# OFFICE OF INSPECTOR GENERAL

# MANAGEMENT LETTER: AUDIT OF THE U.S. INTERNATIONAL TRADE COMMISSION'S FINANCIAL STATEMENTS FOR FISCAL YEARS 2006 AND 2005

## Audit Report
## OIG-AR-02-07

May 16, 2007

# UNITED STATES INTERNATIONAL TRADE COMMISSION

WASHINGTON, DC 20436

May 16, 2007 OIG-EE-016

TO: THE COMMISSION

SUBJECT: *Management letter: Audit of the U.S. International Trade Commission's Financial Statements for Fiscal Years 2006 and 2005* (OIG-AR-02-07)

The subject management letter is attached. This work was performed in connection with the audit of the financial statements of the U.S. International Trade Commission (USITC/Commission) for the fiscal years 2006 and 2005 (OIG-AR-01-07, November 14, 2006). The audit did not detect internal control deficiencies deemed to be reportable conditions or material weaknesses. However, the Commission needs to: strengthen controls and oversight of procurement activity; issue guidance for controlling fixed assets and accountable property; improve procedures for depositing funds; and issue guidance on taxing employee awards.

We made five recommendations to correct the identified deficiencies. In the written response to our draft report signed by the Commission's Chairman, the Commission did not agree with two recommendations, partially agreed with one recommendation, and fully agreed with two recommendations. We incorporated the response in the body of this report and included it in detail as Appendix A.

The OIG stands by its findings and encourages prompt action towards implementing the recommendations in this report. In January 2007, the OIG advised the Chairman, Chief Financial Officer and key officials of a new auditing standard, Statement on Auditing Standard (SAS) 112, "Communicating Internal Control Related Matters Identified in an Audit" which will be effective for the fiscal year 2007 audit engagement. This standard lowers the threshold of internal control weaknesses. As a result, comments which were included within past management letters could potentially be included as significant deficiencies or material weaknesses within the Commissions' audit report. Since the Commission's implementation of the Accountability of Tax Dollars Act of 2002, our audit reports on the agency's financial statements has been unqualified, and the reports did not identify any reportable conditions or material weaknesses.

With the requirements of SAS 112, numerous government agencies stand the risk of having internal control weaknesses disclosed within its financial statements audit report under the new standard. Therefore, the Commission should ensure that all recommendations included within this report have been rectified.

Jean Smith
Assistant Inspector General for Audit

cc: O'Connor & Drew, P.C.

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# I. SUMMARY OF RESULTS

As a result of the audit of the financial statements of the U.S. International Trade Commission (USITC/Commission) for the fiscal years 2006 and 2005, the Office of Inspector General (OIG) issued an unqualified opinion. The audit did not detect internal control deficiencies deemed to be reportable conditions or material weaknesses. However, the Commission needs to: strengthen controls and oversight of procurement activity; issue guidance for controlling fixed assets and accountable property; improve procedures for depositing funds; and issue guidance on taxing employee awards.

We made five recommendations to correct the identified deficiencies. In the written response to our draft report signed by the Commission's Chairman, the Commission did not agree with two recommendations, partially agreed with one recommendation, and fully agreed with two recommendations. Below is a summary of the findings, related recommendations, and management and OIG comments. Management comments and our evaluation of those comments are provided with the applicable recommendation in the body of this report. Management's full response is presented in Appendix A.

**Controls and Oversight of Procurement Activity Need Strengthening**

The Commission continued to have problems managing procurement activity. Both this year's and last year's audit found financial reporting of obligations was not always accurate because designated officials did not always forward procurement requests to the Office of Finance to obligate the funds, or properly post orders into the appropriate procurement system. The audits also found several purchases that exceeded the authorized spending limit. Finally, although the Office of Finance provided cost center managers (CCMs) with monthly accounting reports to verify charges, Finance did not know whether CCMs reviewed the reports because feedback was not required.

Recommendation 1 -The Director, Office of Administration should formally remind CCMs of their financial responsibility to ensure procurements are properly recorded and do not exceed the allowable limit. The reminder should also direct CCMs to identify any employee who may be in need of more training on processing all types of procurement activity and make the training available to the employee.

The Commission disagreed with the finding and recommendation. The OIG does not agree with the Commission and considers this recommendation open. The Commission did not respond to the spending problems.

Recommendation 2 - The Director, Office of Administration should issue procedures requiring CCMs to verify that their requested action was accurately entered into the Commission's procurement records by reviewing Office of Financial Management's Procurement Requisition Log for items posted in the PRISM[1] and the Blanket Purchase Agreement (BPA) Database. Each CCM should be required to: (1) perform a monthly

[1] PRISM is a procurement system maintained by the Office of Facilities Management

reconciliation of PRISM and BPA Database with the monthly accounting reports to ensure transactions are accurately obligated and (2) provide the results of the reconciliation to the Office of Finance.

The Commission disagreed with the recommendation, but agreed to work to improve the accuracy of the BPA database. The OIG considers this recommendation open. While we support the Commission's reconciliation of procurement activity by the Office of Administration, further action is needed to ensure the Commission has timely and accurate data.

## Property Management Guidelines Are Needed

The Commission was at risk of a material misstatement of its fixed assets if this audit had not identified two disposed fixed assets and brought it to management's attention. Additionally, the Office of Information Technology Services (ITS) did not maintain an accurate automated data processing (ADP) inventory list. These problems occurred because ITS staff either inaccurately completed a Property Action Form 110 or did not complete the form. Form 110 is used to record the location of the transferred equipment and update the inventory list. We reported this failure in our prior three audits, but inaccurate inventory records remain.

Recommendation 3 - The Director, Office of Administration should ensure an Administrative Notice is issued which provides guidance for controlling fixed assets and accountable property. This guidance should clarify procedures and assign responsibilities for controlling all types of assets. The guidance should also:

- Address the responsibilities associated with the operation of the ADP inventory database; and

- Include a requirement to perform an inventory of fixed assets on a quarterly basis in sufficient time to ensure the fixed assets reported on the quarterly statements are accurate. Also, the fixed assets inventory list should be shared with the information technology staff to ensure they are aware of what items are fixed assets for their proper completion of the Form 110 when transferring a fixed asset.

The Commission disagreed in part with the recommendation. Specifically, it stated: (1) it has well established procedures and understands the responsibility for maintaining the ADP inventory. It has never been their intent to assume the inventory to be 100 percent accurate. However, it will continue its efforts to regularly monitor all items and update the inventory list as often as possible, and it will continue to perform an annual inventory, and (2) the Director of Facilities Management and the Chief Information Officer (CIO) will ensure that quarterly inventories are conducted of Commission fixed assets (any single item valued at $50,000 or more at the time of purchase) and the results will be used to prepare quarterly financial statements.

The OIG considers this recommendation open. (1) While the missing ADP inventory was ultimately located, this year's audit found an error rate of nine percent. Subsequent to our issuing the draft report, a CIO official and the OIG agreed that controls could be strengthen by placing a reminder on the ADP terminal advising users to notify the CIO when equipment is relocated. Implementation of this action should provide the Commission with more accurate inventory records and a more efficient annual physical ADP inventory. (2) The Director of Facilities Management and the CIO actions to effectively control fixed assets met the intent of the recommendation.

## Procedure over Depositing Funds Needs Improvement

Although the Director, Office of Finance issued desk procedures in fiscal year 2005 for processing deposits, funds were not always deposited within the established timeframe. The delay in making the deposits occurred because the designated official responsible for depositing funds was on leave, and the two alternates had not been trained to make the deposits or received procedures to ensure they are made aware when their services are needed. A delay in making deposits increases the risk of theft and the risk of material misstatements.

Recommendation 4 - The Director, Office of Finance should ensure the alternate people who serve as back-up to the primary person responsible for depositing funds are properly trained to make the deposits. Also, procedures should be developed to ensure the alternates are aware when their services are needed.

The Commission concurred with the recommendation. The Director of Finance is restructuring the way fund deposits are handled and controlled. Finance staff will be trained on the new procedures.

## Formal Guidance on Taxing Employee Awards Is Needed

In response to our finding last year, the Commission took appropriate action to ensure employee gift certificate awards are included as supplemental wages, but formal guidance was not developed. While the above effort is commendable, written guidelines were not developed to document the procedure in the event an individual involved in the procedure is reassigned or to inform potential recipients that gift certificate awards are taxable.

Recommendation 5 - The Director, Office of Finance should issue formal procedures for processing and controlling employee awards to ensure proper tax treatment. These procedures should be made available to all Commission employees to provide notice of the awards and the applicable taxes.

The Commission concurred with the recommendation. The Director of Finance will issue a written policy on tax payments on employee awards. The Director of Finance will also issue explanatory guidelines to all Commission employees on how taxes affect award payouts.

# II. BACKGROUND

Under the Accountability of Tax Dollars Act of 2002 (Public Law 107-289, November 7, 2002), the Commission is required to submit to Congress and the Office of Management and Budget (OMB) annual audited financial statements. The financial statements must be prepared in accordance with the policies prescribed in OMB Bulletin 01-09, *Form and Content of Agency Financial Statements.*

The annual financial statements of the Commission consisted of the following:

1. Management discussion and analysis
2. Basic statements and related notes, which included the following:
    - Balance Sheets
    - Statements of Net Cost
    - Statements of Changes in Net Position
    - Statements of Budgetary Resources
    - Statements of Financing
    - Statements of Custodial Activity

Commission Directive 2102.0, *Financial Management System Policies*, illustrates the Commission's policies and procedures regarding the financial management system. The Directive assigns general responsibilities for maintaining the financial management system to the following individuals:

- The Chairman is responsible for ensuring that the financial management system is properly established and maintained.

- The Director, Office of Administration, is responsible for coordinating the overall agency-wide effort of reviewing, improving, and reporting on the financial management system.

- The Director, Office of Administration, and subordinates, are responsible for their assigned subsystems. This responsibility includes ensuring that the system is established, maintained, reviewed, improved and reported upon in accordance with OMB Circular A-127, *Management Accountability and Control.*

- The Director, Office of Finance, is responsible for providing technical assistance and advice for reviewing and improving the Commission's financial management system; performing reviews of the financial management system; and advising the Director, Office of Administration, as to whether the Commission's financial management system is in accordance with OMB guidelines.

## III. OBJECTIVE

The overall objective of a management letter is to present findings and recommendations for improvements in internal control that were identified during the course of the audit of the Commission's financial statements that were not considered as reportable conditions which would have warranted disclosure in the auditor's report.

## IV. METHODOLOGY AND SCOPE

We engaged O'Connor & Drew, P.C. to assist in conducting the audit of the financial statements for the year ended September 30, 2006. The internal control and compliance phase of the audit was performed during the months of July and August 2006. The fieldwork relating to the audit of the financial statements occurred during the month of October 2006.

We reviewed applicable policies and procedures and interviewed Commission employees to identify and evaluate the Commission's implementation of recommendations made in our prior financial system audit titled *Management letter: Audit of the U.S. International Trade Commission's Financial Statements for Fiscal Years 2005 and 2004*, (Audit Report OIG-AR-02-06, dated March 31, 2006), and tested controls over financial data. We interviewed Commission employees in the Offices of Administration, Finance, Facilities Management, Human Resources, and Chief Information Officer. Specifically, we evaluated:

- Internal control policies and procedures over disbursements. We tested 55 transactions for:
  - Proper authorization for the disbursement;
  - Compliance with purchase thresholds;
  - Allowable purchases under the Commission's guidelines;
  - Documentation for transaction;
  - Receipt of the merchandise; and
  - Timely payment of the purchase.

- Internal control policies and procedures over payroll. We examined 45 payroll transactions to determine whether:
  - All required personnel forms were completed;
  - Time and attendance information for selected pay periods agreed with source documents;
  - Payroll for selected pay periods was properly authorized;
  - Voluntary withholdings were properly administered;
  - Compliance with federal guidelines as noted within the Financial Audit Manual (FAM) relating to payroll withholdings; and if
  - Employees existed.

- Internal control policies and procedures regarding accountable property items. We randomly selected 45 items, and determined whether:
  - Each item was physically present;
  - Property was bar coded;
  - Property Action Form 110 was completed, if applicable; and
  - The Cost Center Manager performed the annual inventory.

- Policies and procedures over capital property. We evaluated all current year additions with the supporting documentation.

- Internal control policies and procedures over cash reporting and accounts receivable. We reviewed a sample of cash related reconciliations and deposits for fiscal year 2006.

- We verified compliance with applicable laws and regulations including compliance with the Federal Managers' Financial Integrity Act (FMFIA) of 1982.

The review was conducted in accordance with Government Auditing Standards, 2003 Revision, as amended, promulgated by the Comptroller General of the United States; and OMB Bulletin No. 06-03, *Audit Requirements for Federal Financial Statements.*

# V. DETAILS OF RESULTS

## A. Status of Prior Year Audit Recommendations

The Commission fully completed action and effectively implemented one of the five recommendations made from the September 30, 2005 financial statement audit[2]. During fiscal year 2006, the Director of Administration created a Management Control Plan to ensure managers annually evaluated and reported on the adequacy of their assigned programs as required by FMFIA. This plan outlines the steps the Commission will follow to satisfy the FMFIA requirement stipulated in OMB Circular A-123, *Management's Responsibility for Internal Control.* Furthermore, the Commission plans to periodically review the self assessment to verify compliance with the professional standards defined within OMB A-123. The control assessments scheduled by management for 2006 were (1) Budget Formulation and Evaluation; (2) Accounts Receivable; and (3) Accounts Payable.

We tested internal controls over the above three areas as part of the 2006 financial statement audit and found no material weaknesses. However, the Commission needs to: strengthen controls and oversight of procurement activity; issue

[2] *Management letter: Audit of the U.S. International Trade Commission's Financial Statements for Fiscal Years 2005 and 2004*, (Audit Report OIG-AR-02-06, dated March 31, 2006).

guidance for controlling fixed assets and accountable property; improve procedures for depositing funds; and issue guidance on taxing employee awards.

## B. Controls and Oversight of Procurement Activity Need Strengthening

The Commission continued to have problems managing procurement activity. Both this year's and last year's audit found financial reporting of obligations was not always accurate because not all activity was: properly posted in the appropriate procurement systems—PRISM and the Blanket Purchase Agreement (BPA) Database—or forwarded to the Office of Finance. The audits also found several purchases that exceeded the authorized spending limit. These problems occurred because the Senior Procurement Executive had not developed a process to ensure cost center managers (CCM) provide assurance that all purchases are properly made and timely recorded.

In response to the prior year's audit, the Office of Facilities Management (OFM) developed a log of procurement activity in PRISM and made it available to Commission employees. Furthermore, the Office of Administration periodically reconciled the financial records with PRISM and the BPA database. However, these actions were not effective in managing procurements because designated officials did not always forward procurement requests to the Office of Finance to obligate the funds, or perform the last data entry step when entering an action in PRISM. This last step results in the transaction being reported as "released" in PRISM's Awarded Actions for All Vendors report. Finally, although the Office of Finance provided CCMs with monthly accounting reports to verify charges, Finance did not know whether CCMs reviewed the reports because feedback was not required.

Commission Directive 3601.2, *Procurement Policy*, states that each CCM will be assigned a unique portion(s) of the USITC budget by budget object classification(s) within their area of responsibility. CCM duties include:

- Certify availability of funds.
- Tracking requisitions, awards and receipts.
- Authorizing payment for completed transactions.
- Reconciling CCM tracking data with the Office of Finance Expenditures Reports.

The Senior Procurement Executive, who is also the Director, Office of Administration, is responsible for the management direction of the Commission's procurement system, including implementation of the unique procurement policies, regulations, and standards of the Commission. The Commission uses several systems to record purchase activity:

- PRISM—Used by the Contract Specialists in OFM and Purchase Card Holders for recording procurement and purchase card activity. OFM, under the Office of Administration, is responsible for managing PRISM. OFM made PRISM data available for review on the intranet file "Procurement Requisition Log."
- Blanket Purchase Agreement Database—Used by the authorized purchaser(s) and CCM for recording all purchases made against a BPA, and managed by the Office of the Chief Information Officer.
- FedTraveler—Used by individuals authorized to travel for the Commission for recording travel plans and expenses, and managed by the Office of Operations.

We selected a sample of 55 procurement actions taken throughout the fiscal year ending September 30, 2006 to trace from the request of the purchase to the payment made by the Office of Finance. For our first test, we randomly selected 28 transactions—18 from PRISM's Awarded Actions for All Vendors report on procurement activity from October 1, 2005 to August 8, 2006 and 10 from invoices received in the Office of Finance during the week of our test. The 28 transactions consisted of 10 purchase orders, 9 delivery orders, 6 BPAs, 2 purchase cards, and 1 education reimbursement. Also, based on the procurement instrument, we selected a random sample of 10 transactions on BPAs; 7 transactions on an Interagency Agreement; and 5 transactions each on travel credit cards and expense reports.

For our first test, we found the Commission properly authorized and timely paid all 28 transactions sampled. However, not all transactions were properly posted in PRISM. Of the ten transactions sampled from invoices, four totaling $74,369 could not be traced to the PRISM schedule—Awarded Actions for All Vendors. For the remaining 18 transactions sampled, we were not able to determine if the actions were timely posted in PRISM because adjustments can be made as errors and omissions are identified. However, a review of the Office of Administration's reconciliations with PRISM revealed a large number of invoices other than the 18 that were noted as "not in procurement."

Upon investigation with the Office of Administration personnel, it was determined that the appropriate information was not always sent to Office of Finance or processing was not completed in the PRISM system. An OFM contract specialist stated that PRISM's failure to report the transaction occurred because the authorized official entered information into PRISM, but did not complete all the steps necessary to release the transaction. Research of the four missing transactions revealed that Forms 51, *Requisition for Equipment of Services* and 347, *Order for Supplies and Services* had been generated as a result of entering the transactions in PRISM, but PRISM did not report the transactions. The accuracy of the PRISM schedule is critical because it is used by the Office of Administration to reconcile with the financial accounting system.

Proper processing and monthly reconciliations are critical to controlling procurement activity and accurately reporting financial activity. Of the four transactions not listed on the Awarded Actions for All Vendors report dated August 8, 2006, only one transaction was timely obligated by the Office of Finance.

| Transaction | F 347 "Date of Order" | Invoice received in Finance | Invoice total | Estimate amount recorded in Federal Financial System |
|---|---|---|---|---|
| 1 | 6/28/06 | 7/31/06 | 55,882.93 | 7/24/06 |
| 2 | 6/23/06 | 8/?/06* | 11,053.00 | 8/15/06 |
| 3 | 7/06/06 | 7/31/06 | 4,818.32 | 8/15/06 |
| 4 | 3/23/06 | 6/29/06 | 2,615.00 | 3/28/06 |

*Cannot determine due to illegible date stamped on invoice.

Blanket Purchase Agreement

All ten randomly selected BPAs were correctly posted in PRISM with a zero dollar amount, but five transactions against the ten BPAs were not posted on the subsidiary log. Consequently, the Office of Finance did not obligate funds for the five transactions totaling $15,950. Furthermore, two transactions exceeded the allowable call limit on the respective BPA by $7,760 and $1,603, respectively. Lastly, transactions against one BPA exceeded the allowable deposit limit, which is the maximum total amount that can be spent, by $608.

Procedures for obtaining services with a BPA include:

- The CCM forwards to OFM an approved Form 51, which shows the total dollar amount, the dollar limit per transaction and individuals authorized to purchase under the BPA.
- OFM enters the BPA into PRISM with a zero dollar amount.
- When a purchase is made off the BPA, either the CCM or authorized individual will ensure the purchase is entered into the *Blanket Purchase Agreements (BPA) Database* located on the USITC intranet.
- Periodically, the Office of Finance will review the BPA Database to identify transactions requiring obligations.

Interagency Agreement

All 7 interagency agreement transactions were accurately posted in PRISM, timely obligated, and paid.

Procedures for obtaining services with an Interagency Agreement include:

- The CCM supplies an approved Form 51 to OFM.
- A Contract Specialist in OFM enters the total dollar amount of the Agreement's requisition in PRISM and an Interagency Agreement order is created.

- OFM forwards a copy of the Form 51 and the Interagency Agreement order to the Office of Finance.
- Office of Finance establishes the liability by obligating the funds when the contract is entered into. Payment is made automatically through an interagency transfer.

Travel

All expenditures from travel credit cards and travel expense reports were accurately entered into the Commission's FedTraveler and the Federal Financial Systems. Because these systems are not interconnected, the Office of Finance obtains a report from FedTraveler and enters the appropriate data into the Federal Financial System.

In summary, the Commission needs to take prompt action to strengthen its controls and oversight of procurement activity. In light of the continuing resolution in fiscal year 2007, which is less than originally budgeted, the Commission is at risk of going into a deficit if the CCMs do not start ensuring that procurement activity is accurately posted and all expenditures are timely obligated.

**Recommendation 1**

The Director, Office of Administration should formally remind CCMs of their financial responsibility to ensure procurements are properly recorded and do not exceed the allowable limit. The reminder should also direct CCMs to identify any employee who may be in need of more training on processing all types of procurement activity and make the training available to the employee.

**Management Response**

The Commission disagreed with the finding and recommendation. The Commission stated that the Director of Administration and cost center managers are fully aware of their fiscal responsibilities. The status of cost centers, obligations, and expenditure rates are regularly discussed between office directors. Also, regular reconciliations take place on the Offices of Facilities Management, CIO and Administration Director cost centers. Any problems identified during reconciliations are corrected in a timely manner.

The Commission also provided other principal comments. Specifically, it stated: (1) all 4 transactions were found to be entered into both the PRISM and the accounting system; (2) the Commission found the additional 18 transactions properly entered in the PRISM and accounting systems, except 1 transaction; (3) the reference to "a large number of invoices other than the 18 that were noted as not in procurement" is unclear.

**OIG Comment**

The OIG considers this recommendation open. We do not agree with the first two principal comments. First, as we stated in our report, we found the four transactions were entered in PRISM. However, because the final PRISM processing step was not performed, PRISM did not report them on the Awarded Actions for All Vendors as of August 8, 2006. The date of the orders ranged from March 23, 2006 to July 6, 2006. OMB Circular A-127 requires agencies to have financial management systems in place to process and record financial events effectively and efficiently, and to provide complete, timely, reliable and consistent information for decision makers and the public. Note: These four transactions represented 10 percent of our sample.

Second, as we stated in our report, we did not draw any conclusions on whether the 18 transactions were properly entered in PRISM. Third, the result of the Commission's reconciliation with PRISM was that a large number of invoices were not in Procurement and required investigation. We reviewed documentation provided on the reconciliation and found this problem and other problems identified by the Office of Administration's contractor. We concluded that the reconciliation results only provided additional support that procurement transactions were not being effectively processed.

The Commission did not respond to BPA reported problems. Fifty percent (five of ten) of the transactions sampled against BPAs were not posted during our fieldwork in the BPA Database. Accuracy of this database is vital to alert the Office of Finance to obligate funds. Additionally, one transaction exceeded the maximum amount that can be spent. Federal Acquisition Regulation (FAR) states the use of BPAs does not exempt an agency from the responsibility for keeping obligations and expenditures within available funds. The FAR also requires the BPA to specify the call limit and the maximum amount to be spent against the contract. The Government Accountability Office has determined that authorizing officials are responsible to repay the Government for unauthorized expenditures.

**Recommendation 2**

The Director, Office of Administration should issue procedures requiring CCMs to verify that their requested action was accurately entered into the Commission's procurement records by reviewing OFM's Procurement Requisition Log for items posted in PRISM and the Blanket Purchase Agreement (BPA) Database. Each CCM should be required to: (1) perform a monthly reconciliation of PRISM and BPA Database with the monthly accounting reports to ensure transactions are accurately obligated and (2) provide the results of the reconciliation to the Office of Finance.

**Management Response**

The Commission disagreed with the recommendation. The Commission agreed to work to improve the accuracy of the BPA database. However, it has been performing reconciliations of cost centers since last year.

Also, since there is no connection between the requisition log and BPA database there is no guarantee that procurement actions were accurately posted in PRISM. Only verification with actual accounting and PRISM records constitute an actual reconciliation of the cost centers. BPA logs and PRISM records are examined as part of the normal monthly reconciliation process. This process provides reasonable assurance that transactions are recorded and obligated in a timely and accurate manner.

**OIG Comment**

The OIG considers this recommendation open. While we support the Commission's reconciliation of procurement activity by the Office of Administration, further action is needed to ensure the Commission has timely and accurate data. Review of the May 2006 reconciliation found transactions going back to October that required investigation. Since CCMs are most familiar with procurement actions in their assigned areas, we believe that CCMs could readily identify when further processing is needed. Additionally, the Commission assigned each CCM with the responsibility to reconcile CCM tracking data with the Office of Finance Expenditures Reports.

## C. Property Management Guidelines Are Needed

The Commission was at risk of a material misstatement of its fixed assets had not this audit identified two fixed assets were disposed and brought it to management's attention. Additionally, the Office of Information Technology Services (ITS) did not maintain an accurate automated data processing (ADP) inventory list. These problems occurred because ITS staff either inaccurately completed a Property Action Form 110 or did not complete the form. Form 110 is used to record the location of the transferred equipment and update the inventory list. We reported this failure in our prior three audits[3], but inaccurate inventory records remain.

[3] *Management Letter: Audit of the U.S. International Trade Commission's Financial Statements for Fiscal Years 2005 and 2004*, (Audit Report OIG-AR-02-06, dated March 31, 2006);
*Management Letter: Audit of the U.S. International Trade Commission's Financial Statements for the Year Ended September 30, 2004* (OIG-AR-03-05, dated March 24, 2005) and
*Audit of the U.S. International Trade Commission's Financial Management System Controls* (OIG-AR-02-03, dated July 24, 2003)

Commission Directive 3550.3, *Property Management*, states that the Director, Office of Facilities Management, is responsible for overall supervision and technical direction of the property management system, including disposition of property and the resolution of missing items. The Office of Facilities Management maintains a master property list of fixed assets and all accountable property other than ADP equipment. The Commission defined accountable property as sensitive and/or subject to potential theft—ADP equipment, televisions, video recorders, and cameras—and designated the ITS Director as the Accountable Officer for ADP equipment. This Accountable Officer is responsible for maintaining the master ADP property list and providing the list to the Office of Facilities Management. Furthermore, ITS must conduct an annual physical ADP inventory and report the results to the Office of Facilities Management.

Fixed Assets

Using the fixed asset list, we were unable to locate 2 assets because they were disposed during fiscal year 2006. These two fixed assets were valued at $74,016 and $75,405 with a net book value of $7,402 and $7,540. If the status of the two had not been discovered and adjustments made to the financial records, it would have result in a material misstatement in the Financial Section of the Performance and Accountability Report (PAR) submitted to OMB.

OFM had not updated its fixed assets list regarding the two disposed assets because they were not advised of the action. ITS staff completed a Form 110 but it was not correctly filled out. The fixed assets that were disposed consisted of two computer servers made up of various components. When the servers were shipped to the surplus warehouse, the ITS staff completed the Form 110 for all the different components that made up the servers rather than the two individual servers.

While guidance on completing Form 110 for fixed assets is warranted, it would be beneficial for OFM to do quarterly inventories, including one on September 30, to ensure that all Quarterly Statements and the PAR are free from material misstatements. OFM does do one inventory during January to ensure the schedule is accurate. However, a quarterly inventory would not be burdensome since there are only 11 pieces of equipment on the fixed asset list.

ADP Inventory

The location of 4 of the 45 randomly selected items from ITS' master ADP inventory list could not be readily identified. Though all four were ultimately found, an ITS official had to perform a search because a Form 110 was not completed for each of these items. An ITS official located the four items by manually scrolling through the ADP inventory database.

While all ADP items were eventually located, failure to implement the required controls increases the risk of misstated financial records and the undetected loss of assets. During 2005 the Finance Director drafted guidance on controlling all types of accountable property, but no further action was taken.

**Recommendation 3**

The Director, Office of Administration should ensure an Administrative Notice is issued which provides guidance for controlling fixed assets and accountable property. This guidance should clarify procedures and assign responsibilities for controlling all types of assets. The guidance should also:

- Address the responsibilities associated with the operation of the ADP inventory database; and

- Include a requirement to perform an inventory of fixed assets on a quarterly basis in sufficient time to ensure the fixed assets reported on the quarterly statements are accurate. Also, the fixed assets inventory list should be shared with the information technology staff to ensure they are aware of what items are fixed assets for their proper completion of the Form 110 when transferring a fixed asset.

**Management Response**

The Commission disagreed in part with the recommendation. Specifically, it stated: (1) it has well established procedures and understands the responsibility for maintaining the ADP inventory. It has never been their intent to assume the inventory to be 100 percent accurate. However, it will continue its efforts to regularly monitor all items and update the inventory list as often as possible. Also, the CIO will continue to perform a full review of the ADP equipment inventory annually in order to provide reasonable assurance over accountability of these items; and (2) The Director of Facilities Management and the CIO will ensure that quarterly inventories are conducted of Commission fixed assets (any single item valued at $50,000 or more at the time of purchase) and the results will be used to prepare quarterly financial statements.

Completion date: June 30, 2007

**OIG Comment**

The OIG considers this recommendation open. As stated in the Federal Managers' Financial Integrity Act of 1982, an agency must establish physical control to secure and safeguard vulnerable assets, such as equipment which might be vulnerable to risk of loss or unauthorized use. We acknowledged that the missing ADP inventory was ultimately located. However, since the Commission has had inaccurate ADP inventory records for the last four audits and this year's audit found an error rate of nine percent, revised guidelines should strengthen controls over this vulnerable asset.

Subsequent to our issuing the draft report, a CIO official and the OIG agreed that controls could be strengthen by placing a reminder on the ADP terminal advising users to notify the CIO when equipment is relocated. Implementation of this action should provide the Commission with more accurate inventory records and a more efficient annual physical ADP inventory.

The Commission's actions to effectively control fixed assets met the intent of the recommendation.

## D. Procedure over Depositing Funds Needs Improvement

Although the Director, Office of Finance issued desk procedures in fiscal year 2005 for processing deposits, funds were not always deposited within the established timeframe. A review of deposits disclosed six instances totaling $6,474 being deposited from 1 to 24 days beyond the prescribed timeframe. The timeframe was for a deposit to be made once every month, and if the amount on hand exceeds $1,000 then a deposit will be made by the end of the week. The delay in making the deposits occurred because the designated official responsible for depositing funds was on leave, and the two alternates had not been trained to make the deposits or received procedures to ensure they are made aware when their services are needed. A delay in making deposits increases the risk of theft and the risk of material misstatements.

**Recommendation 4**

The Director, Office of Finance should ensure the alternate people who serve as back-up to the primary person responsible for depositing funds are properly trained to make the deposits. Also, procedures should be developed to ensure the alternates are aware when their services are needed.

**Management Response**

The Commission concurred with the recommendation. The Director of Finance is restructuring the way fund deposits are handled and controlled. Finance staff will be trained on the new procedures.

Completion date: May 30, 2007

**OIG Comment**

When accomplished, the above action will satisfy this recommendation.

## E. Formal Guidance on Taxing Employee Awards Is Needed

In response to our finding last year, the Commission took appropriate action to ensure employee gift certificate awards are included as supplemental wages, but formal guidance was not developed. Whenever an employee was awarded a gift certificate, the Office of Human Resources (HR) filled out an "Employee Award Form," which was issued by the Department of Interior (DOI) for the taxing of employee awards. The form was then sent to the Office of Finance where the taxable amount on the award was grossed up to include the taxable amount. Finance then sent the authorized form to DOI where the reported award amount was included in the employee's wages and taxed accordingly. Finally, reconciliations were done quarterly between HR and Finance to ensure their records of employees who receive awards agreed.

While the above effort is commendable, written guidelines were not developed to document the procedure in the event an individual involved in the procedure is reassigned or to inform potential recipients that gift certificate awards are taxable. Discussion with several Commission employees revealed they were not aware of the tax implications of receiving the award. Instead, the gift certificate award recipients will discover it was taxed when reviewing their earning and leave statement.

### Recommendation 5

The Director, Office of Finance should issue formal procedures for processing and controlling employee awards to ensure proper tax treatment. These procedures should be made available to all Commission employees to provide notice of the awards and the applicable taxes.

### Management Response

The Commission concurred with the recommendation. The Director of Finance will issue a written policy on tax payments on employee awards. The Director of Finance will also issue explanatory guidelines to all Commission employees on how taxes affect award payouts.
Completion date: June 30, 2007

### OIG Comment

When accomplished, the above action will satisfy this recommendation.

OFFICE OF THE CHAIRMAN

UNITED STATES INTERNATIONAL TRADE COMMISSION

WASHINGTON, DC 20436

CO79-EE-006

MEMORANDUM

TO: Assistant Inspector General for Audit

FROM: Chairman Daniel R. Pearson

DATE: May 10, 2007

SUBJECT: Draft report: *Management letter: Audit of the U.S. International Trade Commission's Financial Statements for Fiscal Years 2006 and 2005*

In accordance with USITC Directive 1701.2, paragraph 12, the following is the response to the subject audit report. Overall, I wish to take this opportunity to commend the cost center managers for the Offices of Administration, Facilities Management, and the Chief Information Officer, as well as the Director of the Office of Finance, for their efforts at maintaining a financial and procurement system that is consistently accurate and always improving. I would also like to express the Commission's appreciation to the Office of the Inspector General for identifying areas that need improvement.

However, I disagree with the OIG statement that "the Commission continued to have problems managing procurement activity." All purchases, whether by interagency agreement, competitive contract, or purchase card, were found to have been handled properly. Further, the suggestion on page 7 that Commission is in danger of violation of the Anti-Deficiency Act misrepresents the Commission's financial position.

The following is the Commission's response to the audit recommendations.

**Recommendation 1**

The Director, Office of Administration should formally remind CCMs of their financial responsibility to ensure procurements are properly recorded and do not exceed the allowable limit. The reminder should also direct CCMs to identify any

employee who may be in need of more training on processing all types of procurement activity and make the training available to the employee.

**Response**

Disagree. The Director of Administration and cost center managers are fully aware of their fiscal responsibilities. The status of cost centers, obligations, and expenditure rates are regularly discussed between office directors. Since the 2005 audit, management has significantly improved the monitoring of cost center activity. We created an on-line procurement action log, verify BPA logs more frequently, and regularly reconcile the OFM, CIO and AD cost centers. Any problems identified during reconciliations are corrected in a timely manner. I am confident the cost center managers are performing their duties diligently.

The statement on page 6 of the report that certain transactions could not be traced to Prism is inaccurate. During a February 27, 2007 meeting, the OIG was provided with complete Prism and FFS documentation on the four transactions cited on page 6 of the audit. All four transactions were found to be entered into both the Prism system and the accounting systems. The Commission invites the OIG to further review this issue.

Also on page 6, the report states that an additional 18 transactions were not posted in Prism. However, the Office of Administration reviewed Prism records and found the transactions to be properly entered in the Prism and accounting systems, with the exception of one transaction. Documentation on these 18 purchase card transactions was provided to the OIG on February 27, 2007. The OIG reference to "a large number of invoices other than the 18 that were noted as not in procurement" is unclear at this time. The Commission assumes the OIG was reviewing staff working papers used for monthly reconciliations and not official procurement and accounting records. The Commission invites the OIG to further review these transactions and verify their completeness. The Commission has been reconciling the AD, CIO and OFM cost centers regularly for over a year and has found the exercise to be very effective in improving the accuracy of cost center records.

**Recommendation 2**

The Director, Office of Administration should issue procedures requiring CCMs to verify that their requested action was accurately entered into the Commission's procurement records by reviewing OFM's *Procurement Requisition Log* for items posted in PRISM and the *Blanket Purchase Agreement (BPA) Database.* Each CCM should be required to: (1) perform a monthly reconciliation of PRISM and BPA Database with the monthly accounting reports to ensure transactions are accurately obligated and (2) provide the results of the reconciliation to the Office of Finance.

**Response**

Disagree. BPA logs are an important part of cost center management and should be accurate and up to date. We will work to improve in this area. However, reconciliations of cost centers have been occurring since last year. The reconciliation process includes reviewing procurement and accounting records. It is unclear to the Commission what actions the OIG is recommending beyond what the Commission is currently performing.

At this time, the requisition log and BPA on-line database provide no guarantee that procurement actions were accurately posted in the Prism system. There is no connection between these online "work distribution"' records, and actual transactions recorded in either Prism or the accounting system. While reviewing these sources is helpful, it does not guarantee transactions have been recorded properly. Only verification with actual accounting and Prism records constitute an actual reconciliation of the cost centers.

As discussed under our response to Recommendation 1, evidence of monthly reconciliations for the AD, CIO, and OFM cost centers was provided to OIG during the course of the audit, but all Commission records remain open for inspection if the OIG determines further verification is needed. BPA logs and Prism records are examined as part of the normal monthly reconciliation process. This process provides reasonable assurance that transactions are recorded and obligated in a timely and accurate manner. Further, the Director of Finance has no mechanism for determining whether reconciliations are complete or accurate. However, Finance staff does provide any assistance necessary to cost centers in performing reconciliations by providing access to the accounting system.

**Recommendation 3**

The Director, Office of Administration should ensure an Administrative Notice is issued which provides guidance for controlling fixed assets and accountable property. This guidance should clarify procedures and assign responsibilities for controlling all types of assets. The guidance should also:

- Address the responsibilities associated with the operation of the ADP inventory database; and

- Include a requirement to perform an inventory of fixed assets on a quarterly basis in sufficient time to ensure the fixed assets reported on the quarterly statements are accurate. Also, the fixed assets inventory list should be shared with the information technology staff to ensure they are aware of what items are fixed assets for their proper completion of the Form 110 when transferring a fixed asset.

**Response**

Disagree in part. The CIO has well established procedures and understands the responsibility for maintaining the ADP inventory. During the audit, no single piece of ADP equipment was determined to be missing. It has never been the intent of the Commission to assume the inventory of several thousand items would be one hundred percent accurate, as far as the location of individual items, on a daily basis. That would not be a reasonable, achievable, or cost effective goal when tracking small, movable items such as cameras, fax machines, printers, and laptops. These items are easily moved from location to location within the building without the knowledge of the CIO at the time they are moved. However, the CIO will continue in its efforts to regularly monitor all items and update the inventory list as often as possible. The CIO will continue to perform a full review of the ADP equipment inventory annually, in order to provide reasonable assurance over accountability of these items.

Agree in part. The Director of Facilities Management and the Chief Information Officer will ensure that quarterly inventories are conducted of Commission fixed assets (any single item valued at $50,000 or more at the time of purchase), and the results will be used to prepare quarterly financial statements.

Date: June 30, 2007

**Recommendation 4**

The Director, Office of Finance should ensure the alternate people who serve as back-up to the primary person responsible for depositing funds are properly trained to make the deposits. Also, procedures should be developed to ensure the alternates are aware when their services are needed.

**Response**

Agree. The Director of Finance is restructuring the way fund deposits are handled and controlled. Finance staff will be trained on the new procedures.

Date: May 30, 2007

**Recommendation 5**

The Director, Office of Finance should issue formal procedures for processing and controlling employee awards to ensure proper tax treatment. These procedures should be made available to all Commission employees to provide notice of the awards and the applicable taxes.

**Response**

Agree. The Director of Finance will issue a written policy on tax payments on employee awards. The Director of Finance will also issue explanatory guidelines to all Commission employees on how taxes affect award payouts.

June 30, 2007

cc: Commissioners