

OFFICE OF INSPECTOR GENERAL

**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**



March 31, 2006



UNITED STATES INTERNATIONAL TRADE COMMISSION

WASHINGTON, DC 20436

March 31, 2006

IG-DD-009

TO: THE COMMISSION

SUBJECT: *Management letter: Audit of the U.S. International Trade Commission's Financial Statements for Fiscal Years 2005 and 2004 (OIG-AR-02-06)*

I am pleased to submit the subject audit report. We conducted this work as part of our audit of the Commission's financial statements for fiscal years 2005 and 2004 (OIG-AR-01-06, November 14, 2005). The financial statements audit did not detect internal control deficiencies deemed to be reportable conditions or material weaknesses. However, the Commission needs to improve several internal controls over its operations.

The Commission should strengthen certain internal controls related to accountable property, the timely deposit of cash receipts, purchases, and employee awards. In addition, the Commission must abide by all the rules specified by the Federal Managers' Financial Integrity Act of 1982.

We made five recommendations that will assist the Commission in correcting these deficiencies. The Commission agreed with our findings and presented actions taken and planned, which we believe address the intent of our recommendations. We incorporated the response in the body of this report and included it in detail as Appendix A.

We appreciate the courtesies and cooperation provided to the auditors during this audit.

Jean Smith
Acting Inspector General

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

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I. BACKGROUND

With the enactment of the Accountability of Tax Dollars Act of 2002 (Public Law 107-289, November 7, 2002), the Commission is now required annually to submit to Congress and the Office of Management and Budget (OMB) 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 Sheet
 - Statement of Net Cost
 - Statement of Changes in Net Position
 - Statement of Budgetary Resources
 - Statement of Financing
 - Statement 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.

II. OBJECTIVES

The overall objective is to present findings and recommendations for improvements in internal control that were identified during the audit of the Commission's financial statements and were not required to be included in the auditor's report.

III. 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, 2005. The internal control and compliance phase of the audit was performed during the months of July and August 2005. The fieldwork relating to the audit of the financial statements occurred during the month of October 2005.

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 the Year Ended September 30, 2004* (OIG-AR-03-05, dated March 24, 2005), 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 47 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 FY 2005.
- We verified compliance with applicable laws and regulations including compliance with the Federal Managers' Financial Integrity Act (FFMIA) of 1982.
- Policies and procedures over the Mass Transit Subsidy program. We evaluated and tested the accuracy of the monthly payments, and only eligible employees participated.
- Policies and procedures over the Spot Award program. We evaluated and tested controls over managing the program.

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. 01-02.

IV. DETAILS OF RESULTS

A. Status of Prior Year Audit Recommendations

The Commission completed action and effectively implemented two of five recommendations made from our September 30, 2004 financial statement audit¹. The Director of Finance developed procedures to ensure: (1) the correct

¹ 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).

calculation of depreciation expense is recorded for each asset during the year and (2) liabilities presented to Finance² were recorded as accurately as possible.

For two recommendations, the Commission was in the process of: (1) developing procedures to strengthen controls over fixed assets and accountable property and (2) performing and reporting to the President and the Congress the results of its annual self evaluation of internal and administrative controls. For the remaining recommendation, the Director of Finance prescribed the length of time funds may remain in the Commission's custody based on dollar amount, but it was not always followed.

While the Commission reasonably and fairly stated the FY 2005 financial transactions, there is room for improvements in any system and strengthening controls should be an objective of any agency providing improvements are cost effective. Further discussion on the above three open recommendations is provided in the remaining sections of this report. Also discussed in this report is the need to strengthen controls over procurement activity and develop procedures for an employee awards program to ensure the proper treatment of federal and state taxes.

B. Oversight of Property Needs Improvement

The Office of Information Technology Services (ITS) did not maintain an accurate automated data processing (ADP) inventory list because responsible officials did not complete a Property Action Form 110. Form 110 is used to record the location of the transferred equipment and update the inventory list. 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.

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

² Subsequent to our field work, it came to the OIG's attention that not all liabilities were timely presented to Finance. We did not review the items. However, implementation of this report's recommendation 3 to strengthen management over procurement activity should correct the problem.

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.

The location of 5 of 45 randomly selected items from ITS' master ADP property list could not be readily identified. Though all five were ultimately found, an ITS official had to perform a time consuming search because a Form 110 was not completed for these items. An ITS official located four items by manually scrolling through the ADP property database. For the remaining item, the official found its location by using another source to identify the location where the most recent log-in occurred.

We reported this problem in our prior two audits³, but inaccurate ADP inventory records persisted. The ITS and Finance Directors report the Director, Office of Administration and were working to correct the problem. The ITS Director took corrective action by creating and implementing an ADP inventory database, but the Property Management Directive was not revised to provide guidance and assign responsibility for controlling all types of accountable property. The Director of Finance drafted the guidance and was working towards finalizing it.

Recommendation 1

The Director, Office of Administration should ensure an Administrative Notice is issued which provides guidance for controlling both 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.

Management Response

The Commission concurred with the recommendation. The Director of Administration will issue guidance on procedures and responsibilities for controlling fixed assets and accountable property. This guidance will clarify maintenance of the inventory on the information technology database.
Completion date: June 30, 2006

OIG Comment

When accomplished, the above action will satisfy this recommendation.

³ *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)

C. Procedure over Depositing Funds Needs Improvement

Although the Director, Office of Finance issued desk procedures for processing deposits, funds were not always deposited within the established timeframe. A review of deposits made subsequent to the new procedures disclosed funds totaling \$3,586 and \$1,737 deposited 28 and 10 days, respectively, beyond the prescribed time-period. This delay occurred because the designated official responsible for depositing funds was on vacation, and the Director of Finance had not identified an alternate individual to serve as a back-up. A delay in making deposits increases the risk of theft and the risk of material misstatements.

In response to the recommendation made from our FY 2004 audit, the Director, Office of Finance issued procedures in June 2005 on the length of time funds may remain in the Commission's custody. The procedure directed the deposit of funds once every month, and if the amount on hand exceeds \$1,000 then it will be deposited by the end of the week.

Recommendation 2

The Director, Office of Finance should designate an alternate person to serve as back-up in the event the primary person responsible for depositing funds within the established time-frames is unavailable.

Management Response

The Commission concurred with the recommendation. The Director of Finance has assigned two additional accounting technicians as backup to the primary person responsible for depositing funds. They have been instructed as to cash deposit procedures. Completed: February 28, 2006

OIG Comment

The above actions satisfy this recommendation.

D. Controls over Purchase Activity Need Strengthening

The financial reporting of obligations was not always accurate and a purchase exceeded the authorized limit. Furthermore, management did not have an accurate record of procurement activity. These problems occurred because designated officials did not always forward the procurement request to the Office of Facilities Management (OFM) for entry into the Commission's procurement

system—PRISM. Also, designated officials did not always enter purchases made against a *Blanket Purchase Agreement*⁴ in the *BPA Database*. Finally, not all cost center managers (CCM) reviewed the monthly accounting reports issued by the Office of Finance.

Commission Directive 3601.2, Procurement Policy, states that each CCM will be assigned a unique portion(s) of the ITC 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. Subsequent to our fieldwork, 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.

Using a list of disbursements made throughout the fiscal year ending September 30, 2005, we selected a sample of 47 items to trace from the request of the purchase to the payment made by the Office of Finance. The sample included 27 transactions from purchase cards and 2 transactions on an Interagency Agreement; 8 transactions on blanket purchase agreements (BPA); and 5 transactions on both travel credit cards and expense reports. Since the Commission had processing procedures based on the type of procurement activity, our findings on each sampled activity is presented below.

⁴ A BPA is a simplified method of filling anticipated repetitive needs for supplies or services by establishing "charge accounts" with qualified sources.

Interagency Agreement

OFM did not record an Interagency Agreement totaling \$250,000 in PRISM, and the Office of Finance did not obligate funds for the Agreement. These problems occurred because the CCM did not forward the requisition to OFM for processing. Failure to forward requisitions to OFM causes the Commission to have an inaccurate record of procurement activity and unrecorded liabilities. Under this Agreement, the Office of Finance established the liability upon receipt of invoices and made two payments totaling \$118,000.

Procedures for obtaining services with an Interagency Agreement include:

- The CCM supplies an approved Form 51, *Requisition for Equipment of Services* 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.

Purchase Card

All 27 purchase card transactions were: accurately posted in PRISM, timely obligated, and paid.

The Purchase Card Holder is responsible to:

- process an approved Form 51 in PRISM which records the purchase activity and generates a Form 347, *Order for Supplies and Services* and
- forward Forms 51 and 347 to the Office of Finance

The Office of Finance will then establish the liability by obligating the funds and pay the vendor upon receipt of an approved invoice.

Blanket Purchase Agreement

All eight randomly selected blanket purchase agreements were correctly posted in PRISM with a zero dollar amount, but five transactions against eight BPAs were not posted on BPA's subsidiary log. Consequently, the Office of Finance did not obligate funds for the five transactions totaling \$3,800. Furthermore, transactions exceeded the allowable limit on one BPA by \$70.

For BPAs, the CCM is responsible to forward to OFM an approved Form 51, which shows the total dollar amount/limit and individuals authorized to purchase

under the BPA. OFM will enter the BPA into PRISM with a zero dollar amount. When a purchase is made off the BPA, either the CCM or the authorized purchaser will enter the cost into the *Blanket Purchase Agreement (BPA) Database* located on the ITC intranet. Periodically, the Office of Finance will review the BPA Database to identify transactions requiring obligations.

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.

Recommendation 3

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. Furthermore, the Director, Office of Administration should issue procedures requiring CCMs to verify their requested action was: (a) 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*; and (2) obligated by reviewing the monthly accounting reports and providing feedback on its accuracy to the Office of Finance.

Management Response

The Commission concurred with the recommendation. The Director of Administration will issue a notice to remind Cost Center Managers of their financial responsibility to ensure procurement actions are properly recorded and do not exceed the allowable limit. The Director of Administration will also issue procedures requiring CCMs to review procurement and financial records monthly to ensure their accuracy. Completion date: June 30, 2006

OIG Comment

When accomplished, the above actions will satisfy this recommendation.

E. Procedures to Ensure Proper Tax Reporting of Employee Awards Are Needed

The Commission did not process gift certificates awarded to employees as a supplemental wage because the Director, Office of Human Resources considered gift certificates awarded below the \$400 aggregate threshold to be an excludable item. However, IRS Publication 15-B, Employer's Tax Guide to Fringe Benefits states exclusion of the awarded amount does not apply to awards of cash, cash equivalents, and gift certificates. The face value of a gift certificate should be included in the employee's wages, subject to income tax withholding and payroll taxes. In calendar year 2004, the Commission presented 110 gift certificates, each valued at \$100, to 82 employees. Presented below is IRS' guidance on awards.

You can exclude from income employee achievement awards you receive if your employer can deduct them. To be deducted by your employer, and excluded by you, the awards must meet ALL the following requirements:
1. Be given for length of service or safety achievement.
2. Be tangible personal property, other than cash, gift certificates or equivalent items.
3. Be given under conditions and circumstances that do not create a significant likelihood of the payment of disguised compensation.
4. Be given as part of a meaningful presentation.
5. Be no more than the specified dollar limits.
However, the exclusion does not apply to the following awards:
<ul style="list-style-type: none"> • A length-of-service award if you received it for less than 5 years of service or if you received another length-of-service award during the year or the previous 4 years; or
<ul style="list-style-type: none"> • A safety achievement award if you are a manager, administrator, clerical employee, or other professional employee or if more than 10% of eligible employees previously received safety achievement awards during the year.
There are limits on the total awards you may exclude in one year. These limits are provided in <u>Publication 525, Taxable and Nontaxable Income</u> .

Source: <http://www.irs.gov/individuals/article/0,,id=139543,00.html>

Recommendation 4

The Director, Office of Human Resources should develop procedures for processing and controlling employee awards to ensure proper treatment of federal and state taxes.

Management Response

The Commission concurred with the recommendation. The Office of Human Resources will provide the Office of Finance a memorandum containing the required information when an employee receives a taxable award. This memorandum will be faxed to payroll operations at the National Business Center to include the award as taxable wages and withhold the appropriate payroll taxes. The Office of Finance will issue guidelines on reconciling with the Office of Human Resources on a quarterly basis to assure that all taxable awards are added to employee's payroll records. Completion date: March 31, 2006

OIG Comment

The above actions satisfy this recommendation.

F. Policies and Procedures Should Incorporate Compliance with the Federal Managers' Financial Integrity Act of 1982

While the Commission substantially complied with the requirements of the Federal Managers' Financial Integrity Act of 1982 (FMFIA/Act), the Commission did not have a formal process to ensure its managers annually evaluated and reported on the adequacy of their assigned programs. The federal government established FMFIA to require ongoing evaluations and reports of the adequacy of the systems of internal accounting and administrative control of each executive agency. The Act requires that internal and administrative controls be established in accordance with standards prescribed by the Comptroller General and shall provide reasonable assurance that:

- Obligations and costs are in compliance with applicable law;
- Funds, property and other assets are safeguarded against waste, loss, unauthorized use or misappropriation; and
- Revenues and expenditures applicable to agency operations are properly recorded and accounted for to permit the preparation of accounts and reliable financial and statistical reports and to maintain accountability over the assets.

Although we agree that all of the above has been followed by the Commission, the Act also requires that by December 31 of each year, the head of each executive agency shall, on the basis of an evaluation conducted in accordance with guidelines prescribed, prepare a statement to the President and the Congress that the agency's systems of internal accounting and administrative control complies with the Act. The respective statement must be signed by the head of each executive agency and transmitted.

The agency head's evaluation can be performed using a variety of information sources. Management has primary responsibility for monitoring and assessing controls, and should use other sources such as OIG reports as a supplement to, but not a replacement for, its own judgment.

Recommendation 5

The Director, Office of Administration should develop procedures and obtain appropriate approval for prompt issuance for management to perform its own self-study evaluation of its internal and administrative controls annually. The procedures should also provide guidance on providing the Chairman with the results of the study in order to support the Chairman's annual statement to the President and the Congress on the adequacy of the Commission's systems of internal accounting and administrative control.

Management Response

The Commission concurred with the recommendation. The Director of Administration will submit a Management Control Plan (MCP) to the Chairman for approval. The MCP will identify assessable units and address the use of internal control reviews, schedule risk assessments, and remedial measures to be taken, if any. The MCP will provide the necessary support for Chairman to prepare the annual statement of assurance required by the Federal Manager's Financial Integrity Act. Completion date: September 30, 2006

OIG Comment

Based on the Director of Administration's further clarification on the above actions, the Commission will perform internal control reviews in sufficient time to provide benefit to the fiscal year 2006 financial statement process. Therefore, these actions will satisfy this recommendation.



Chairman

 UNITED STATES INTERNATIONAL TRADE COMMISSION

WASHINGTON, DC 20436

March 29, 2006

CO76-DD-005

MEMORANDUM

TO: Acting Inspector General

FROM: Stephen Koplan *SK/KS*

SUBJECT: Response to Draft Audit Report: Management Letter:
Audit of the U.S. International Trade Commissions Financial Statements for the Year
Ended September 30, 2005

This memorandum is the Commission's response to the subject draft report and includes an action plan for implementing corrective actions that will address the recommendations. Action on Recommendation 2 has been closed.

Recommendation 1

The Director, Office of Administration should ensure an Administrative Notice is issued which provides guidance for controlling both 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.

Response:

The Director of Administration will issue guidance on procedures and responsibilities for controlling fixed assets and accountable property. This guidance will clarify maintenance of the inventory on the information technology database.

Completion date: June 30, 2006

Recommendation 2

The Director, Office of Finance should designate an alternate person to serve as back-up in the event the primary person responsible for depositing funds within the established time-frames is unavailable.

Response:

The Director of Finance has assigned two additional accounting technicians as back up to the primary person responsible for depositing funds. They have been instructed as to cash deposit procedures.

Completed: February 28, 2006

Recommendation 3

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. Furthermore, the Director, Office of Administration should issue procedures requiring CCMs to verify their requested action was: (a) 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*; and (2) obligated by reviewing the monthly accounting reports and providing feedback on its accuracy to the Office of Finance.

Response:

The Director of Administration will issue a notice to remind Cost Center Managers of their financial responsibility to ensure procurement actions are properly recorded and do not exceed the allowable limit. The Director of Administration will issue procedures requiring CCMs to review procurement and financial records monthly to ensure their accuracy.

Completion date: June 30, 2006

Recommendation 4

The Director, Office of Human Resources should develop procedures for processing and controlling employee awards to ensure proper treatment of federal and state taxes.

Response:

The Office of Human Resources will provide the Office of Finance a standard memorandum filled out with the required information when an employee receives a taxable award. This memo will be faxed to payroll operations at the National Business Center and included as taxable wages the appropriate payroll taxes can be withheld. The Office of Finance will issue guidelines on reconciling with the Office of Human Resources on a quarterly basis to assure that all taxable awards are added to employee's payroll records.

Completion date: March 31, 2006

Recommendation 5

The Director, Office of Administration should develop procedures and obtain appropriate approval for prompt issuance for management to perform its own self-study evaluation of its internal and administrative controls annually. The procedures should also provide guidance on providing the Chairman with the results of the study in order to support the Chairman's annual statement to the

President and the Congress on the adequacy of the Commission's systems of internal accounting and administrative control.

Response:

The Director of Administration will submit a Management Control Plan to the Chairman for approval. The MCP will identify assessable units; address the use of internal control reviews, and schedule risk assessments, and remedial measures to be taken, if any. The MCP will provide the necessary support for the Chairman to prepare the annual statement of assurance required by the Federal Manager's Financial Integrity Act.

Completion date: September 30, 2006