management and Budget (OMB), the Commission closed its books early but did not record liabilities for which it did not receive an invoice. Delay in processing transactions increases the risk of theft and the risk of material misstatements.

Cash Receipts

The Office of Finance generally deposited funds to the Treasury during the last week of the month; however, this Office held several receipts up to five weeks. Although the Commission implemented our recommendation relating to segregation of duties, and, cash receipts are clearly immaterial to the Commission on the whole, deposits should be timelier.

Disbursement Cutoff

The Commission did not record all invoices in the accounts payable or accrued expense balance at year-end that pertained to fiscal 2004. This was a result of closing the books earlier than usual in order to comply with the new timeline of submitting the draft financial statements to OMB by November 1, 2004. The staff closed the year-end on or about October 12, 2004. Invoices continued to be received subsequent to this closing date, but the Office of Finance did not put a process in place to capture these liabilities. Because the Commission has no year money, we recognize that failure to record the liabilities is restricted to financial statement reporting.

Our test of unrecorded liabilities included reviewing subsequent disbursements and the unpaid invoice file subsequent to year-end, and items added to the accounts payable listing after year-end. We understand the accelerated timeline complicates the accounts

payable function as bills are continuously received throughout the month pertaining to the prior fiscal year end. To circumvent the timing issue, management should inform vendors of the need to receive invoices more quickly at year-end. For all invoices that had not been received as of the date of the year-end cutoff, management should verbally obtain the amount of outstanding invoices and estimate the amount where a verbal response was not provided.

Recommendation 3

The Director, Office of Administration should issue an Administrative Notice on the length of time funds may remain in the Commission's custody based on dollar amount but not to exceed a determined period of time.

Management Response

The Commission concurred with the recommendation. The Director of Finance will develop internal guidelines for the length of time funds may remain in the Commission's custody, taking into consideration the amount of cash in the Commission's custody. The guidelines will be finalized by May 30, 2005.

OIG Comment

When accomplished, the above action will satisfy this recommendation.

Recommendation 4

The Director, Office of Finance should develop procedures and assign responsibility to ensure all liabilities are presented as accurately as possible.

Management Response

The Commission concurred with the recommendation. The Director of Finance will develop internal procedures that assign responsibility for reporting liabilities as accurately and timely as possible. The procedures will be finalized by June 30, 2005.

OIG Comment

When accomplished, the above action will satisfy this recommendation.

D. Policies and Procedures Should Incorporate Compliance with the Federal Managers' Financial Integrity Act of 1982

While the Commission substantially complied with the requirements of the Federal Managers' Financial Integrity Act of 1982 (FMFIA/Act), the Commission did not have a formal process to ensure its managers annually evaluated and reported on the adequacy of their assigned programs. The federal government established FMFIA to require ongoing evaluations and reports of the adequacy of the systems of internal accounting and administrative control of each executive agency. The Act required that internal and administrative controls be established in accordance with standards prescribed by the Comptroller General and shall provide reasonable assurance that:

- Obligations and costs are in compliance with applicable law;
- Funds, property and other assets are safeguarded against waste, loss, unauthorized use or misappropriation; and
- Revenues and expenditures applicable to agency operations are properly recorded and accounted for to permit the preparation of accounts and reliable financial and statistical reports and to maintain accountability over the assets.

Although we agree that all of the above has been followed by the Commission, the Act also requires that by December 31 of each year, the head of each executive agency shall on the basis of an evaluation conducted in accordance with guidelines prescribed, prepare a statement to the President and the Congress that the agency's systems of internal accounting and administrative control complies with the Act. The respective statement must be signed by the head of each executive agency and transmitted.

The agency head's evaluation can be performed using a variety of information sources. Management has primary responsibility for monitoring and assessing controls, and should use other sources such as OIG reports as a supplement to but not a replacement for its own judgment.

Recommendation 5

The Director, Office of Administration should develop procedures and obtain appropriate approval for prompt issuance for management to perform its own self-study evaluation of its internal and administrative controls annually. The results of this study should be submitted to the Chairman to be transmitted to the President and the Congress.

Management Response

The Commission concurred with the recommendation. Appropriate senior staff will be tasked with reviewing the requirements of the Federal Managers' Financial Integrity Act and producing a written strategy that will guide the Commission in achieving compliance with the Act. The Commission will meet all reporting requirements of the Act by December 31, 2005.

OIG Comment

When accomplished, the above action will satisfy this recommendation provided the Commission has taken adequate action for the OIG to make a determination on its process for complying with the Federal Managers' Financial Integrity Act. The determination will be made during our audit on the fiscal year 2005 financial statements, as directed in the U.S. Government Accountability Financial Audit Manual.

ATTACHMENT A

CHAIRMAN

UNITED STATES INTERNATIONAL TRADE COMMISSION

WASHINGTON, DC 20436
CO74-CC-003

March 14, 2005

MEMORANDUM

TO: Kenneth Clark
Inspector General

FROM: Stephen Koplan SK

SUBJECT: Response to Draft Audit Report: Management Letter:
Audit of the U.S. International Trade Commissions Financial Statements
for the Year Ended September 30, 2004

This memorandum is the Commission's response to the subject draft report and includes an action plan for implementing corrective actions that will address the recommendations.

Recommendation 1:

The Director, Office of Administration should issue an Administrative Notice to provide guidance for controlling both fixed assets and accountable property. The guidance should clarify procedures and assign responsibilities for controlling all types of assets.

Response:

The Director of Finance will issue detailed guidance to improve controls over fixed assets and accountable property. The guidance will be issued by May 30, 2005.

Recommendation 2:

The Director, Office of Finance should review the depreciation schedules and develop processes to ensure the correct calculation of expense is recorded for each asset during the year.

Response:

The Director of Finance will issue procedures that will clarify the methods to correctly calculate and record the expenses for each asset during the course of the fiscal year. The procedures will be finalized by May 30, 2005.

Recommendation 3:

The Director, Office of Administration should issue an Administrative Notice on the length of time funds may remain in the Commission's custody based on dollar amount but not to exceed a determined period of time.

Response:

The Director of Finance will develop internal guidelines for the length of time funds may remain in the Commission's custody, taking into consideration the amount of cash in the Commission's custody. The guidelines will be finalized by May 30, 2005.

Recommendation 4:

The Director, Office of Finance should develop procedures and assign responsibility to ensure all liabilities are presented as accurately as possible.

Response:

The Director of Finance will develop internal procedures that assign responsibility for reporting liabilities as accurately and timely as possible. The procedures will be finalized by June 30, 2005.

Recommendation 5:

The Director, Office of Administration should develop procedures and obtain appropriate approval for prompt issuance of management to perform its own self study evaluation of its internal and administrative controls annually. The results of this study should be submitted to the Chairman to be transmitted to the President and the Congress.

Response:

Appropriate senior staff will be tasked with reviewing the requirements of the Federal Managers Financial Integrity Act and producing a written strategy that will the guide the Commission in achieving compliance with the Act. The Commission will meet all reporting requirements of the Act by December 31, 2005.

cc: The Commission
Office of Administration
Office of Operations