OFFICE OF INSPECTOR GENERAL

UNITED STATES INTERNATIONAL TRADE COMMISSION

WASHINGTON, DC 20436

January 29, 2008 IG-FF-001

TO: The Commission

FROM: Acting Inspector General

SUBJECT: Management Letter for the Fiscal Year 2007 Audit of the U.S. International Trade Commission's Financial Statements (OIG-AR-01-08)

This memorandum transmits the subject management letter in connection with the audit of the U.S. International Trade Commission Fiscal Year (FY) 2007 financial statements. The audit was performed by the independent public accounting firm of Cotton & Company LLP in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States, and Office of Management and Budget (OMB) Bulletin 07-04, *Audit Requirements for Federal Financial Statements.*

As part of the audit, Cotton & Company issued the attached report that discusses the Commission's need to:

- Strengthen controls over cash receipts and fixed assets;
- Develop and document procedures for the reconciliation of obligations;
- Establish current policies and procedures in certain areas in the Offices of Finance and Human Resources;
- Keep current on financial statement reporting requirements; and
- Continue efforts to fully comply with the Federal Manager's Financial Integrity Act (FMFIA) and OMB Circular A-123, *Management's Responsibility for Internal Control.*

The letter contains seven recommendations that will assist the Commission in improving operations. The Commission agreed with the findings and presented actions, taken and planned, which address the recommendations. The response is incorporated in the body of this report, as well as in the Appendix.

In connection with the contract, we reviewed Cotton & Company's report and related documentation. The review disclosed no instances where Cotton & Company did not comply, in all material respects, with generally accepted government auditing standards.

We appreciate the courtesies and cooperation provided during this audit.

Attachment

cc: Cotton & Company LLP

Cotton & Company

Cotton & Company LLP
635 Slaters Lane
4th Floor
Alexandria, VA 22314

P: 703.836.6701
F: 703.836.0941
www.cottoncpa.com

January 15, 2008

Ms. Judith Gwynn
Acting Inspector General
U.S. International Trade Commission
Office of Inspector General

Dear Ms. Gwynn:

The management letter for the Fiscal Year 2007 financial statement audit of the U.S. International Trade Commission is attached. The purpose of this letter is to communicate non-reportable control deficiencies to ITC management. This letter is intended solely for the information and use of ITC management.

We would like to express our appreciation to all ITC personnel who assisted us in completing our audit. They were always courteous, helpful, and professional.

Sincerely,

COTTON & COMPANY LLP

Colette Y. Wilson, CPA
Partner

MANAGEMENT LETTER REPORT
FISCAL YEAR 2007 FINANCIAL STATEMENT AUDIT
U.S. INTERNATIONAL TRADE COMMISSION

Cotton & Company LLP audited the financial statements of the U.S. International Trade Commission (ITC) for Fiscal Year (FY) 2007. This document discusses control deficiencies involving internal control that we feel warrant management attention. It also presents management's response to the findings and recommendations in this management letter.

1. Control over Cash Receipts

The Office of Finance did not deposit receipts in a timely manner in accordance with its established policy. *The Office of Finance's Standard Operating Procedures*, VII, Deposit Procedures, states that:

> *Deposit Tickets are prepared at least once a month and hand carried to PNC Bank for deposit to Treasury (except for US Treasury checks). If the amount accumulated is more than $1,500 before the end of the month, than a deposit by the end of the week should be made... US Treasury checks received for deposit must be deposited in a Federal Reserve Bank within 5 business days.*

We tested the cash receipts log for the period of October 2006 to August 2007. Of 40 checks received during this period, 17 were not deposited within the required timeframe. In addition, 18 checks were recorded in the Cash Receipts log by the same financial technician responsible for depositing the checks, thus indicating that adequate segregation of duties had not been established.

Untimely deposits and lack of segregation of duties increases ITC's risk for fraud and could lead to inaccurate financial reporting.

Recommendation

We recommend that the Office of Finance continue to refine the cash receipts process by segregating duties, training backups for the financial technician responsible for cash receipts, and ensuring that deposits are made in accordance with established policies.

Management Response

All financial technicians have been trained and informed of the process of segregating duties. The Director of Finance or Operating Accountant will review deposit activities on a regular basis to ensure that deposits are made in accordance with established procedures. Finance will review current cash receipts procedures to see if any changes are necessary.

Target Completion Date: January 31, 2008

2. Physical Inventory of Fixed Assets

The Office of the Chief Information Officer (OCIO) did not conduct a proper physical inventory, which resulted in an inaccurate fixed asset sheet record maintained by the Office of Facilities Management (OFM). OFM's procedure manual, Section 3350.3, Property Management, No. 7, Responsibilities, states:

c. The Director, Office of Facilities Management (FM), is responsible for...
(3) Maintaining a list of fixed assets, identifying items to be removed from the list, and annually reconciling this list with the financial records.

OFM maintained the fixed asset sheet. All fixed assets were located within the OCIO and the OCIO submitted a property certification for fixed assts to OFM quarterly. However, the OCIO did not conduct thorough physical inventories by observing items and barcodes to confirm existence. We performed our own physical inventory of all fixed assets and identified two disposed items that should have been deleted from the fixed assets sheet and one item still in use that should have been included in the fixed asset sheet. Management corrected the fixed asset sheet when these matters were brought to its attention.

The failure to conduct physical inventories properly prevents OFM from determining if property is missing and, accordingly, prevents OFM from investigating potential losses. Additionally, OFM may report inaccurate financial information to the Office of Finance for the General Property, Plant, and Equipment financial statement line item.

Recommendation

We recommend that OFM and CIO personnel ensure that physical inventories are properly conducted to ensure the existence of property and accuracy of the fixed asset sheet.

Management Response

The Director OFM will ensure that the physical inventories are properly conducted and documented on a quarterly basis and the fixed asset sheets are accurate.

Target Completion Date: March 1, 2008

3. Reconciliation of Obligations

Obligations were not reconciled routinely and discrepancies were not timely resolved. ITC does not have an integrated procurement system and relies on manual reconciliation of obligations to ensure that all obligations were recorded in the Federal Financial System (FFS). The Office of Administration assigned a contractor to conduct monthly reconciliations of obligations for three cost centers: Administration, CIO, and OFM. Each cost center provides the contractor with details of procurement actions from their own records, which the contractor then compares to the ITC 545 report showing obligations by cost center and object classification.

OMB Circular A-123, *Management's Responsibilities for Internal Control*, Section II.E, Monitoring, states:

> *Monitoring the effectiveness of internal control should occur in the normal course of business. In addition, periodic reviews, reconciliations or comparisons of data should be included as part of the regular assigned duties of personnel.*

We requested reconciliations for May, June, and July 2007, and identified the following:

- The contractor did not perform reconciliations for Administration in May or OFM in May and July.
- The contractor performed reconciliations for CIO for the three consecutive months. We noted these discrepancies:

- Amounts for nine items reported by CIO differed from amounts obligated in FFS in the June reconciliation.

- Eight obligations in FFS were not included in CIO's data in the June reconciliation.

- All seventeen items above were reported again as discrepancies in the July reconciliation.

We also noted that the contractor did not perform reconciliations at yearend for September. Failure to follow-up and resolve noted discrepancies in a timely manner prevents ITC from ensuring that all completed procurement actions are properly obligated and obligations are accurately reported.

Recommendation

We recommend that Office of Administration develop and document procedures requiring reconciliations to be completed each month and establishing time requirements for review and resolution of noted discrepancies.

Management Response

The Office of Administration will review procedures for monthly reconciliations to ensure adequate followup is performed on any discrepancies, and in a timely manner. Written procedures will be developed and provided to the Directors of Finance, Facilities Management and the Chief Information Officer.

Target Completion Date: April 1, 2008

4. Blanket Purchase Agreement Calls

Blanket Purchase Agreements (BPAs) callers did not always log calls in a timely manner and several callers exceeded preauthorized call limits established in the BPA. Once a call is placed to order goods/services under an approved BPA, callers are required to log their orders into the BPA database. BPA callers are aware of their call limits and should only place calls that are within those per-call amounts. Logging calls into the BPA database in a timely manner is important, because the Office of Finance personnel reviews this database to establish necessary obligations.

We learned through interviews with BPA callers that they did not always log calls in after the orders were placed. They reported logging calls later in the month or when invoice arrived for payment approval. We discussed this issue with the financial technician in Office of Finance, who confirmed that obligations were not always pre-established for invoices received against BPAs. Some BPAs for recurring services, such as for Metro Cards, did not require a "call" for services to be provided. Estimated amounts should, however, be determined and posted to the BPA log.

During our review of randomly selected BPA activity logs, we identified calls with estimated and invoice costs that exceeded authorized call limits:

- American Eagle Computer Products (BPA-07-0008): 3 of 19 calls
- Career Blazers (BPA-07-0001): 15 of 34 calls
- Telesce Corestaff (BPA-07-0002): 2 of 5 calls

Failure to log BPA calls prevents obligations from being recorded in FFS in a timely manner. Obligations should be recorded at the time the purchase is made to ensure accurate financial reporting and availability of funds for payment of invoices received. Exceeding preauthorized call limits violates established internal control procedures.

Recommendation

We recommend that the Office of Administration:

- Reiterate to BPA callers the necessity and requirement for logging BPA calls in a timely manner and staying within preauthorized limits.
- Require BPA callers to determine monthly estimates for recurring services and log in those estimates.

Management Response

The Director of Administration will issue a memorandum to all BPA callers and their supervisors with instructions for compliance with acquisitions regulations, including logging in calls and estimates. The Office of Administration will also conduct a review of the use of BPAs and reduce the number of active BPAs to a minimum.

Target Completion Date: March 1, 2008

5. Policies and Procedures

ITC did not have policies and procedures for several areas essential for effective internal control and accurate financial reporting, as follows:

- Office of Finance had not updated procedures for payroll, yearend accounts payable estimation, and deprecation calculations. These procedures are essential for accurate financial reporting. Failure to have such procedures could result in inaccurate financial reporting.
- Office of Finance did not have well-defined procedures for reconciling all aspects of Fund Balance with Treasury. The current reconciliation does not provide a clear audit trail of monthly reconciliation results, noted discrepancies, and timely resolution of differences, thus necessitating discussions with Office of Finance personnel to fully understand the detailed work that has been performed.
- Office of Human Resources (OHR) did not have documented procedures for processing of Personnel Actions. An OHR assistant processes all personnel actions, but a fully-trained backup for the position had not been established. Without backup support and documented procedures, ITC is at risk for improper and untimely processing.

Government Accountability Office's (GAO) *Standards for Internal Control in the Federal Government*, states:

> *Internal control is a major part of managing an organization. It comprises the plans, methods, and procedures used to meet missions, goals, and objectives and ... also serves as a first line of defense in safeguarding assets and preventing and detecting errors and fraud." Furthermore, "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.

Recommendation

We recommend that the Offices of Finance and Human Resources establish, update, and document the policies and procedures noted above.

Management Response

The Director of Finance will update and/or develop new written procedures to cover standard operating procedures for payroll, yearend accounts payable estimation and depreciation calculations. The Director of Finance will review the current reconciliation process for the Fund Balance with Treasury, make changes if necessary and develop new procedures.

Target Completion Date: June 30, 2008

The Office of Human Resources will establish a desk reference for processing personnel actions. In the interim, Human Resources staff members have shadowed the personnel assistant while she navigates the FPPS system. Also, the Office of Human Resources in its submission to the Strategic Planning Committee, requested an additional FTE to support personnel actions processing. The request is pending formal approval.

Target Completion Date: April 1, 2008

6. Financial Statement Presentations

Office of Finance personnel were unaware of or unfamiliar with all federal financial reporting requirements. During our audit of the financial statements, we noted several line items and footnotes that were either incorrect or not included in ITC's financial package. Office of Finance personnel were either unaware of these matters, or the contractor assigned to review the statements did not bring the items to ITC's attention.

Office of Management and Budget (OMB) Circular A-136, *Financial Reporting Requirements*, requires reporting entities to ensure that all financial information is presented in accordance with generally accepted accounting principles (GAAP) for federal entities and with requirements outlined in the circular. During our audit of ITC's financial statements, we noted the following:

- The line item Imputed Financing was not prepared in FY 2006 for the Statement of Changes in Net Positions, because management was unaware of the requirement.

- The footnote for Fund Balance with Treasury (FBWT) requires disclosure of fund balances by type as well as by status. The total of FBWT by status did not agree to the total of fund balance by type. The difference related to additional line items required by OMB Circular A-136.

- The footnote for Liabilities Not Covered by Budgetary Resources was initially segregated by entity and non-entity liabilities. This presentation of liabilities is inappropriate and does not follow OMB Circular A-136. All liabilities were amounts owned by ITC.

- Although ITC was aware of the requirement for reporting accrued funded liabilities related to Worker's Compensation due, Office of Finance personnel were unaware of the accounting model provided by Department of Labor to calculate actuarial liabilities for unfunded amounts also required to be reported.

Recommendation

We recommend that the Office of Finance stay abreast of financial statement reporting requirements and ensure that the contractor is performing a thorough review in accordance with applicable OMB circulars and federal financial accounting standards.

Management Response

The Office of Finance staff will stay abreast of financial statement reporting requirements through formal or informal training, and will consider tasking a contract firm to perform a full compliance review of the statements.

Target Completion Date: Completed.

7. Federal Manager's Financial Integrity Act

In FY 2006, ITC created a Management Control Plan (MCP) to satisfy management control requirements of the Federal Manager's Financial Integrity Act (FMFIA) and OMB Circular A-123, *Management's Responsibility for Internal Control*, and to support its assurance annual statements. ITC had not, however, fully implemented the plan by performing all planned assessments and documenting results.

FMFIA was enacted to strengthen internal control and accounting systems throughout the federal government and to help reduce fraud, waste, abuse, and misappropriation of federal funds. FMFIA holds agency managers accountable for correcting noted deficiencies and requires that agencies annually identify and report internal control and accounting system problems and planned remedies.

Recommendation

We recommend that Office of Administration continue its efforts to review, refine, and implement control activities and assessments documented in its MCP.

Management Response

The Director of Administration will assign staff to receive internal control training; ensure the Management Control Plan is updated for FY 2008, and complete risk assessments as scheduled in the plan.

Target Completion Date: June 1, 2008

UNITED STATES INTERNATIONAL TRADE COMMISSION

WASHINGTON, DC 20436

CO79-FF-001

January 25, 2008

TO: Acting Inspector General

FROM: Chairman Daniel R. Pearson

SUBJECT: Management Response to the Independent Auditor's Report of the U.S. International Trade Commission's Financial Statements for Fiscal Years 2007 and 2006 Audit Report Number: OIG-AR-01-08

As required by Directive 1702.2, paragraph 12, I am providing your office with a written response to the findings and recommendations of the subject audit report. We have consulted with applicable Commission staff regarding the findings in this audit and are in agreement with all of the findings in the report. Together, we are working aggressively towards a timely resolution of each outstanding issue.

1. Control over Cash Receipts

Recommendation: We recommend that the Office of Finance continue to refine the cash receipts process by segregating duties, training backups for the financial technician responsible for cash receipts, and ensuring that deposits are made in accordance with established policies.

Management Response: All financial technicians have been trained and informed of the process of segregating duties. The Director of Finance or Operating Accountant will review deposit activities on a regular basis to ensure that deposits are made in accordance with established procedures. Finance will review current cash receipts procedures to see if any changes are necessary.

Target Completion Date: January 31, 2008

2. **Physical Inventory of Fixed Assets**

Recommendation: We recommend that OFM and CIO personnel ensure that physical inventories are properly conducted to ensure the existence of property and accuracy of the fixed asset sheet.

Management Response: The Director OFM will ensure that the physical inventories are properly conducted and documented on a quarterly basis and the fixed asset sheets are accurate.

Target Completion Date: March 1, 2008

3. **Reconciliation of Obligations**

Recommendation: We recommend that Office of Administration develop and document procedures requiring reconciliations to be completed each month and establishing time requirements for review and resolution of noted discrepancies.

Management Response: The Office of Administration will review procedures for monthly reconciliations to ensure adequate followup is performed on any discrepancies, and in a timely manner. Written procedures will be developed and provided to the Directors of Finance, Facilities Management and the Chief Information Officer.

Target Completion Date: April 1, 2008

4. **Blanket Purchase Agreement Calls**

Recommendation: We recommend that the Office of Administration:

1. Reiterate to BPA callers the necessity and requirement for logging BPA calls in a timely manner and staying within preauthorized limits.

2. Require BPA callers to determine monthly estimates for recurring services and log in those estimates.

Management Response: The Director of Administration will issue a memorandum to all BPA callers and their supervisors with instructions for compliance with acquisitions regulations, including logging in calls and estimates. The Office of Administration will also conduct a review of the use of BPAs and reduce the number of active BPAs to a minimum.

Target Completion Date: March 1, 2008

5. **Policies and Procedures**

Recommendation: We recommend that the Offices of Finance and Human Resources establish, update, and document the policies and procedures noted above.

Management Response: The Director of Finance will update and/or develop new written procedures to cover standard operating procedures for payroll, yearend accounts payable estimation and depreciation calculations. The Director of Finance will review the current reconciliation process for the Fund Balance with Treasury, make changes if necessary and develop new procedures.

Target Completion Date: June 30, 2008

The Office of Human Resources will establish a desk reference for processing personnel actions. In the interim, Human Resources staff members have shadowed the personnel assistant while she navigates the FPPS system. Also, the Office of Human Resources in its submission to the Strategic Planning Committee, requested an additional FTE to support personnel actions processing. The request is pending formal approval.

Target Completion Date: April 1, 2008

6. Financial Statement Presentations

Recommendation: We recommend that the Office of Finance stay abreast of financial statement reporting requirements and ensure that the contractor is performing a thorough review in accordance with applicable OMB circulars and federal financial accounting standards.

Management Response: Management Response: The Office of Finance staff will stay abreast of financial statement reporting requirements through formal or informal training, and will consider tasking a contract firm to perform a full compliance review of the statements.

Target Completion Date: Completed.

7. Federal Manager's Financial Integrity Act

Recommendation: We recommend that Office of Administration continue its efforts to review, refine, and implement control activities and assessments documented in its MCP.

Management Response: The Director of Administration will assign staff to receive internal control training; ensure the Management Control Plan is updated for FY 2008, and complete risk assessments as scheduled in the plan.

Target Completion Date: June 1, 2008