OFFICE OF INSPECTOR GENERAL

UNITED STATES INTERNATIONAL TRADE COMMISSION

WASHINGTON, DC 20436

March 25, 2009 IG-GG-09

TO: THE COMMISSION

SUBJECT: Management Letter for the Fiscal Year 2008 Audit of the U.S. International Trade Commission's Financial Statements (OIG-01-09)

This memorandum transmits the subject management letter in connection with the audit of the U.S. International Trade Commission Fiscal Year (FY) 2008 financial statements. Under a contract monitored by this office, we engaged the independent public accounting firm of Brown & Company CPAs PLLC to perform the audit. The contract required that the audit be performed in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States, and Office of Management and Budget Bulletin 08-04 (technical amendments), *Audit Requirements for Federal Financial Statements.*

As part of the audit, Brown & Company issued the attached report that discusses the Commission's need to:

- Update procedures for payroll, year end accounts payable estimation, depreciation calculations, and reconciling all aspects of Fund Balance with Treasury;
- Document procedures for processing personnel actions, and provide back-up support;
- Establish review procedures for calculating imputed financing;
- Strengthen internal controls to avoid unauthorized commitments of funds.

The report makes five recommendations that will assist the Commission in correcting these deficiencies. All recommendations identify certain weaknesses in the Commission's internal control systems. Most notable was the error in imputed costs of over three million dollars, which was identified and corrected by the audit before the

statements were finalized. An uncorrected entry of that amount would have been a material misstatement and resulted in a 'qualified' opinion of the ITC FY 2008 financial statements.

The Commission has agreed with the findings and presented corrective action plans in order to address these deficiencies. The response is incorporated in this report and included as an Appendix. The Office of Inspector General will conduct follow up audit work to confirm the effective application of those corrective actions plans.

In connection with the contract, we reviewed Brown & Company's letter and related documentation. Our review disclosed no instances where Brown & Company did not comply, in all material respects, with generally accepted government auditing standards.

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

Judith C. Gwynn
Acting Inspector General

Attachment

cc:

Director, Office of Administration
Director, Office of Finance
Director, Office of Human Resources
Director, Office of Facilities Management
Brown & Company CPAs PLLC

BROWN & COMPANY CPAs, PLLC
CERTIFIED PUBLIC ACCOUNTANTS AND MANAGEMENT CONSULTANTS

March 16, 2009

Ms. Judith Gwynn
Acting Inspector General
U.S. International Trade Commission
Office of Inspector General

Dear Ms. Gwynn:

The management letter for the Fiscal Year 2008 financial statement audit of the U.S. International Trade Commission (ITC) is attached. The purpose of this letter is to communicate non-reportable control deficiencies to ITC management. This letter is intended solely for the information and use of ITC management.

We would like to express our appreciation to you and all other ITC personnel who assisted us in completing our audit. We have incorporated ITC's management responses to our Management Comment Letter and have also enclosed the full text of ITC's response letter.

Sincerely,

BROWN & COMPANY CPAs, PLLC

Tyrone Brown, CPA
Managing Member

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U.S. International Trade Commission

Management Comment Letter
September 30, 2008

By:
Brown & Company CPAs, PLLC
March 16, 2009

BROWN & COMPANY CPAs, PLLC
CERTIFIED PUBLIC ACCOUNTANTS AND MANAGEMENT CONSULTANTS

Management Letter Report
Fiscal Year 2008 Financial Statement Audit
U.S. International Trade Commission

Brown & Company CPAs, PLLC audited the financial statement of the U.S. International Trade Commission (ITC) for the Fiscal Year (FY) 2008. This document discusses control deficiencies involving internal control that we feel warrant management's attention. It also presents management's response to the findings and recommendations in this management comment letter.

Management's response to prior year (2007) management comment letter.

The FY 2007 management comment letter had seven areas of control deficiency discussions. In our audit testing for the FY 2008 financial and compliance audit, we did follow-up on management's assertions concerning the prior audit control deficiencies. We determined that the ITC had responded to six (6) of the matters indicated in the prior management comment letter. Based upon our review, we determined that the following items had been responded to and that procedures, reconciliations and training had been implemented.

1. Control over cash receipts
2. Physical inventory of fixed assets
3. Reconciliation of obligations
4. Blanket purchase agreement calls
5. Financial statement presentations
7. FMFIA management control plan

ITC has not responded to finding number 6, which recommended that the ITC Office of Finance and Human Resources establish, update and document polices and procedures. The ITC has migrated to a new accounting platform, and this new system was implemented effective October 1, 2008. It was not useful or practical to establish policies and procedures that could become obsolete with the implementation of the new accounting system. Therefore, this recommendation and management's assertion regarding the deficiency remains. This finding and recommendation remains from FY 2007 and is repeated here. We did not review any policies or procedures associated with the new accounting system being implemented by the ITC.

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Policies and Procedures

ITC did not have policies and procedures for several areas essential for effective internal control and accurate financial reporting, as follows:

- Office of Finance has not updated procedures for payroll, year-end accounts payable estimation, and depreciation calculations. These procedures are essential for accurate financial reporting. Failure to have such procedures could result in inaccurate financial reporting.

- Office of Finance did not have well-defined procedures for reconciling all aspects of Fund Balance with Treasury. The current reconciliation does not provide a clear audit trail of monthly reconciliation results, noted discrepancies and timely resolution of differences, thus necessitating discussions with Office of Finance personnel to fully understand the detailed work that has been performed.

- Office of Human Resources (OHR) did not have documented procedures for the processing of personnel actions. An OHR assistant processes all personnel actions, but a fully-trained backup for the position had not been established. Without backup support and documented procedures, ITC is at risk for improper and untimely processing.

Government Accountability Office's (GAO) *Standards for Internal Control in the Federal Government,* states:

"Internal control is a major part of managing an organization. It comprises the plans, methods, and procedures used to meet missions, goals, and objectives and ...also serves as a first line of defense in safeguarding assets and preventing and detecting errors and fraud." Furthermore, "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".

Recommendation

We recommend that the Office of Finance and Human Resources establish, update, and document the policies and procedures as follows:

1. The Office of Finance should update procedures for payroll, year end accounts payable estimation, and depreciation calculations.

2. The Office of Finance should have written procedures for reconciling all aspects of Fund Balance with Treasury. The reconciliation procedure should

define the monthly reconciliation process, note discrepancies and document the resolution of differences.

Management Response:

The Office of Finance will update and/or develop new written procedures to cover standard operating procedures for payroll, year end accounts payable estimation and depreciation calculations. The Director of Finance will review the current reconciliation process for the Fund Balance with Treasury, make changes if necessary, and develop new written procedures.

Target Completion: June 30, 2009

3. The Office of Human Resources should have documented procedures for processing personnel actions. The office assistant should have a fully trained back-up to support the function.

Management Response:

The Office of Human Resources will document procedures in writing for processing personnel actions. The Office currently has a second personnel assistant on staff and is in the process of training her. Additionally, all personnel specialists have been trained to process personnel actions in the automated system.

Target Completion Date: June 30, 2009

Internal Control Deficiencies

During the course of our audit testing, we noted certain instances of deficiencies in internal controls that need improvement. These deficiencies included the following:

- Imputed cost was calculated incorrectly, and was not adequately reviewed and corrected by management prior to inclusion in the ITC financial statements. The erroneous calculation resulted in an initial overstatement of imputed costs in the amount of $ 3,480,295. The ITC corrected the amount before the statements were finalized.

- Several obligations were paid late, and therefore were not disbursed in accordance with the Prompt Pay Act.

Seq.	Trans. Number	Amount Paid	Interest Paid
26	PVMM0806065	$10,305	$6.80
42	PVMM0801072	$52,228	Interest Paid with Modification.
43	PVMM0806027	$10,436	$6.88

The criteria for these deficiencies is stated in the Government Accountability Office's (GAO) Standards for Internal Control in the Federal Government, as presented above. Additionally, OMB Circular A-123, *Management's Responsibility for Internal Control, Section II.E, Monitoring, states:*

> *"Monitoring the effectiveness of internal control should occur in the normal course of business. In addition, periodic reviews, reconciliations or comparisons of data should be included as part of the regular assigned duties of personnel. Periodic assessments should be integrated as part of management's continuous monitoring program of internal control, which should be ingrained in the agency's operation. If an effective continuous monitoring program is in place, it can level the resources needed to maintain effective internal controls throughout the year."*

Recommendation

4. The Director of the Office of Finance should review and approve the calculation methodology for imputed financing and that the methodology, OPM bulletin used, and the calculation results be reviewed and approved prior to making the journal entry to enter the calculated amount into the accounting system and financial statements.

   Management Response:

   The Office of Finance implemented procedures to ensure more careful review of the accuracy of journal entries to ensure that the correct amount is entered into the accounting system and financial statements.

   Target Completion Date: Completed

Unauthorized Contractual Obligation

During the course of audit testing, we determined that an employee of the ITC had made an unauthorized commitment of funds. An unauthorized commitment of funds means an agreement that is not binding solely because the Government representative who made it lacked the authority to enter into that agreement on behalf of the Government. The funds were utilized to obtain the USAGE Model Project, which was ITC contract number ITC-PO-05-0067.

FAR Section 1.602-1 Authority, specifically states that: *"No contract shall be entered into unless the contracting officer ensures that all requirements of law, executive orders, regulations, and all other applicable procedures, including clearances and approvals have been met".*

Additionally, it is ITC policy that no employee can commit ITC funds for supplies or services without formal contracting officer authority.

The action was subsequently ratified by the ITC, however the process of the commitment without proper authority does represent a violation of the FAR and ITC Policy, and is an internal control deficiency.

Recommendation

5. The Office of Facilities Management should include procedures to assure that all contracts are reviewed for expiration date and terms prior to any authorization to commit Government funds.

   Management Response:

   Training was provided in Sept., 2008 for all ITC personnel with any responsibility for ordering services or supplies. Responsibilities and duties were explained and training provided to further educate employees about the procurement process. As part of that training, it was made clear to employees that unless an individual had a warrant authorizing them to specifically obligate the organization's funds, they could not authorize any work, service or supply to start or be delivered prior to the issuance of a contractual document from the contracting office. Assignments in the Office of Facilities Management have been readjusted to ensure that the Contract Specialists can adequately provide contract administration, thereby ensuring that COTRs are notified of upcoming Option expiration dates and funding shortages.

   Target Completion Date: Completed

This report is intended solely for the information and use of the management of the ITC, and is not intended to be and should not be used by anyone other than these specified parties.

Brown & Company

Largo, Maryland
March 16, 2009

Office of the Chairman

UNITED STATES INTERNATIONAL TRADE COMMISSION

WASHINGTON, DC 20436

CO80-GG-002

March 10, 2009

TO: Acting Inspector General

FROM: Chairman Shara L. Aranoff sla

SUBJECT: Management Response to the Independent Auditor's Management Letter Concerning the Audit of the U.S. International Trade Commission's Financial Statement for Fiscal Year 2008

As required by Directive 1702.2, paragraph 12, I am providing your office with a written response to the findings and recommendations in the subject audit report. We have consulted with applicable Commission staff regarding the findings of this audit and are in agreement with all of the findings in the report. Together, we are working aggressively towards a timely resolution of each outstanding issue. The recommendations and management response to each recommendation are set forth below.

Policies and Procedures

Recommendations:
We recommend that the Office of Finance and Human Resources establish, update, and document the policies and procedures as follows:

1. The Office of Finance should update procedures for payroll, year end accounts payable estimation, and depreciation calculations.

2. The Office of Finance should have written procedures for reconciling all aspects of Fund Balance with Treasury. The reconciliation procedure should define the monthly reconciliation process, note discrepancies and document the resolution of differences.

Management Response:
The Office of Finance will update and/or develop new written procedures to cover standard operating procedures for payroll, year end accounts payable estimation and depreciation calculations. The Director of Finance will review the current reconciliation process for the Fund Balance with Treasury, make changes if necessary, and develop new written procedures.

Target Completion: June 30, 2009

Recommendation:
3. The Office of Human Resources should have documented procedures for processing personnel actions. The office assistant should have a fully trained back-up to support the function.

Management Response:
The Office of Human Resources will document procedures in writing for processing personnel actions. The Office currently has a second personnel assistant on staff and is in the process of training her. Additionally, all personnel specialists have been trained to process personnel actions in the automated system.

Target Completion Date: June 30, 2009

Internal Control Deficiencies

Recommendation:
4. The Director of the Office of Finance should review and approve the calculation methodology for imputed financing. Also, the methodology, OPM bulletin used, and the calculation results should be reviewed and approved prior to making the journal entry to enter the calculated amount into the accounting system and financial statements.

Management Response:
The Office of Finance implemented procedures to ensure more careful review of the accuracy of journal entries to ensure that the correct amount is entered into the accounting system and financial statements.

Target Completion Date: Completed

Unauthorized Contractual Obligation

Recommendation:
5. The Office of Facilities Management should include procedures to assure that all contracts are reviewed for expiration date and terms prior to any authorization to commit Government funds.

Management Response:
Training was provided in Sept., 2008 for all ITC personnel with any responsibility for ordering services or supplies. Responsibilities and duties were explained and training provided to further educate employees about the procurement process. As part of that training, it was made clear to employees that unless an individual had a warrant authorizing them to specifically obligate the organization's funds, they could not authorize any work, service or supply to start or be delivered prior to the issuance of a contractual document from the contracting office. Assignments in the Office of Facilities Management have been readjusted to ensure that the Contract Specialists can adequately provide contract administration, thereby ensuring that COTRs are notified of upcoming Option expiration dates and funding shortages.

Target Completion Date: Completed