U.S. International Trade Commission

Management Letter for 2010 Financial Statements

OIG-ML-11-06

December 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.

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OFFICE OF INSPECTOR GENERAL

UNITED STATES INTERNATIONAL TRADE COMMISSION

WASHINGTON, DC 20436

December 1, 2010 OIG-HH-033

Chairman Okun:

This memorandum transmits the Management Letter Report (OIG-ML-11-06) associated with the audit of the Commission's financial statements for fiscal year 2010. We contracted with the independent certified public accounting firm, Castro & Company LLC, to conduct the audit. Pursuant to the contract, this management letter is provided to the Commission identifying weaknesses that were not included in the Report on Internal Control.

A draft of the letter was provided to you for comment and your comments are included in their entirety with the report.

The Castro & Company's Management Letter Report contains twenty-five 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 cooperation and courtesies extended to both Castro & Company and my staff during their review.

Sincerely,

Philip M. Heneghan
Inspector General

U.S. INTERNATIONAL TRADE COMMISSION

Fiscal Year 2010 Financial Statement Audit

Management Letter Report

Castro & Company
Accountants • Consultants

Castro & Company
Accountants • Consultants

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November 8, 2010

Inspector General
U.S. International Trade Commission

We have audited the financial statements of the U.S. International Trade Commission (ITC) as of and for the year ended September 30, 2010, and have issued our report thereon dated November 8, 2010. The report states except for Undelivered Orders and other related accounts discussed therein, we expressed an opinion on the balance sheet as of September 30, 2010, and the related statements of net cost, changes in net position, and budgetary resources for the fiscal year then ended.

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 8, 2010, included in the FY 2010 ITC *Annual Performance and Accountability Report*.

We would be pleased to discuss these comments and recommendations with you at any time. 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 Management Comment Letter and have also enclosed the full text of ITC's response letter.

This report is intended solely for the information and use of ITC management, the Office of Inspector General, and others within the organization 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

1. Improvement in the Efficiency and Effectiveness of Financial Operations is Needed

OMB Circular No. A-123, *Internal Control over Financial Reporting,* states, "A factor affecting the control environment is the agency's organizational structure. It provides management's framework for planning, directing and controlling operations to achieve agency objectives. A good internal control environment requires that the agency's organizational structure clearly define key areas of authority and responsibility and establish appropriate lines of reporting."

From FY 2007 to FY 2010 ITC received an increase in funding of nearly $20 million. In addition, there has been a significant increase in financial reporting requirements placed on Federal agencies. However, the structure and resources within the Office of Administration have not been reassessed to determine if the structure and resources are properly aligned to ensure that the agency is effectively and efficiently accomplishing its financial management responsibilities.

Our testing disclosed numerous control deficiencies in ITC's financial operations. Many of these deficiencies were identified during the prior year audit. For example, we noted ITC:

- Staff did not have a clear understanding of how to perform their assigned responsibilities.

- Did not have a comprehensive policy bulletin or guidance memorandum on financial statement preperation. The lack of formalized policies and procedures is a contributing factor for the additional control deficiencies described in the Report on Internal Control dated November 8, 2010.

- Had not established a formalized timeline for completing key processes and controls related to the financial statement process.

OMB Circular No. A-136, *Financial Reporting Requirements,* "preparation of the annual financial statements is the responsibility of the agency's management. In carrying out this responsibility, each agency chief financial officer should prepare a policy bulletin or guidance memorandum that guides the agency's fiscal and management personnel in the preparation of the annual financial statements."

The existence of written procedures will provide structure and accountability for financial operations. Without such procedures, ITC management increases the risk that activities are not carried out properly.

Recommendations:

We recommend that ITC's management:

1. Assess the Office of Administration's structure to determine the resources needed to accomplish the day-to-day tasks.
2. Review and revise as necessary the roles and responsibilities of each component level of the Office of Administration and ensure that they are clearly articulated in ITC guidance.
3. Review its interagency agreement with the Department of Interior, National Business Center (NBC) to ensure the proper services are being received.
4. Assess the cost-benefit of outsourcing the processing of accounting transactions.

5. Develop an accounting manual that documents all procedures performed by the Office of Finance. The manual should outline responsibilities, timelines, applicable laws and regulations, and detailed steps of how to perform a specific procedure.
6. Monitor and document compliance with relevant laws and regulations.

2. Policies and Procedures Need to Be Fully Documented

We noted that the ITC has not fully documented its policies and procedures regarding financial management. Written policies and procedures are essential to the effective management of ITC's operations. At a minimum, the accounting policies and procedures should sufficiently incorporate the requirements of: (1) the Accountability of Tax Dollars Act of 2002; (2) OMB Circular No. A-136, *Financial Reporting Requirements*; (3) OMB Circular No. 123, *Management's Responsibility for Internal Control*; (4) the accounting standards issued by the Federal Accounting Standards Advisory Board; and (5) GAO *Principles of Federal Appropriations Law*.

According to OMB Circular No. 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.

Without written policies and procedures, ITC increases its risk that the intended objectives are not being achieved as expected.

Recommendations:

We recommend that ITC's management:

7. Finalize written accounting policies and procedures to ensure that ITC fully complies with applicable laws, regulations, and other authoritative guidance.
8. Update or establish and document policies related to the procurement process, including proper file documentation to support contract actions/decisions.
9. Update or establish and document policies for monitoring obligations and related expenses.
10. Update or establish and document policies for processing of invoices that include the recognition of and recording of accruals when services and/or goods have been received and require payment of invoices within 30 days.
11. Update or establish and document policies for processing of deferred expenses, including the recognition of, and recording of, advances and prepayments.
12. Document procedures to implement the policies that require preparation of a detailed checklist to be used by the Contracting Officer and personnel involved with the procurement action to ensure that for all future procurement actions, the contract file includes all the required documentation to support the contract actions/decisions and its compliance with the FAR.

13. Document procedures to implement the policies established for monitoring operating expenses.
14. Document procedures to implement the policies established for monitoring and reporting of the Temporary Relief Bonds Receipts fund in accordance with accounting standards.
15. Document procedures to implement the policies established for calculating the Federal Employees' Compensation Act (FECA) Liability.
16. Document procedures to implement the policies established for ongoing analysis and assessment of new or revised laws and regulations, associated with the financial statements, to determine their applicability to the ITC.
17. Provide training for processing accounting procedures to ensure transactions are properly classified and reported.
18. Provide training for monitoring of operating expenses.
19. Provide training for reviewing transactions related to deferred expenses.
20. Provide training for reviewing, approving or processing invoices.
21. Provide training for procurement files and the requirements of the FAR and ITC's procurement policies.

3. Improvement Implementing the Requirements of FMFIA and OMB Circular No. A-123 is Needed

During our review of ITC's documentation supporting its assurance provided under the Federal Managers' Financial Integrity Act (FMFIA) of 1982, we noted the following:

- Inconsistencies existed in the documentation on the FMFIA checklists prepared by the program managers. For example, there were instances where a response was selected, but the related comment did not support the response

ITC did not have documented procedures to ensure full compliance with the requirements of FMFIA, as outlined in the OMB Circular No. A-123. The FMFIA states:

> To ensure compliance with the requirement of subsection (a)(3) of this section, internal accounting and administrative controls of each executive agency shall be established in accordance with standards prescribed by the Comptroller General, and shall provide reasonable assurances that –
> - obligations and costs are in compliance with applicable law;
> - funds, property, and other assets are safeguarded against waste, loss, unauthorized use, or misappropriation; and
> - revenues and expenditures applicable to agency operations are properly recorded and accounted for to permit the preparation of accounts and reliable financial and statistical reports and to maintain accountability over the assets.

OMB Circular No. A-123, *Management's Responsibility for Internal Control* states:

> Internal control over financial reporting should assure the safeguarding of assets from waste, loss, unauthorized use, or misappropriation as well as assure compliance with laws and regulations pertaining to financial reporting. Financial reporting includes annual financial statements of an agency as well as other significant internal or

external financial reports. Other significant financial reports are defined as any financial reports that could have a material effect on a significant spending, budgetary or other financial decision of the agency or that is used to determine compliance with laws and regulations on the part of the agency. An agency needs to determine the scope of financial reports that are significant, i.e., which reports are included in the assessment of internal control over financial reporting. In addition to the annual financial statements, significant reports might include: quarterly financial statements; financial statements at the operating division or program level; budget execution reports; reports used to monitor specific activities such as specific revenues, receivables, or liabilities; reports used to monitor compliance with laws and regulations such as the Anti-Deficiency Act, etc.

By not having documented procedures in place, ITC management increases its risk of noncompliance with FMFIA.

Recommendations:

We recommend that ITC's management:

22. Update guidance to clearly identify the specific programs/offices required to complete an assessment.
23. Train ITC program managers in the procedures required to ensure ITC is achieving the intended objectives of FMFIA and OMB Circular No. A-123.

4. Procedures Surrounding Time and Attendance Need to be Strengthened

During testing of accrued payroll, we noted the following:

- For four of the six samples tested with negative annual leave balances, insufficient documentation was provided to support proper approval and authorization of the advanced leave taken.

- For one out of six samples, no documentation was provided to support proper approval and authorization of advanced leave taken.

- For one out of six samples, advanced leave was not collected prior to an employee separating from the agency.

Controls over T&A information should provide reasonable assurance that such information (1) is recorded completely, accurately, and as promptly as practicable, (2) relates to authorized individuals, (3) reflects actual work performed and leave taken or other absences during authorized work- hours and periods, (4) is sufficiently detailed to allow for verification, (5) complies with legal requirements, and (6) is supported by recorded evidence of supervisory review and approval.

The supervisor has primary responsibility for authorizing and approving T&A transactions. Supervisors and timekeepers should be aware of the work time and absence of employees for whom they are responsible. To help ensure proper recording of T&A information, completed T&A records

should be reviewed and approved on an appropriate basis by the supervisor (or other equivalent official).

The inadequate/ineffective review over the time and attendance process can result in the transmittal of incorrect payroll information. It also may enable an employee to intentionally or inadvertently falsify timesheet information. Further, this also has an effect of potentially misstating the accrued payroll and benefits balance that appears on the balance sheet.

Without written policies and specific procedures for ITC employees, supervisors, and Human Resources staff to follow, on advancing leave, ITC increases the risks of non-compliance with applicable laws and regulations, and the possibility that a material error or fraud may not be prevented or detected and corrected timely.

Recommendations:

We recommend that ITC's management:

24. Establish and distribute procedures for authorizing employees to take advanced leave.
25. Train ITC personnel on obtaining and maintaining proper supporting documentation submitted by employees to authorize advanced leave.

Status of Prior Year Management Letter Comments

The FY 2009 management letter identified the following control deficiencies:

Finding Identified in FY 2009	Status in FY 2010
Policies and Procedures	Repeat Condition
Manual Journal Vouchers	Incorporated into material weakness in the Report on Internal Control dated November 8, 2010
Procurement	Raised to a material weakness in the Report on Internal Control dated November 8, 2010
Obligations/Expenditures	Raised to a material weakness in the Report on Internal Control dated November 8, 2010
Custodial Activity	Resolved
Performance Measures	Resolved

Management Response:

ITC's management concurs with the deficiencies identified and described within this report. See attached response from the Commission's Chairman.

Chairman

UNITED STATES INTERNATIONAL TRADE COMMISSION

WASHINGTON, DC 20436

November 29, 2010

Thomas Castro, Partner
Castro and Company, LLC
2121 Eisenhower Avenue, Suite 606
Alexandria, VA 22314

Dear Mr. Castro:

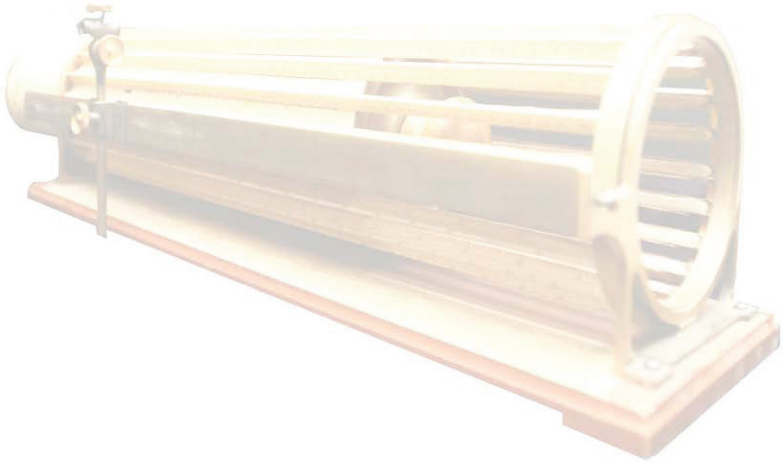
The Draft Management Letter Report identified four areas for improvement. I concur with your assessment that the Commission needs to improve the efficiency and effectiveness of financial operations; that we need to fully document our policies and procedures; that we need to improve our method of implementing the requirements of FMFIA and OMB Circular No. A-123; and that we need to strengthen our procedures surrounding time and attendance.

Beginning with your reports on our 2009 financial statements, which highlighted the financial management deficiencies and challenges that the Commission faced, we began developing an aggressive and comprehensive strategy to address these findings as well as the material weaknesses identified in your Report on Internal Control.

We recognize that we have much more to do and will aggressively work to solve the problems you have identified.

Sincerely,

Deanna Tanner Okun



"Thacher's Calculating Instrument" developed by Edwin Thacher in the late 1870's. 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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