U.S. International Trade Commission

Examination and Confirmation of the Balance on the PP&E Account on the 2009 Financial Statement

OIG-AR-07-10

July 1, 2010

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

Deanna Tanner Okun, Chairman
Charlotte R. Lane
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OFFICE OF INSPECTOR GENERAL

UNITED STATES INTERNATIONAL TRADE COMMISSION

WASHINGTON, DC 20436

July 1, 2010 OIG-HH-018

Chairman Okun:

This memorandum transmits the Office of Inspector General's final audit report *Examination and Confirmation of the Balance on the PP&E Account on the 2009 Financial Statement*. In finalizing the report, we analyzed your comments on our draft report and have included those comments in their entirety in Appendix A.

This report contains six recommendations for corrective action. In the next 30 days, please provide me with your management decisions describing the specific actions that you will take to implement each recommendation.

Thank you for the courtesies extended to the auditors during this audit.

Sincerely,

Philip M. Heneghan
Inspector General

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Results of Audit

The purpose of this audit was to confirm the balance of the Plant, Property, and Equipment (PP&E) account on the 2009 Financial Statement.

The USITC does not have a standardized process to identify, capitalize, reconcile, and manage assets reported in the PP&E account. As a result, we were unable to validate the costs reported for Internal-Use Software assets recorded in the PP&E account on the 2009 Financial Statement. Specifically, we found that:

- The Commission did not capitalize Internal-Use Software (IUS) in accordance with the Statement of Federal Financial Accounting Standards, No. 10, Accounting for Internal Use Software.
- The Commission did not evaluate acquisitions of assets at the time of purchase to determine proper presentation in the PP&E account on the financial statements.
- The Commission did not reconcile the assets in the PP&E account.
- The Commission did not maintain appropriate documentation in the asset files.

Assets and expenses on the 2009 balance sheet in the PP&E account could not be substantiated. In addition, we identified three problem areas that contributed to our inability to confirm these balances.

Problem Areas & Recommendations

Problem Area 1:
Lack of Understanding of the Statement of Federal Financial Accounting Standards (SFFAS) Impact on the Procurement of Assets

The USITC staff responsible for making IUS purchase decisions and tracking these projects did not fully understand the requirements of SFFAS.

SFFAS No. 10 provides guidance regarding the types of cost elements to capitalize, the timing and thresholds of capitalization, the amortization periods, the accounting for impairment, and other guidance.

SFFAS No. 10 states that entities should capitalize the cost of software when the software meets the criteria for general property, plant, and equipment. For internally developed software, capitalized cost should include the full cost (direct and indirect cost) incurred during the software development stage. These costs should be limited to costs incurred

after management authorizes and commits to a computer software project and believes that it is more likely than not that the project will be completed and the software will be used to perform the intended function with an estimated service life of 2 years or more. Costs incurred after final acceptance testing has been successfully completed should be expensed.

The USITC staff responsible for making IUS purchase decisions and tracking these projects did not fully understand the requirements of SFFAS No. 10. As a result, the Commission did not track or identify IUS projects costs to ensure costs were captured. In addition, the Commission does not have a standardized process to consistently identify, capitalize, and report on assets.

The Commission is unable to validate and substantiate that all costs capitalized for its Internal-Use Software assets met the requirements of SFFAS No. 10 and therefore the Commission does not know the value of the assets in the PP&E account or if the appropriate depreciation amounts have been expensed.

This audit identified two conditions previously reported in the *Independent Auditor's Report on Internal Control for 2009 Financial Statements*, OIG-AR-02-10:

- Lack of procedures to document and maintain records that support procurement decisions for all capitalized assets.

- Lack of procedures to ensure future projects are monitored by the program managers on an on-going basis throughout the fiscal year to ensure the timely and proper recording in the general ledger account.

Recommendation 1:

That the Commission train all personnel responsible for making IUS investment decisions and managing projects in the requirements of SFFAS No.10.

Recommendation 2:

That the Commission conduct a data review of all procurements for the last five years and identify all transactions that were expensed and re-evaluate them to determine whether any should have been capitalized.

Recommendation 3:

That the Commission establish a quality control procedure related to the data clean-up effort to ensure that all appropriate adjustments are analyzed for propriety and completeness.

Problem Area 2:
Lack of Reconciliation of the PP&E Account Balance

Periodic reconciliation of asset balances must be done to ensure assets are analyzed and accounted for. Reconciliation should be done by the Office of Finance and include the involvement and review of the Office of Procurement and the Office of Facilities Management.

OMB A-136 states that periodic analyses, reconciliations, or comparisons of data should be included as part of the regular assigned duties of personnel.

The Commission does not have policies and procedures specific to the reconciliation of the PP&E account balances to ensure variances are corrected on a timely basis.

The PP&E account balances are not analyzed on a regular basis increasing the risk of material misstatements being reported on the financial statements and not discovered in a timely fashion by management.

The following three conditions were identified:

- Lack of procedures and coordination between the Office of Facilities Management (OFM) and the Office of Finance, to ensure assets are being accounted for, recorded in a timely fashion, and properly stated in the financial records.
- Lack of procedures to perform and document quarterly reconciliations of the PP&E account balances, between the fixed asset report and the accounting records, in order to analyze and support amounts reported on its financial statements.
- Lack of procedures to ensure that reconciling items are researched and resolved in a timely manner and that resolution of differences is clearly documented and supported.

All three conditions were previously reported in the *Independent Auditor's Report on Internal Control for 2009 Financial Statements*, OIG-AR-02-10. Management decisions have been agreed upon to address the issues and final action is underway. No further recommendations were identified in this area as a result of this audit.

Problem Area 3:
Asset Files Are Not Established and Maintained with Sufficient Documentation

Several of the asset files the Commission provided were missing documentation to support the following: the asset's acquisition cost including purchase orders or invoices; analysis, justification and rationale for estimates used when original cost documentation was missing; and manual calculations including documentation used to support the calculation plus justification and rationale used.

The Commission must maintain documentation for each asset recorded on its financial records to support amounts, rationale, analysis, and approval.

OMB Circular A-123 states that reliability of financial reporting means that management can reasonably make the following assertion: documentation for internal control, all transactions, and other significant events is readily available for examination.

Statement of Federal Financial Accounting Standards (SFFAS) No. 6, *Accounting for Property, Plant and Equipment*, states that all general property, plant and equipment shall be reported at cost. Cost shall include all costs incurred to bring the property, plant, and equipment to a form and location suitable for its intended use. For existing general property, plant, and equipment; if historical cost information necessary to comply with the recognition and measurement provisions has not been maintained, estimates are required. Estimates shall be based on: cost of similar assets at the time of acquisition, or current cost of similar assets discounted for inflation since the time of acquisition (i.e., deflating current costs to costs at the time of acquisition by general price index).

SFFAS 35, *Estimating the Historical Cost of General Property, Plant, and Equipment*, states that although the measurement basis for valuing property, plant, and equipment remains historical cost, reasonable estimates may be used to establish the historical cost of property, plant, and equipment. Estimates may be based on: cost of similar assets at the time of acquisition; current cost of similar assets discounted for inflation since the time of acquisition (i.e., deflating current costs to costs at the time of acquisition by general price index), or other reasonable methods.

Documentation must include, but is not limited to: documentation to support costs such as invoices, purchase orders, contracts. If this documentation is not available, then estimation method and documentation for the rationale used to calculate cost and depreciation must be maintained. In addition, documentation to support receipt and acceptance of assets, useful life, in-service date and salvage value must be maintained.

Complete asset files are not currently maintained. For example, some of the asset files provided included handwritten calculations without documentation or justification to

support them; handwritten notes stating that invoices or purchase orders were not available to support the costs but without estimates or documentation to support the USITC's decision to carry the asset on its financial records at the recorded amounts; journal vouchers without detailed back-up documentation to support amounts or rationale for the adjustment; and no evidence to support in-service date of assets. The Commission does not accumulate in a central place all documents relevant to the procurement or building of each asset.

The Commission does not have complete and accurate documentation to support the PP&E account balances reported on the financial statements.

Recommendation 4:

That the Commission implement procedures for establishing and maintaining asset files.

Recommendation 5:

That the Commission establish a standard for documenting asset files.

Recommendation 6:

That the Commission provide training to all applicable Commission personnel on the proper procedures for maintaining asset files.

Management Comments and Our Analysis

On June 28, 2010, Chairman Deanna Tanner Okun provided management comments to the draft audit report. The Chairman concurred with our assessment, and acknowledged that the three problem areas identified in the report needed to be resolved and were now being actively addressed by management.

Objective, Scope, and Methodology

Objective
The objective of this audit was to confirm the balance of the PP&E account on the 2009 Financial Statement.

Scope
The scope of this audit was to review supporting documentation to substantiate the values reported for assets in the balance of the PP&E account.

Methodology
We engaged the services of an independent public accounting firm to substantiate the balance on the PP&E account and review the related internal controls such as, policies and procedures to support the rationale for calculating and monitoring the values reported in the PP&E account, and acquisition files to support capital planning decisions as reported on the USITC's 2009 balance sheet. The audit was limited in nature and therefore would not necessarily identify all deficiencies in internal control over financial reporting.

The auditors performed an examination of evidence to support the amounts for assets recorded in the PP&E account on the 2009 financial statements. The auditors also assessed the standards used to support the rationale and calculation of values reported for assets recorded in the PP&E account.

The Office of Inspector General engaged the services of an Independent Public Accountant who performed this audit in accordance with Generally Accepted Government Auditing Standards (GAGAS). Those standards require that the audit be planned and performed to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Appendix A: Management Comments on Draft Report

UNITED STATES INTERNATIONAL TRADE COMMISSION

WASHINGTON, DC 20436
C076-HH-002

June 28, 2010

MEMORANDUM

TO: Philip M. Heneghan, Inspector General

FROM: Chairman Deanna Tanner Okun

SUBJECT: Management Response to the Draft Audit Report, "Examination and Confirmation of the Balance of the PP&E Accounts on the 2009 Financial Statement"

I am in receipt of the Inspector General's draft audit report, *Examination and Confirmation of the Balance of the PP&E Accounts on the 2009 Financial Statement*, dated May 27, 2010. I appreciate the opportunity to review the draft report and to provide a response to the findings. The draft report concludes that the assets and expenses on the 2009 balance sheet for property, plant and equipment (PP&E) could not be substantiated and identifies six recommendations in three problem areas that require immediate attention. I concur with your assessment and acknowledge the importance of taking action to correct deficiencies in each of the three problem areas highlighted in the report to comply with financial management laws and regulations and successfully confirm PP&E balances for future audits.

Each of the problem areas and recommendations in the draft audit report were previously identified in *Independent Auditor's Report on Internal Control for 2009 Financial Statements* (OIG-AR-02-10.) The Commission is undertaking corrective actions in response to that audit report that will also address these problem areas and recommendations.

The Commission is taking the following actions with respect to each problem area:

Problem Area 1: Lack of Understanding of the Statement of Federal Financial Accounting Standards (SFFAS) on the Procurement of Assets

I agree that the Commission has not properly evaluated or tracked new project requirements and costs with respect to the procurement and capitalization of assets, and that personnel involved in these areas lacked skills necessary to understand SFFAS requirements. In response to the FY 2009 financial statement audit, the Commission hired contractors knowledgeable in internal controls and financial management to help draft financial management policies and procedures relating to PP&E. These contractors are also assisting management in developing appropriate training for staff to acquire the skills necessary to undertake these actions on an on-going basis.

Problem Area 2: Lack of Reconciliation of PP&E Balances

I agree that reconciliation of asset balances had not been taking place, and the policies and procedures necessary to guide reconciliation did not exist for the FY 2009 audit period. The Commission has developed policies and procedures to this end and has successfully completed and documented reconciliations between the fixed asset report and the accounting records for the first and second quarters of FY 2010. The Commission will continue to complete these quarterly reconciliations and update the policies and procedures as necessary.

Problem Area 3: Asset Files are Not Established and Maintained with Sufficient Documentation

I recognize that the Commission did not properly establish, document and maintain asset files. Interim policies and procedures to address this problem area have been drafted, and the Commission is currently reviewing all of its assets to ensure that all required documentation is available for review. In addition, a review of all procurements over the past five years is underway to determine if assets are properly capitalized, and asset files are being established so that supporting documentation is complete and available.

"Thacher's Calculating Instrument" developed by Edwin Thacher in the late 1870s. It is a cylindrical, rotating slide rule able to 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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