Office of Inspector General

Management Letter for 2009 Financial Statements

December 8, 2009

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United States International Trade Commission

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U.S. International Trade Commission

Fiscal Year 2009 Financial Statement Audit
Management Letter

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Acting Inspector General
U.S. International Trade Commission

We were engaged to audit the accompanying balance sheet of the U.S. International Trade Commission (ITC) as of September 30, 2009, and the related statements of net cost, changes in net position, budgetary resources and the statement of custodial activity for the fiscal year then ended. These financial statements are the responsibility of ITC's management. The financial statements of ITC as of September 30, 2008, were audited by other auditors whose report, dated November 3, 2008, expressed an unqualified opinion on those statements. Because of matters discussed in our *Independent Auditors' Report*, dated November 6, 2009, the scope of our work was not sufficient to enable us to express, and we did not express, an opinion on the fiscal year 2009 financial statements.

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 weaknesses presented in our *Independent Auditors' Report*, dated November 6, 2009, included in the FY 2009 ITC *Annual Performance and Accountability Report*.

As described above, the scope of our work was not sufficient to express an opinion on the balance sheet as of September 30, 2009, and the related statements of net cost, changes in net position, budgetary resources, and the statement of custodial activity for the fiscal year then ended. Accordingly, other internal control matters and other instances of noncompliance may have been identified and reported had we been able to perform all procedures necessary to express an opinion on the fiscal year 2009 financial statements.

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 responses to our comments and recommendations.

This report is intended for the information and use of ITC management, the Office of Inspector General, the U.S. Office of Management and Budget, the U.S. Congress, and the Government Accountability Office, and is not intended to be and should not be used by anyone other than these specified parties.

Sincerely,

Castro & Company, LLC

Castro & Company, LLC

U.S. International Trade Commission
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1. Policies and Procedures (Repeat Condition)

We noted that ITC does not have its accounting policies and procedures documented. Written policies and procedures are essential to the effective management of ITC's operations. Specifically, we identified the following:

- Accounting procedures have not been updated or documented to reflect significant changes in ITC's accounting operations and the financial reporting as a result of ITC converting to a new financial accounting system on October 1, 2008.

- Procedures for preparing the quarterly financial statements and the annual Performance and Accountability Report were not documented. As such, certain elements of the reporting requirements were not performed or completed in a timely manner.

- The methodology used to estimate accrued liabilities was not documented. As a result, management was unable to demonstrate that the approach was reasonable or consistently applied from one year to the next.

- Categories of property, plant and equipment were not clearly defined. Therefore, the number of years used to depreciate capitalized items similar in nature was inconsistently applied.

- ITC does not have procedures in place to capture construction in progress or leasehold improvements.

- Procedures for reconciling key financial accounts, such as Fund Balance with Treasury, were not well defined or documented. The current reconciliation does not provide a clear trail of monthly reconciliation results, noted discrepancies, or timely resolution of differences.

- The methodology to calculate imputed cost was not documented. As a result, ITC incorrectly calculated the imputed costs by using the incorrect multiplier in the calculation. Accordingly, the amount reported on the financial statements was overstated by approximately $118K.

According to OMB Circular A-123, *Management's Responsibility for Internal Control*, management has a fundamental responsibility to develop and maintain effective internal control. Effective internal control provides assurance that significant weaknesses in the design or operation of internal control, that could adversely affect the agency's ability to meet its objectives, would be prevented or detected in a timely manner.

Policies and procedures are tools to help program and financial managers achieve results and safeguard the integrity of their programs. Internal control should be an integral part of the entire cycle of planning, budgeting, management, accounting, and auditing.

Recommendation:

We recommend that ITC management update or develop written accounting policies and procedures to ensure that ITC fully complies with applicable laws, regulations, and other authoritative guidance. At a minimum, the accounting policies and procedures should sufficiently incorporate the requirements of: (1) the Accountability of Tax Dollar Act of 2002; (2) OMB Circulars A-136, Financial Reporting Requirements; (3) OMB Circular 123, Management's Responsibility for Internal Control; and (4) the accounting standards issued by the Federal Accounting Standards Advisory Board.

2. Manual Journal Vouchers

ITC had a significant number of manual journal vouchers during fiscal year 2009. However, we were unable to determine the total number of manual journal vouchers that were prepared since ITC does not have a systematic approach in place to monitor or track manual journal vouchers. In addition, ITC does not maintain a log of all the manual journal vouchers prepared throughout the fiscal year. Finally, ITC does not have specific procedures in place to ensure that all manual journal vouchers are properly review and approved by an individual separate from the individual that prepared the manual journal voucher.

Recommendation

We recommend that ITC management develop a systematic approach (e.g., log) to monitor, review and approve all manual journal vouchers. The approval should be completed by an individual separate from the individual that prepared the journal voucher. Evidence of the preparer and approver should be documented through the use of signatures.

3. Procurement (Repeat Condition)

Documentation in the procurement files was not always complete. During our testing, we noted the following:

- Requests to modify contracts did not always sufficiently explain the reason for the modification. For example, we noted one contract, with an original obligation for $25,000, which was subsequently increased two months later to $143,200. We were unable to assess the purpose for the increase. In addition, we were unable to locate documentation in the contract file that documented the rationale and justification for the increase as required by the Federal Acquisition Regulation.

- We sampled 10 new awards made in fiscal year 2009. Of the 10 items sampled, we identified:

  - For two samples, the approver's signature was missing on the sole source justification letter.
  - For two samples, the notification to unsuccessful bidders was not found in the contract file.

Recommendations:

We recommend ITC management provide additional procurement related training to all staff involved in procurement actions throughout the agency. This should include, at a minimum, individuals that (1) request goods or services; (2) review and approve the request; (3) process the procurement request in the contracting office; (4) receive the goods or services ordered; and (5) serve as the Contracting Officer's Technical Representative.

Furthermore, ITC procurement officials should ensure the documentation supporting the procurement action is as comprehensive and properly maintained in the contract file to facilitate compliance with applicable laws, regulations, and policies and procedures.

4. Obligations/Expenditures (Modified Repeat Condition)

During our testing of ITC's operating expenses, we noted many weaknesses surrounding the recording of transactions, as well as supporting documentation (e.g., obligating documents or invoices). In addition, the review and approval of the transactions and supporting documentation was not always comprehensive or documented. Specifically:

- Of the 60 transactions sampled:

  - No supporting documentation was provided for two transactions.
  - Receipts were not provided for six transactions that were made using the purchase card.
  - Invoices were not provided for four transactions.
  - Amount invoiced exceeded the contract value for two transactions.

- Intra-governmental Payment and Collection (IPAC) transactions were not being reviewed, in a timely or sufficient manner, to verify the charges were proper. For example, one agency overbilled ITC by approximately $211K. Although management was aware of the overcharge, they did not address the overcharge in a timely manner. In addition, ITC management does not consistently receive documentation to support IPAC charges.

- During fiscal year 2009, ITC purchased bottled water for the Commission staff in the amount of approximately $20K. ITC management provided its agreement with the union, which was dated 3/23/89 to support its decision regarding the purchase of bottled water. However, ITC management was unable to demonstrate that the purchase was an authorized expenditure of appropriated funds. The Government Accountability Office

(GAO), *Principles of Federal Appropriations Law*, serves as a detailed fiscal law guide covering those areas of law surrounding appropriations in which the Comptroller General renders decisions.

Recommendations:

We recommend ITC management provide training to all agency staff involved in the reviewing and approving of obligations and invoices. The training should ensure to incorporate the requirements of fiscal law; financial reporting; responsibilities of the COTR; and the role and responsibilities of the certifying officer.

5. Custodial Activity

During our work, we noted ITC was not fully complying with financial reporting requirements specific to receipts for custodial activity. The General Fund Receipt Account Guide, issued by the Department of Treasury, indicates that an agency should not reflect the cash received for custodial activity in its FBWT or as a Custodial Liability as of the end of the fiscal year.

Recommendation

ITC management should implement policies and procedures surrounding custodial activity. The procedures should, at a minimum, comply with the reporting requirements of the Department of Treasury and the Federal Accounting Standards Advisory Board.

6. Performance Measures

ITC did not provide supporting documentation of the performance measures data presented in the fiscal year 2009 Performance and Accountability Report (PAR). Accordingly, we were unable to determine if the performance measures were reasonable or adequately supported.

The Government Performance and Results Act (GPRA) requires each agency to prepare an annual performance plan covering each program activity set forth in the agency's budget and that the plan describes the means to be used to verify and validate measured values. Furthermore, Section II.3.3.4 of OMB Circular A-136 emphasizes this requirement by stating that agencies are (a) required to assess the completeness and reliability of its performance data, and (b) should apply good judgment when deciding which performance measures will be verified and validated.

Management indicated that certain individual operation coordinators take it upon themselves to collect performance measurement data and maintain supporting documentation. However, ITC does not have formal, written procedures in place for collecting, monitoring, supporting, and reporting on performance measures.

Recommendation:

We recommend that ITC develop Commission policies and procedures to verify, validate, and support the performance measures reported in the Performance and Accountability Report. Such procedures should entail, at a minimum, the consolidation of the agency's performance measure data to be presented to the Strategic Planning Committee for review prior to including the data in the PAR.

Status of Prior Year Recommendations

The FY 2008 management letter identified the following control deficiencies.

- Policies and Procedures
- Internal Control Deficiencies (Prompt Payment Act & Imputed Costs)
- Unauthorized Contractual Obligations

Based on the results of our testing, we have determined that the deficiencies noted in the FY 2008 management letter have not yet been fully resolved by ITC management. Accordingly, we consider these weaknesses to be repeat conditions for FY 2009.

Management Responses

Management concurs with the findings and recommendations. ITC management is committed to improving its internal control and accordingly, will develop a corrective action plan to address the issues identified.