

# U.S. International Trade Commission

## Management Letter for 2012 Financial Statements



**OIG-ML-13-06**

**December 19, 2012**



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*

*Irving A. Williamson, Chairman*

*Daniel R. Pearson*

*Shara L. Aranoff*

*Dean A. Pinkert*

*David S. Johanson*

*Meredith M. Broadbent*

OFFICE OF INSPECTOR GENERAL



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UNITED STATES INTERNATIONAL TRADE COMMISSION

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WASHINGTON, DC 20436

December 19, 2012

IG-KK-022

Chairman Williamson:

This memorandum transmits the Management Letter Report (OIG-ML-13-06) from the audit of the Commission's financial statements for fiscal year 2012. We contracted with the independent certified public accounting firm, Castro & Company LLC, to conduct the 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 Report contains two 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 both Castro & Company and my staff during this audit.

Sincerely,

Philip M. Heneghan  
Inspector General



**U.S. INTERNATIONAL TRADE COMMISSION**



**Fiscal Year 2012 Financial Statement Audit**

**Management Letter Report**



November 8, 2012

Inspector General  
U.S. International Trade Commission

We have audited the financial statements of the U.S. International Trade Commission (ITC) as of and for the year ended September 30, 2012, and have issued our report thereon dated November 8, 2012.

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, are intended to improve internal control or result in other operating efficiencies. These comments are in addition to the material weakness and significant deficiency presented in our *Independent Auditor's Report on Internal Control*, dated November 8, 2012, included in the FY 2012 ITC *Agency Financial Report*.

We would be pleased to discuss these comments and recommendations with you at any time. We would also like to express our appreciation to you and all other ITC personnel who assisted us in completing our work. We have incorporated ITC's management response to our Management Letter Report and have also enclosed the full text of ITC's response letter.

This report is intended solely for the information and use of ITC management, the Office of 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 Internal Controls over the Cash Disbursement Process are Needed

During our testing to assess management controls and compliance with applicable laws, regulations, and procedures relative to cash disbursement procedures, the following conditions were noted:

- We noted that in multiple instances, disbursements were made more than thirty days after the invoice was received by Finance. Additionally, documentation in the file did not provide an explanation to support why the invoices were not paid within 30 days.
- We noted that in multiple instances, invoices were approved for payment more than 30 days after the receipt of goods and services by the COR.
- We noted that three purchase card holders did not have an updated training certificate on file. No additional exceptions related to the proper use of the governments cards were noted as a result of our testing of these three (3) samples.

ITC did not follow its written policies and procedures for the processing of invoices; causing individuals responsible for reviewing and approving the invoice (e.g., the Contracting Officer's Representative, Contracting Officer, and the Finance staff) to process invoices in an untimely manner. In addition, there is not a process for escalating untimely responses from CORs to their Supervisors when they are unresponsive.

Government Accountability Office (GAO) *Standards of Internal Control in the Federal Government* states:

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 should appear in management directives, administrative policies, or operating manuals and may be in paper or electronic form. All documentation and records should be properly managed and maintained.

5 Code of Federal Regulation (CFR) § 1315.4, *Prompt payment standards and required notices to vendors*, states the following relating to the Prompt Payment Act:

(c) Review of invoice. Agencies will use the following procedures in reviewing invoices: (1) Each invoice will be reviewed by the designated agency office as soon as practicable after receipt to determine whether the invoice is a proper invoice as defined in § 1315.9(b); (2) When an invoice is determined to be improper, the agency shall return the invoice to the vendor as soon as practicable after receipt, but no later than 7 days after receipt..."

...f) Starting the payment period. The period available to an agency to make timely payment of an invoice without incurring an interest penalty shall begin on the date of receipt of a proper invoice...

(g) Determining the payment due date. (1) Unless otherwise specified, the payment is due either: (i) On the date(s) specified in the contract; (ii) In accordance with

discount terms when discounts are offered and taken (see § 1315.7); (iii) In accordance with Accelerated Payment Methods (see § 1315.5); or (iv) 30 days after the start of the payment period as specified in paragraph (f) of this section...

5 CFR § 1315.10, *Late payment interest penalties* states:

(a) Application and calculation. Agencies will use the following procedures in calculating interest due on late payments: (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; (2) Adjustments will be made for errors in calculating interest; (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.

By not following written policies and procedures for the processing of invoices, specifically, the untimely approval of invoices by responsible personnel, ITC increases the risk that it is not complying with applicable laws and regulations, such as the Anti-Deficiency Act, FAR and the Prompt Payment Act. In addition, ITC increases the likelihood of unnecessarily paying interest which could be deemed a wasteful use of appropriated funds.

### **Recommendations:**

In the prior fiscal year, we recommended to ITC management to establish and implement procedures for a quarterly review of the late payments reports and determine the causes of late payments, and to develop and implement a process to mitigate the causes of late payments. ITC management has taken actions to implement the three management decisions related cash disbursements, the final management decision was implemented on September 11, 2012. This last management action was to develop new procedures; therefore, because it will take time to determine whether the new procedures are effective, we are not making additional recommendations at this time.

## **2. Improvements in the Internal Controls over the Processing of Employee Information into the Payroll System are Needed**

During our testing to assess management controls and compliance with applicable laws, regulations, and procedures relative to the payroll procedures, the following conditions were noted:

- We noted that the incorrect FEGLI election was entered into the payroll system for one employee which caused an incorrect amount to be deducted from the employee's pay.
- We noted that the FEGLI deduction for one employee was incorrectly calculated; therefore, the incorrect amount was being deducted from the employee's pay.

The incorrect FEGLI election was caused by oversight from an ITC personnel involved in the payroll process which was not caught or timely corrected by a supervisor. In addition, ITC does not perform quality control procedures over deductions calculated by its payroll service provider to ensure amounts calculated and deducted from employees' pay are correct.

Office of Management and Budget Circular A-123, *Management's Responsibility for Internal Control*, states:

Internal control also needs to be in place over information systems – general and application control...Application control should be designed to ensure that transactions are properly authorized and processed accurately and that the data is valid and complete. Controls should be established at an application's interfaces to verify inputs and outputs, such as edit checks.

By not ensuring proper controls are maintained, including performing quality control procedures over information processed by its service provider, ITC increases its risk that payroll deductions are incorrectly reported, and ultimately causing Payroll data to be over or understated.

**Recommendations:**

We recommend that ITC's management:

1. Creates quality control monitoring procedures to verify calculations for payroll deductions for its employees that are entered by its service provider into the payroll system are correct.
2. Modify its current payroll policies to require employee elections entered by an employee and verified and authorized by management personnel.

**3. Parking Subsidy Program**

As originally reported in the fiscal year (FY) 2010 Independent Auditor's Report on Compliance with Laws and Regulations, ITC does not have independent statutory or delegated authority to procure space and facilities to provide for employee parking; therefore, ITC's program provides benefits that do not fully comply with the requirements of GAO Principles of Federal Appropriations Law. Towards the end of FY 2011, ITC formally requested for GAO to make a determination on ITC's past parking program, and to approve its new proposed program.

GAO Stated in its decision dated August 3, 2012 (B-322337), "Generally, we will not object to an agency's determination that subsidizing parking permits for its employees is necessary in order to avoid significant impairment to the agency's operating efficiency. However, such determination should reflect consideration of current workplace realities and public policies. The Commission's 2001 administrative determination and its Proposed Parking Order do not address what we believe are some important factors. We suggest that the Commission consider its determination in light of these factors, and that the Commission articulate the consequences for operating efficiency if the agency were not to subsidize the parking permits."

Based on GAO's recommendation, ITC's management wrote a memorandum to the Chairman on October 2, 2012 to recommend for ITC to continue its parking program into FY2013 in order to allow management time to gather information and report on its findings. ITC set a target date of May 31, 2013 for the Chairman to decide the significant impairment issue, including specifying any

changes to the subsidized parking program needed by the Chairman’s decision. The Chairman approved the management decision with the completion target date of May 31, 2013.

**Recommendations:**

Two years ago the Inspector General made two recommendations related to ITC’s Parking Program. The actions described above were taken as a part of the management decisions made based on those recommendations. The final action is not expected to be completed until May 31, 2013; therefore, we do are not making additional recommendations at this time.

**Status of Prior Year Management Letter Comments**

The FY 2011 Management Letter Report identified the following control deficiencies:

<b>Finding Identified in FY 2011</b>	<b>Status in FY 2012</b>
Cash Disbursements	Partly Resolved, Untimely Approval of Invoices and Late Payments Repeat Condition
Prepayments	Resolved

**Management Response:**



Chairman



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**UNITED STATES INTERNATIONAL TRADE COMMISSION**

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WASHINGTON, DC 20436

December 4, 2012

Thomas Castro, Partner  
Castro and Company, LLC  
2121 Eisenhower Avenue, Suite 606  
Alexandria, VA 22314

Dear Mr. Castro,

I am in receipt of Castro & Company's draft *Fiscal Year 2012 Financial Statement Management Letter Report*, dated November 8, 2012. I appreciate the opportunity to review the report and provide comments.

Castro & Company's report found that the Commission would benefit from improvement in its internal controls over the cash disbursement process and the processing of employee information in its payroll system. Moreover, Castro & Company made no judgments on the Commission's compliance with the laws and regulations as they relate to the Commission's parking subsidy program, as final action is not expected until May 31, 2013.

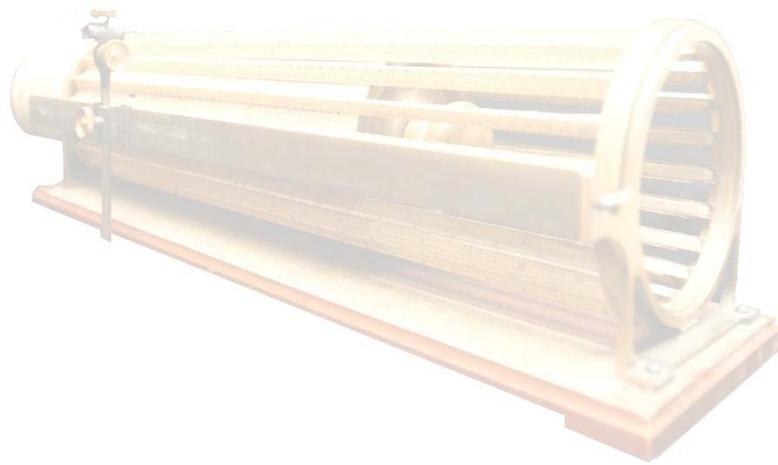
We agree with the findings and recommendations put forth by Castro & Company, and the Commission will institute management decisions that address the report's specific recommendations.

Sincerely,

A handwritten signature in black ink that reads "Irving A. Williamson". The signature is written in a cursive style.

Irving A. Williamson





*“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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