U.S. International Trade Commission

Management Letter: Fiscal Year 2022 Financial Statement Audit

OIG-ML-23-03

December 13, 2022

Office of Inspector General

The U.S. International Trade Commission is an independent, nonpartisan, quasi-judicial federal agency that provides trade expertise to both the legislative and executive branches of government, determines the impact of imports on U.S. industries, and directs actions against certain unfair trade practices, such as patent, trademark, and copyright infringement. USITC analysts and economists investigate and publish reports on U.S. industries and the global trends that affect them. The agency also maintains and publishes the Harmonized Tariff Schedule of the United States.

OFFICE OF INSPECTOR GENERAL

UNITED STATES INTERNATIONAL TRADE COMMISSION

WASHINGTON, DC 20436

December 13, 2022 IG-UU-15

Commissioners:

This memorandum transmits the Management Letter Report (OIG-ML-23-03) from the audit of the Commission's financial statements for fiscal year 2022. We contracted with the independent certified public accounting firm of Harper, Rains, Knight & Company, P.A. to perform an audit of the Commission's financial statements. The audit resulted in an unmodified opinion. A draft of the management letter was provided to you for comment, and your comments are included in their entirety as an appendix to the report.

When performing an audit of an agency's financial statements, auditors may identify certain matters involving internal controls that do not rise to a level of significance to be reported in the independent auditors' opinion report; instead, these matters are communicated in a management letter. Harper, Rains, Knight & Company noted conditions pertaining to four areas, Property, Plant & Equipment, International Prompt Payment, Financial Reporting, and Actuarial Federal Employees' Compensation Act or FECA Liability. Strengthening internal controls in these areas is important and presents an opportunity to improve operational efficiency. In addition, special attention should be paid to repeat findings, which can be an indicator of ineffective internal controls.

The letter contains seven recommendations for corrective action. In the next 30 days, please provide me with your management decisions describing the specific actions you will take to implement each recommendation.

Harper, Rains, Knight & Company is responsible for the attached management letter and the conclusions expressed in it. Thank you for the cooperation and courtesies extended to both our staff and the external audit firm's employees during the audit.

Sincerely,

Rashmi Bartlett
Inspector General

MANAGEMENT LETTER

U.S. INTERNATIONAL
TRADE COMMISSION

WASHINGTON, D.C.

FOR THE YEAR ENDED
SEPTEMBER 30, 2022

Harper, Rains, Knight & Company, P.A.
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Harper, Rains, Knight & Company

December 5, 2022

Inspector General
U.S. International Trade Commission

We have audited the balance sheet of the U.S. International Trade Commission (USITC) as of September 30, 2022, and the related statements of net cost, changes in net position, and budgetary resources for the fiscal year then ended, and the related notes to the financial statements, and have issued our report thereon dated November 10, 2022.

In planning and performing our audit of the basic financial statements of the USITC as of and for the year ended September 30, 2022, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, we considered USITC's internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the USITC's internal control. Accordingly, we do not express an opinion on the effectiveness of USITC's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis. A reasonable possibility exists when the likelihood of an event occurring is either reasonably possible or probably as defined as follows:

- *Reasonably possible.* The chance of the future event or events occurring is more than remote but less than likely.
- *Probable.* The future event or events are likely to occur.

Our consideration of internal control was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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During our audit we noted certain matters related to internal control and other operational matters that are presented for your consideration in Appendix A. Three (3) of the four (4) internal control deficiencies were new in fiscal year 2022 and one (1) internal control deficiency was a repeat finding from the prior year. These comments and recommendations, all of which have been discussed with the appropriate members of management and the USITC Office of Inspector General, are intended to improve internal control or result in other operating efficiencies and are not considered to reflect significant deficiencies, or material weaknesses in internal control over financial reporting. All deficiencies, in internal control over financial reporting have been previously communicated to management, as applicable.

The purpose of this communication, which is an integral part of our audit, is to describe, for management and those charged with governance, the scope of our testing of internal control and the results of that testing. Accordingly, this communication is not intended to be and should not be used for any other purpose.

Harper, Rains, Knight & Company, P.A.

Washington, DC

I. Internal Control Deficiencies

A. Internal Control Over Property, Plant & Equipment (repeat finding from prior year)

Condition:

We tested a sample of fourteen (14) PPE asset additions as of June 30 of FY 2022.

Four (4) of the PPE asset addition samples, all related to one (1) PPE asset, were incorrectly capitalized and recorded to equipment (SGL account 1750) when they should have been recorded to construction in progress (SGL account 1720), as they had not been placed in service per support provided.

Criteria:

Per Statement of Federal Financial Accounting Standards 6: Accounting for Property, Plant, and Equipment, paragraph 34, PP&E shall be recognized when title passes to the acquiring entity or when the PP&E is delivered to the entity or to an agent of the entity. In the case of constructed PP&E, the PP&E shall be recorded as construction work in process until it is placed in service, at which time the balance shall be transferred to general PP&E.

Per the U.S. Standard General Ledger Accounts and Definitions, Account 172000, Construction-in-Progress, is used to record the amount of direct labor, direct material, and overhead incurred in the construction of general property, plant, and equipment (except information technology software) for which the federal entity will be accountable. Upon completion, these costs will be transferred to the proper capital asset account as the acquisition cost of the item. This account does not close at year-end.

Per the U.S. Standard General Ledger Accounts and Definitions, Account 175000, Equipment, is used to record the amount of capitalized cost of tangible equipment items of a durable nature used by the federal entity in providing goods and services. This excludes computer software. This account does not close at year-end.

Cause:

USITC capitalized and recorded a PPE asset that is not yet in service to the equipment SGL account 1750, when it should have been recorded to the construction in progress SGL account 1720.

Effect:

USITC overstated SGL 1750 (Equipment) and understated SGL 1720 (construction in progress) by $225,451.91 as of 6/30/22 due to the asset being recorded to the incorrect SGL account.

Recommendation:

We recommend that USITC place PPE assets made up of multiple purchases over a period of time and that are not yet placed in service in the construction in progress SGL account.

B. Internal Control Over Prompt Payment Act Compliance for International Transactions

Condition:

We identified one (1) contractual expense sample that was paid after the 30th day and no interest was paid on the sampled expense in violation of the Prompt Payment Act.

Criteria:

Per the Prompt Payment Act (PPA), the Government considers payment as being made on the day a check is dated or the date of an electronic funds transfer (EFT). Invoice payments' due date for making invoice payments by the designated payment office is the later of the following two events: 1) The 30th day after the designated billing office receives a proper invoice from the Contractor; 2) The 30th day after Government acceptance of supplies delivered or services performed. For a final invoice, when the payment amount is subject to contract settlement actions, acceptance is deemed to occur on the effective date of the contract settlement. If the designated billing office fails to annotate the invoice with the actual date of receipt at the time of receipt, the invoice payment due date is the 30th day after the date of the Contractor's invoice, provided the designated billing office receives a proper invoice and there is no disagreement over quantity, quality, or Contractor compliance with contract requirements.

In the event the designated payment office does not submit payment within the guidelines stated above, the designated payment office will pay an interest penalty automatically, without request from the Contractor. The Government will compute the interest penalty in accordance with the Office of Management and Budget prompt payment regulations at 5 CFR Part 1315.

Cause:

The sample transaction was an international payment, which is processed manually. Payment was not submitted in accordance with the PPA Guidelines, resulting in interest not being properly paid.

Effect:

Failure to pay invoices in accordance with the PPA will result in accrual of additional interest expense based on invoice balance.

Failure to pay interest on invoices not paid within PPA Guidelines results in a violation of the Prompt Payment Act.

Recommendation:

We recommend that USITC develop and implement internal controls procedures for international payments, which are processed manually, to verify payment is submitted within PPA Guidelines and, if applicable, interest is calculated appropriately and submitted with payment to vendor(s).

C. Internal Control Over Financial Reporting

Condition:

We obtained the June 30, 2022 financial statements and trial balance from USITC and performed the following: (1) traced and agreed the June 30, 2022 trial balance numbers to the financial statements; (2) verified mathematical accuracy of the financial statements, footnotes, RSI and RSSI by footing and cross footing the schedules, as appropriate; and (3) agreed the amounts reported in the footnotes to the amounts reported on the face of the financial statements. During our testing, we noted the following:

- USITC included account 2213 (Employer Contributions & Payroll Taxes Payable) and account 2225 (Unfunded FECA Liability) in the Intra-governmental Accounts Payable line on the balance sheet, instead of it being included in the Intra-governmental Other Liabilities line.
- USITC included account 2213 (Employer Contributions & Payroll Taxes Payable) in the With the Public Other Liabilities line on the balance sheet, instead of it being included in the With the Public Federal Employee and Veteran Benefits Payable line.
- USITC included account 2210 (Accrued Funded Payroll & Leave) in the With the Public Federal Employee and Veteran Benefits Payable line on the balance sheet, instead of it being included in the With the Public Other Liabilities line.
- Note 5 references to Other Liabilities on the Balance Sheet, but the note is labeled “Liabilities Not Covered by Budgetary Resources. USITC does not have an Other Liabilities Note where Other Liabilities are broken out in the note.

Criteria:

USITC Financial Management Manual, April 2021, Section 1530 Agency Financial Reports, Sub-section 1530-04 External Reports, Financial Statements (pp.135-136) states:

“The Accountant ensures proper financial statement grouping and mapping through use of an Excel spreadsheet containing crosswalks for each financial statement based on Treasury’s Account Grouping.

Prior to preparation of the financial statements each quarter, the Accountant checks the Treasury website for updates to the financial statement crosswalks and implements any changes affecting the USSGL accounts.”

Per the USSGL Crosswalk – Balance Sheet, for Intra-governmental liabilities, account 2213 (Employer Contributions & Payroll Taxes Payable) and account 2225 (Unfunded FECA Liability) should be included in the Other Liabilities line.

Per the USSGL Crosswalk – Balance Sheet, for Liabilities with the Public, account 2213 (Employer Contributions & Payroll Taxes Payable) should be included in the Employee and Veteran Benefits Payable line.

Per the USSGL Crosswalk – Balance Sheet, for Liabilities with the Public, account 2210 (Accrued Funded Payroll & Leave) should be included in the Other Liabilities line.

Per OMB Circular A-136, Financial Reporting Requirements (updated June 3, 2022), section II.3.8.18, to support the preparation of the Government-wide statements, the other liabilities shown below must be disclosed and any immaterial amounts for the numbered line titles in the Balance Sheet Template must also be disclosed:

	Current Year	**Prior Year**
	Total	**Total**
Intragovernmental		
1.		
2.		
3.		
Total Intragovernmental		
Other than Intragovernmental		
1. Accrued Funded Payroll and Leave		
2. Contingent Liabilities		
3. Allocation of Special Drawing Rights		
4. Actuarial Liabilities for Treasury-Managed Benefit Programs		
5. Other Liabilities w/o Related Budgetary Obligations		
6. Other Liabilities w/ Related Budgetary Obligations		
7.		
8.		
Total Other than Intragovernmental		
Total Other Liabilities		

Cause:

The internal controls in place over the presentation and disclosure of Balance Sheet items were not followed for the 3rd Quarter Financial Statement preparation due to staffing shortages. The "BS Crosswalk" tab in the FY22 Q3 Financial Statement Excel spreadsheet provided by USITC incorrectly groups Employer Contributions & Payroll Taxes Payable and Unfunded FECA Liability in the Intragovernmental Accounts Payable line. Also, the "BS Statement" tab in the FY22 Q3 Financial Statement Excel spreadsheet provided by USITC incorrectly puts Accrued Funded Payroll & Leave into the With the Public Federal Employee and Veteran Benefits Payable line item and incorrectly puts Employer Contributions & Payroll Taxes Payable into the With the Public Other Liabilities line item.

There is no specific internal control to review changes to the OMB A-136. Financial Reporting Requirements on an annual basis for updates affecting reporting.

Effect:

The lack of an Other Liabilities note disclosure to breakout the amounts making up the Other Liabilities line item is a departure from A-136.

The Intragovernmental Accounts Payable line item on the 6/30/2022 balance sheet was overstated by $597,547.90 and the Intragovernmental Other Liabilities line item on the 6/30/2022 balance sheet was understanded by $597,547.90.

The With the Public Federal Employee and Veteran Benefits Payable line item on the 6/30/2022 balance sheet was overstated by $2,346,783.60 and the With the Public Other Liabilities line item on the 6/30/2022 balance sheet was understated by $2,346,783.60.

Recommendation:

We recommend the following:

1. Update the USITC Financial Management Manual to add an internal control to review changes to financial reporting requirements issued under OMB A-136 and implement the changes to the financial statements and notes templates that are affected;
2. Create a separate note for Other Liabilities that properly discloses what makes up Other Liabilities on the Balance Sheet. This note should follow A-136 guidance;
3. Ensure all positions within the OCFO are properly staffed and resources are available to ensure controls in place can be performed;
4. Explore the potential to engage USITC's shared service provider Interior Business Center (IBC) to perform financial reporting requirements of the Commission.

D. Internal Control Over the Actuarial FECA Liability

Condition:

We obtained the 2022 FECA Calculation Model and recalculated it as of September 30, 2022, noting the following:

- USITC calculated the correct amount for the liability but instead of adjusting the liability account to the correct amount, USITC adjusted the account by that amount, resulting in a variance of $74,475.34.

Criteria:

Per the Estimated Actuarial Liability for Worker's Compensation for Non-CFO Act Entities FY 2022 (Unaudited) Instructions:

"For both compensation and medical, the calculation takes the amount of benefit payments for the entity over the last 12 quarters, and calculates the annual average of payments. Compensation and medical payments can be found in the chargeback reports that are issued quarterly to the agencies by FECA."

"The two average payment amounts are then multiplied by the respective compensation and medical liability to benefits paid ratios from the whole FECA program for the past three years, which have been entered into the spreadsheet already. These ratios vary from year to year as a result of economic assumptions and other factors but, roughly speaking, the model calculates an overall liability of about 12.43 times the annual payments."

"To reflect the variability of the situations at different agencies, each agency should exercise judgment in selecting the amount to record as its actuarial liability, whether it is the amount from the model based on 100 percent of LPR, the amount based on LPR decreased by 10 percent, or the amount based on LPR increased by 10 percent. Factors to consider include: the trend of payments over the past few years and any known recent variations in the incidence or nature of new FECA claims. Thus, an agency with a history of declining payments or a declining number of employees might select a lower estimate as the most reasonable, while an agency with an unusually increasing amount of payments might select a higher estimate as most appropriate. Similarly, an agency that has had a recent increase in new claims might use a higher estimate. Young agencies will often fall into the latter two categories and should choose the higher estimate."

Cause:

USITC did not have procedures in place to record and review the proper implementation of the Estimated Actuarial Liability for Worker's Compensation for Non-CFO Act Entities FY 2022 (Unaudited) Instructions which are provided by the Department of Labor (DOL) on annual basis to ensure the proper amount was being recorded by USITC.

Effect:

The Actuarial FECA Liability USSGL account was overstated by $74,475.34.

Recommendation:

We recommend that USITC implement policies and procedures to read and review the Estimated Actuarial Liability for Worker's Compensation for Non-CFO Act Entities FY 2022 (Unaudited) Instructions when issued by DOL to ensure the proper liability is being recorded and reviewed by USITC.

UNITED STATES INTERNATIONAL TRADE COMMISSION

WASHINGTON, DC 20436

CO83-UU-003

December 12, 2022

MEMORANDUM

TO:	The Office of the Secretary
FROM:	David S. Johanson, Chairman
SUBJECT:	Response to Draft Management Letter – Audit of Commission's Financial Statements for Fiscal Year 2022

Thank you for the opportunity to review and provide comments to the draft management letter – Audit of Commission's Financial Statements for Fiscal Year 2022.

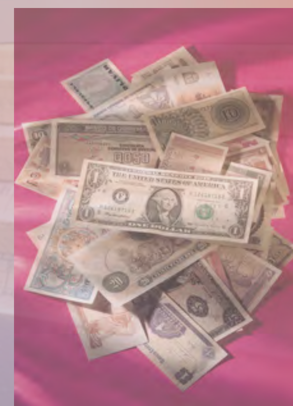
We agree with the audit findings on the identified internal control matters. The Commission will develop management decisions to address the seven recommendations in the draft report.

Thank you,

Chairman David S. Johanson

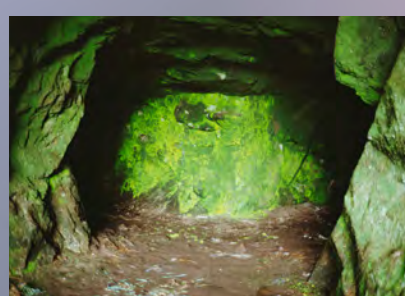
"Thacher's Calculating Instrument" developed by Edwin Thacher in the late 1870s. It is a cylindrical, rotating slide rule able to quickly perform complex mathematical calculations involving roots and powers quickly. The instrument was used by architects, engineers, and actuaries as a measuring device.

To Promote and Preserve
the Efficiency, Effectiveness, and Integrity of the
U.S. International Trade Commission







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