U.S. International Trade Commission

Management Letter for 2011 Financial Statement

OIG-ML-12-05

December 12, 2011

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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UNITED STATES INTERNATIONAL TRADE COMMISSION

WASHINGTON, DC 20436

December 12, 2011 OIG-JJ-027

Commissioners:

This memorandum transmits the Management Letter Report (OIG-ML-12-05) from the audit of the Commission's fiscal year 2010 financial statements. We contracted with the independent certified public accounting firm, Castro & Company LLC, to conduct the fiscal year 2011 financial statement audit. The management letter discusses matters involving internal control that the auditors identified during the audit but were not required to be included in the audit reports.

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

The Management Letter Report contains three 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 courtesies extended to the both Castro & Company and my staff during this audit.

Sincerely,

Philip M. Heneghan
Inspector General

U.S. INTERNATIONAL TRADE COMMISSION

Fiscal Year 2011 Financial Statement Audit

Management Letter Report

November 8, 2011

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, 2011, and have issued our report thereon dated November 8, 2011.

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 and significant deficiency presented in our *Independent Auditor's Report on Internal Control*, dated November 8, 2011, included in the FY 2011 ITC *Agency Financial 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 response to our Management Letter Report 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

1. Improvements in the Internal Controls over the Cash Disbursement Process are Needed

During our testing to assess management controls and compliance with applicable laws, regulations, and procedures relative to cash disbursement procedures, the following conditions were noted:

- ITC did not always perform a sufficient review and analysis of its expenditures to determine if payments were properly supported, classified, or reported in the proper period, including the following:

    - Finance processed and paid invoices that were not properly received/accepted and approved for payment by a Contracting Officer's Technical Representative (COTR).
    - Intra-Governmental Payment and Collection (IPAC) schedule payments were not stamped, signed and dated as received/accepted and approved for payment. Additionally, IPAC payments were not supported by sufficient documentation detailing the goods/services received.

- We noted for one vendor, that cell phone and Blackberry wireless services were received for the period of September 22 to October 21, 2010. However, there was no obligating document support for the services provided. We were informed by the COTR that during this period, a new contract was being negotiated with the vendor. Wireless services continued to be received in spite of the absence of a current contract. Receiving services and creating expenditures without authorized obligating documentation is a control deficiency that could lead to an Anti-Deficiency Act violation.

    - Subsequent to services being provided, on January 4, 2011, a contract was completed with a retroactive performance period of October 1, 2010 through September 30, 2011.
    - The invoice for wireless services provided was received by Finance on November 1, 2010, but it was not paid until February 18, 2011. As a result, the invoice was paid more than 60 days after the date the invoice was received. Interest fees were not calculated or paid.

- We noted that in multiple instances, disbursements were made more than thirty days after the invoice was received by Finance. Additionally, there was no documentation in the file to support why the invoices were not paid within 30 days.

- We noted that in multiple instances, invoices were approved for payment more than 30 days after the receipt of goods and services by the COTR.

ITC did not follow their written policies and procedures specific to processing invoices; causing individuals responsible for reviewing and approving the invoice (e.g., the Contracting Officer's Technical Representative, Contracting Officer, and the Finance staff) to process invalid invoices, and/or process invoices incorrectly.

Government Accountability Office (GAO) *Standards of Internal Control in the Federal Government* states:

> 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.

5 Code of Federal Regulation (CFR) § 1315.4, *Prompt payment standards and required notices to vendors*, states the following relating to the Prompt Payment Act:

> (c) Review of invoice. Agencies will use the following procedures in reviewing invoices: (1) Each invoice will be reviewed by the designated agency office as soon as practicable after receipt to determine whether the invoice is a proper invoice as defined in § 1315.9(b); (2) When an invoice is determined to be improper, the agency shall return the invoice to the vendor as soon as practicable after receipt, but no later than 7 days after receipt…"
>
> …f) Starting the payment period. The period available to an agency to make timely payment of an invoice without incurring an interest penalty shall begin on the date of receipt of a proper invoice…
>
> (g) Determining the payment due date. (1) Unless otherwise specified, the payment is due either: (i) On the date(s) specified in the contract; (ii) In accordance with discount terms when discounts are offered and taken (see § 1315.7); (iii) In accordance with Accelerated Payment Methods (see § 1315.5); or (iv) 30 days after the start of the payment period as specified in paragraph (f) of this section…

5 CFR § 1315.10, *Late payment interest penalties* states:

> (a) Application and calculation. Agencies will use the following procedures in calculating interest due on late payments: (1) Interest will be calculated from the day after the payment due date through the payment date at the interest rate in effect on the day after the payment due date; (2) Adjustments will be made for errors in calculating interest; (3) For up to one year, interest penalties remaining unpaid at the end of any 30 day period will be added to the principal and subsequent interest penalties will accrue on that amount until paid.

By not following written policies and procedures, ITC improperly processed invoices. Improperly processing invoices by not sufficiently reviewing the invoices to the appropriate supporting documentation (e.g., contract) increases the risk that ITC exceeds the authorized obligated amount, increases the risk that it is not complying with applicable laws and regulations, such as the Anti-Deficiency Act, Federal Acquisition Regulation (FAR) and the Prompt Payment Act, and increases the likelihood of paying interest unnecessarily. During FY 2011, ITC made late payments on 18 percent of all invoices.

Recommendations:

We recommend that ITC's management:

1. Develop and implement a checklist for the certifying officer to review the supporting documentation, prior to certifying payments. The checklist should, at a minimum include, verification of the obligating document, available funding, and COTR approval for payment.

2. Establish and implement procedures for a quarterly review of the late payments reports and determine the causes of late payments. Develop and implement a process to mitigate the causes of late payments.

2. Improvements in the Internal Controls over Prepayments are Needed

During our testing, we noted that ITC was expensing immaterial amounts where they prepaid for services to be received in the future, instead of creating a Prepaid Asset. For example, ITC paid for subscriptions in advance for an entire year, and expensed the entire amount paid.

ITC did not follow their written policies and procedures specific to prepayments, which could affect the classification of line items on the financial statements.

Statement of Federal Financial Accounting Standards No. 1, *Accounting for Selected Assets and Liabilities* states:

> Prepayments are payments made by a federal entity to cover certain periodic expenses before those expenses are incurred. Typical prepaid expenses are rents paid to a lessor at the beginning of a rental period. Progress payments made to a contractor based on a percentage of completion of the contract are not advances or prepayments. Advances and prepayments should be recorded as assets. Advances and prepayments are reduced when goods or services are received, contract terms are met, progress is made under a contract, or prepaid expenses expire…Advances and prepayments paid out by an entity are assets of the entity. Advances and prepayments made to federal entities are intragovernmental items and should be accounted for and reported separately from those made to nonfederal entities.

U.S. International Trade Commission, Accounting Manual, revised February 2011, Chapter 2, *Financial Reporting Policies and Procedures* states:

> Prepaid Expense/Prepayments – An asset that is recorded as a result of USITC making payments for goods and services to be received in the near future. While Prepaid Expenses are initially recorded as assets, their value is expensed over time as the benefit is received.

Recommendations:

We recommend that ITC's management:

3. Utilize the listing of prepayments created in FY 2011, create a Prepaid Asset for all payments made in advance, such as subscriptions for FY 12.

Status of Prior Year Management Letter Comments

The FY 2010 Management Letter Report identified the following control deficiencies:

Finding Identified in FY 2010	Status in FY 2011
Financial Operations	Incorporated into Material Weakness in the Report on Internal Control dated November 8, 2011
Policies and Procedures	Resolved
FMFIA and OMB A-123	Resolved
Time and Attendance	Resolved

Management Response:

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

"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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