U.S. International Trade Commission

Management Letter for 2013 Financial Statement

OIG-ML-14-08

December 24, 2013

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

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OFFICE OF INSPECTOR GENERAL

UNITED STATES INTERNATIONAL TRADE COMMISSION

WASHINGTON, DC 20436

December 24, 2013 IG-LL-025

Chairman Williamson:

This memorandum transmits the Management Letter Report (OIG-ML-14-08) from the audit of the Commission's financial statements for fiscal year 2013. We contracted with the independent certified public accounting firm, Castro & Company LLC, to conduct the 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.

Due to the improvements the Commission has made to address the matters identified in the report, there were no recommendations issued for corrective action. The Management Letter Report encourages the Commission to maintain its monitoring and oversight activities to improve the effectiveness and efficiency of its processes and procedures.

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 2013 Financial Statement Audit

Management Letter Report

Castro & Company
Auditors ✓ Advisors

Castro & Company
Auditors ✓ Advisors

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December 09, 2013

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, 2013, and have issued our report thereon dated December 9, 2013.

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.

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.

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. Improvements in the Internal Controls over the Undelivered Orders (i.e., Open Obligations) and Accounts Payable Process are Needed

During our testing to assess management controls and compliance with applicable laws, regulations, and procedures relative to undelivered orders and accounts payable significant improvements were noted over the prior years. However, the following conditions were noted:

- Even though the Period of Performance had expired contract close-out procedures to properly reconcile contract files and initiate the de-obligation of funds was not done on a timely basis.
- Accruals were incorrectly calculated as a result of: Contracting Officer Representatives (CORs) not including amounts for services received but not recognized in the General Ledger (GL); COR's incorrectly including in the accrual calculation invoices received and recognized in the GL; CORs using rates not in agreement with the associated contract; COR not including retainer of invoice for services received but to be paid at the end of the contract per the contract terms.

ITC did not follow its written policies and procedures for the monitoring of contract expirations, resulting in the COR's initiating contract-close-out procedures in order to properly de-obligate funds as a result of our audit. In addition, accruals were not properly reviewed, causing errors in the accruals proposed by the CORs not being detected.
GAO's *Standards for 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.

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

> Accounts payable are amounts owed by a Federal entity for goods and services received from, progress in contract performance made by, and rents due to other entities…When an entity accepts title to goods, whether the goods are delivered or in transit, the entity should recognize a liability for the unpaid amount of the goods. If invoices for those goods are not available when financial statements are prepared, the amounts owed should be estimated.

By not following written policies and procedures in place for the timely completion of contract-close out process, ITC increases the risk that invalid obligations are not detected and de-obligated on a timely basis which could cause the UDO balance to be overstated. Additionally, by not following written policies and procedures in place for the accurate review of UDOs and AP, specifically, the proper review of accruals as a result of the open obligations review process, ITC increases the risk for UDO and AP account balances to be over or understated and incorrectly reported.

ITC management should continue to mature the implementation of recommendations made in the past to continue improving its accrual and UDO contract close processes.

2. Improvements in the Internal Controls over the Review and Approval of Reconciliations are Needed

During our testing to assess management controls and compliance with applicable laws, regulations, and procedures relative to the account reconciliation process, the following condition was noted:

- Certain reconciliations between the subsidiary listings and the general ledger on key financial accounts did not contain signatures evidencing the review and approval of the reconciliations as required by ITC's Financial Management Manual.

ITC's Financial Management Manual requires reconciliations for key financial accounts to be performed and evidenced through email transmission or signature, however, ITC did not consistently maintain on file documentation of the review and approval for all reconciliations.

GAO's *Standards for Internal Control in the Federal Government* states:

> Internal control should generally be designed to assure that ongoing monitoring occurs in the course of normal operations. It is performed continually and is ingrained in the agency's operations. It includes regular management and supervisory activities, comparisons, reconciliations, and other actions people take in performing their duties. Internal control and all transactions and other significant events need to be clearly documented, and the documentation should be readily available for examination.
>
> Control activities are an integral part of an entity's planning, implementing, reviewing, and accountability for stewardship of government resources and achieving effective results…They include a wide range of diverse activities such as approvals, authorizations, verifications, reconciliations, performance reviews, maintenance of security, and the creation and maintenance of related records which provide evidence of execution of the activities as well as appropriate documentation.

A major objective of internal control is to ensure the integrity of the underlying accounting data supporting the financial statements. A key control is performing reconciliations of significant account balances. An adequate reconciliation contains evidence of management's review and approval which provides assurance that transactions have been properly processed and recorded in the accounting records. Another key control is performing detailed management review and approval of transactions recorded in the financial system, and of financial reports.

ITC management should continue to mature the implementation of recommendations made in the past to continue improving its reconciliation review and approval process.

Status of Prior Year Management Letter Comments

The FY 2012 Management Letter Report identified the following control deficiencies:

Finding Identified in FY 2012	Status in FY 2013
Cash Disbursements	Resolved
Payroll	Resolved
Parking Subsidy Program	Resolved

"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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