

# U.S. International Trade Commission

*Management Letter for 2014 Financial Statement*



**OIG-ML-15-06**

**December 1, 2014**



**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*

*Meredith M. Broadbent, Chairman*

*Dean A. Pinkert, Vice Chairman*

*Irving Williamson*

*David S. Johanson*

*F. Scott Kieff*

*Rhonda K. Schmidlein*

OFFICE OF INSPECTOR GENERAL



---

UNITED STATES INTERNATIONAL TRADE COMMISSION

---

WASHINGTON, DC 20436

December 1, 2014

IG-MM-023

Chairman Broadbent:

This memorandum transmits the Management Letter Report (OIG-ML-15-06) from the audit of the Commission's financial statements for fiscal year 2014. We contracted with the independent certified public accounting firm, Davis & Associates, to conduct the audit. The audit resulted in an unqualified opinion. The management letter discusses a matter involving internal control that the auditors identified during the audit but were not required to be included in the audit reports.

The management letter 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 Davis & Associates and my staff during this audit.

Sincerely,

Philip M. Heneghan  
Inspector General



Management Letter

To the Inspector General  
US International Trade Commission

We have audited the Consolidated Balance Sheet of the US International Trade Commission (USITC) as of September 30, 2014, and have issued our report thereon dated November 5, 2014. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in U.S. Government Auditing Standards, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 14-02, *Audit Requirements for Federal Financial Statements*. Professional standards require that we provide you with the following information related to our audit.

Significant Audit Findings

*Qualitative Aspects of Accounting Practices*

Management is responsible for selection and use of appropriate accounting policies. The significant accounting policies used by USITC are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year ended September 30, 2014. We noted no transactions entered into by USITC during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

*Accounting Estimates*

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

- Management's estimate of the depreciation allowance.

We evaluated the key factors and assumptions used to develop these estimates and determined that they are reasonable in relation to the financial statements taken as a whole.

*Difficulties Encountered in Performing the Audit*

We encountered no significant difficulties in dealing with management in performing and completing our audit.

### *Corrected and Uncorrected Misstatements*

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. We did not note any adjustments that, in our judgment, have a significant effect on USITC's financial reporting process.

### *Management Representations*

We have requested certain representations from management that are included in their management representation letter to us.

### *Management Consultations with Other Independent Accountants*

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of any accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

**Finding Number:** 1  
**Audit Area:** Property, Plant and Equipment – Capitalization of Software

Criteria

SFFAS 10 – Accounting for Internal Use Software states that for Commercial of the Shelf (COTS) software, capitalized cost should include the amount paid to the vendor for the software. For contractor-developed software, capitalized cost should include the amount paid to a contractor to design, program, install, and implement the software. Costs incurred after the initial implementation of the software that do not provide more than minor enhancements should be expensed.

Condition

Upon reviewing the client’s schedule of Property, Plant and Equipment, the Auditor found that a line for software was added to the schedule on March 31, 2014 for a total of \$163,160 and was given a useful life of five years, as is standard according to the client’s Financial Management Manual, and was classified as a “non-depreciating” asset. When reviewing the documentation, the Auditor found that this cost was actually a bill for a software maintenance renewal, which should not be capitalized, and was incorrectly coded with the Budget Object Code (BOC) 312300 – Software-Capitalized. This cost should have been expensed and applied against BOC 257210 – Software Maintenance.

| Org/CC | Asset-Description | Date Placed in Service | Useful Life | Cost    |
|--------|-------------------|------------------------|-------------|---------|
| 610000 | 123846-COMPUTER U | 3/31/2014              | 5           | 163,160 |

Cause

The transaction was not properly examined to determine which BOC to apply the cost against.

Impact

When an expense is incorrectly classified as an asset, expenses for the period have been understated and assets have been overstated. The misstatement in this instance is immaterial to the overall financial statements for Fiscal Year 2014.

Recommendation 1

That the office of the Chief Financial Officer make the necessary adjustments in the financial system to correct the classification of this transaction to ensure that the asset and expense accounts are properly represented.

Recommendation 2

That the Office of the Chief Financial Officer develop a process to review and properly validate the BOC of all transactions before they are recorded in the Standard General Ledger (SGL).

Risk Level

Low

This report is intended solely for the information and use of USITC's management, USITC Office of Inspector General, OMB, the Governmental Accountability Office, and the U.S. Congress, and is not intended to be, and should not be, used by anyone other than these specified parties.

*Davis & Associates*

Alexandria, Virginia  
November 5, 2014

Chairman



---

**UNITED STATES INTERNATIONAL TRADE COMMISSION**

---

WASHINGTON, DC 20436

November 25, 2014

Inspector General Phillip Heneghan  
Office of the Inspector General  
U.S. International Trade Commission  
500 E. Street, SW  
Washington, DC 20436

Dear Mr. Heneghan:

I am in receipt of the draft *Fiscal Year 2014 Financial Statement Management Letter*, completed by you and your contracted team from Davis & Associates on November 5, 2014. I appreciate the opportunity to review the report and provide comments.

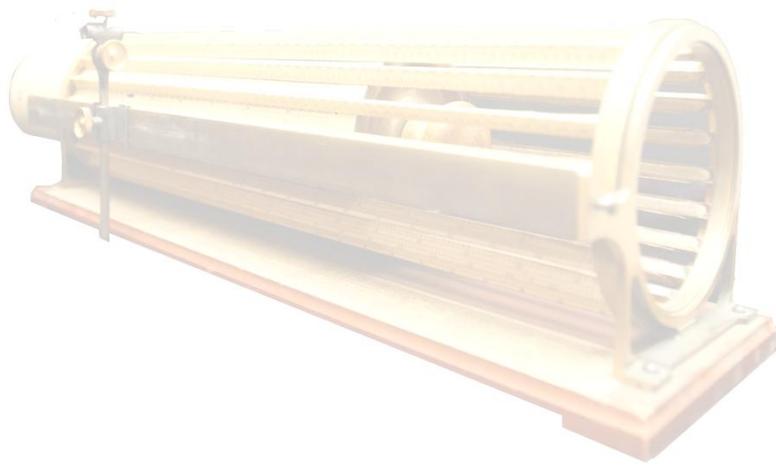
The above referenced Management Letter recommended that the Commission adjust its financial system to correctly classify one of the transactions to ensure that the asset and expense accounts are properly represented. It also recommended that a process be developed to ensure that budget object codes of all transactions are effectively reviewed before they are recorded in the standard general ledger.

The Commission agrees with the findings and recommendations, and will institute management decisions that address the report's specific recommendations.

Sincerely,

A handwritten signature in black ink that reads "Meredith M. Broadbent". The signature is written in a cursive style.

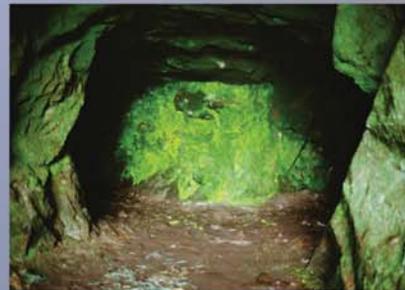
Meredith M. Broadbent



*“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



U.S. International Trade Commission  
Office of Inspector General  
500 E Street, SW  
Washington, DC 20436

Office: 202-205-6542  
Fax: 202-205-1859  
Hotline: 202-205-6542  
OIGHotline@USITC.gov