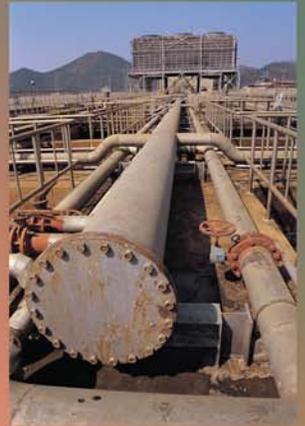


# U.S. International Trade Commission

## Management Letter - Improper Payment Reporting



**OIG-ML-15-07**

**January 8, 2015**



**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*



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## UNITED STATES INTERNATIONAL TRADE COMMISSION

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WASHINGTON, DC 20436

January 8, 2015

OIG-NN-001

OIG-ML-15-07

Chairman Broadbent:

During a review of the Commission's Agency Financial Report, published in November 2014, we noticed the Commission incorrectly reported the status of improper payments. The Agency Financial Report stated that the Office of the Chief Financial Officer did not identify any improper payments in fiscal year 2014. However, my office had knowledge of two instances of improper payments made during 2014.

This Management Letter Report is to inform you of three problems with the internal controls that contributed to the inaccurate reporting of improper payments in the Commission's Agency Financial Report.

The first problem with the internal controls was a lack of adequate testing procedures. The Office of the Chief Financial Officer performed quarterly testing on disbursements and receivables to detect improper payments. The disbursement testing process used by the Office of the Chief Financial Officer did not differentiate between types or complexity of payments and did not include the necessary documentation or steps to detect different types of improper payments. Since they did not look at the risk activities associated with the type of payment made, the design of the disbursement testing was not adequate to detect incorrect amounts paid on a labor hour contract.

The second problem with the internal controls concerned ineffective communication and sharing of information. According to a report developed by the Office of the Chief Financial Officer, the Office of Procurement first discovered invoice discrepancies with a labor hour contract in January 2013. The Contracting Officer met with the Contracting Officer Representative and his immediate supervisor; however there was no indication that the information was communicated to the appropriate individuals responsible for reporting improper payments in fiscal year 2013, or to the individuals responsible for recovering the overpayments.

Additionally, the report stated that, during contract closeout in June 2014, the Contracting Officer discovered the same contract had recurring problems related to incorrect invoices. While the Office of Procurement was working to identify the depth of the problem, the information was not communicated to management or others individuals within the Office of the Chief Financial Officer for several months.

The third problem with the internal controls was an absence of monitoring to ensure that known problems were effectively resolved. Even after the COR and the COR's supervisor were informed of invoice errors, the vendor continued to submit incorrect invoices, which were improperly approved and paid by the Commission for the remainder of the contract period, which ended in June of 2014. There was no evidence to show that any monitoring activities had taken place by the supervisor or the Office of the Chief Financial Officer.

These three internal control problems resulted in the Commission incorrectly reporting improper payments for fiscal year 2013 and 2014. In addition, the lack of follow-up resulted in continued improper payments being made for the remaining 17 months left on the contract.

We discussed these problems with the internal controls and our recommendations with the Chief Financial Officer.

**Recommendation 1:** The Commission amend the AFR to accurately reflect the status of improper payments in 2014.

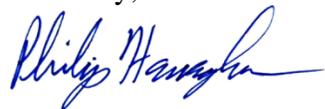
**Recommendation 2:** The Chief Financial Officer redesign the improper payment test procedures based on the type of payment and associated risks.

**Recommendation 3:** The Chief Financial Officer implement procedures to track resolution of discovered invoice discrepancies.

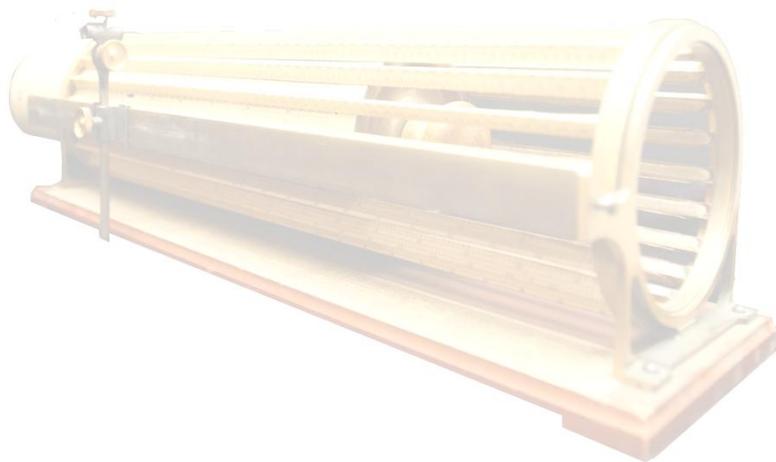
**Recommendation 4:** The Chief Financial Officer develop a system to report invoice discrepancies to appropriate individuals.

This report contains four recommendations to address the three internal control problems. In the next 30 days, please provide me with your management decisions describing the specific actions that you will take to implement each recommendation.

Sincerely,



Philip M. Heneghan  
Inspector General



*“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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