OFFICE OF INSPECTOR GENERAL

AUDIT OF THE U.S. INTERNATIONAL TRADE COMMISSION'S FINANCIAL MANAGEMENT SYSTEM CONTROLS

Audit Report
OIG-AR-02-03

July 24, 2003

INSPECTOR GENERAL

IG-AA-010

UNITED STATES INTERNATIONAL TRADE COMMISSION

WASHINGTON, D.C. 20436

July 24, 2003

MEMORANDUM

TO: THE COMMISSION

We hereby submit Audit Report No. OIG-AR-02-03, *Audit of the U.S. International Trade Commission's Financial Management System Controls.* We audited the Commission's financial data for reliability, accuracy, completeness, and timeliness to assist the Commission meet a new requirement to prepare financial statements.

Generally, the Commission's accounting records reasonably and fairly represented financial transactions, and internal controls were in place. However, the Commission should strengthen certain internal control areas related to property, cash, payroll, and accounts receivable. Also, in the event the Office of Management and Budget requires the Commission to submit fiscal year 2004 unaudited financial statements quarterly, we suggest the Commission update its procedures to ensure timely financial information and reporting.

The Commission concurred with our findings and recommendations. Of the four recommendations made, management responded that three have been fully implemented and actions on the remaining recommendation should be completed by October 30, 2003.

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

Kenneth F. Clarke
Inspector General

CC: Cynthia Johnson
Office Directors
O'Connor & Drew, P.C.

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I. SUMMARY OF RESULTS

To assist the U. S. International Trade Commission (Commission) meet a new requirement to prepare financial statements, the Office of Inspector General (OIG) audited the Commission's financial data for reliability, accuracy, completeness, and timeliness.

Generally, the Commission's accounting records reasonably and fairly represented financial transactions, and internal controls were in place. We found no instances of fraud. However, the Commission should strengthen certain internal control areas related to property, cash, payroll, and accounts receivable. Also, in the event the Office of Management and Budget (OMB) requires the Commission to submit fiscal year (FY) 2004 unaudited financial statements quarterly, we suggest the Commission update its procedures to ensure timely financial information and reporting.

The Commission agreed with the findings and recommendations, and management's complete response is presented as Appendix A of this report.

II. 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 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 should consist of the following:

1. Management discussion and analysis
2. Basic statements and related notes, such as 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, when applicable

3. Required supplementary stewardship information
4. Required supplementary information

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, whether the Commission's financial management system is in accordance with OMB guidelines.

III. OBJECTIVES

The overall objective of the audit was to evaluate the Commission's financial data for reliability, accuracy, completeness, and timeliness. Specifically, we determined whether the Commission:

- Established and communicated all procedures and policies governing transactions related to cash, accounts receivable, property, payroll, and disbursements.

- Implemented sufficient internal controls to monitor and adequately control cash, accounts receivable, property, payroll, and disbursement transactions.

IV. METHODOLOGY AND SCOPE

We engaged O'Connor & Drew, P.C. to assist in conducting this audit that included financial transactions related to FY 2003, from October 1, 2002 through January 24, 2003. Fieldwork took place between January 2003 and March 2003.

We reviewed applicable policies and procedures and interviewed Commission employees to identify and evaluate the Commission's: (a) implementation of recommendations made in our prior financial statement audit titled *Audit of the USITC Financial Statements of Fiscal Years 1998 and 1999*, March 24, 2000 (OIG-AR-03-00)[1] and (b) controls over financial data. Specifically, we evaluated:

- Internal control policies and procedures over disbursements. We tested 40[2] 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 40[3] 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; and
  - Employees existed.

[1] The Commission voluntarily prepared these financial statements, and the OIG audited them. No subsequent financial statements were prepared or audited because neither the Commission nor the Inspector General considered them to be cost effective.

[2] We randomly selected a sample of 40 disbursements from the Commission's *Detail Accrued Expenditure Transactions Report*, which had a population of 372 disbursements, by using the U.S. Army Statistical Sampling System.

[3] We randomly selected a sample of 40 employees from the *Department of Interior Payroll Journal* by using the U.S. Army Statistical Sampling System. The total population was 373 employees. We then selected four out of the nine pay periods in FY 2003. For each of the four selected pay periods, we reviewed 25 percent of our sample of 40 employees.

- Internal control policies and procedures regarding accountable property items. We randomly selected 40[4] items, and determined whether:
  - Each item was physically present;
  - Property was bar coded;
  - The Form 110 *Property Action Form* was completed, if applicable; and
  - The Cost Center Manager performed the annual inventory.

- Policies and procedures over capital property. We performed a physical inventory of all nine fixed assets.

- Policies and procedures for capitalizing leased property. We obtained and reviewed the agreements for all three leased items, and determined whether the agreements met the capital lease criteria disclosed in the Statement of Federal Financial Accounting Standard (SFFAS) Number 6, *Accounting for Property, Plant and Equipment.*

- Policies and procedures for capitalizing a major automated system, the new Electronic Document Information System (EDIS). We reviewed the applicable documentation and interviewed Commission personnel.

- Internal control policies and procedures over cash reporting and accounts receivable. We reviewed all cash related reconciliations and deposits for FY 2003, and interviewed several employees.

We conducted this audit in accordance with *Government Auditing Standards* pertaining to Performance Audits, 1994 Revision, as amended, promulgated by the Comptroller General of the United States.

V. DETAILS OF RESULTS

A. Policies and Procedures Were Effective

Overall, financial transactions were reasonably and fairly stated, and internal control systems over cash, accounts receivable, property, and disbursements were effective.

The Commission took action to correct weaknesses identified from the audit of the Financial Statements for FY 1998 and FY 1999. Specifically, the Commission:

[4] We randomly selected a sample of 40 accountable property items from the *Accountable Office Master Property Listing Report*, which had a population of 984 accountable property items, by using the U.S. Army Statistical Sampling System.

- Strengthened the internal controls over recording accounts receivable related to civil penalties. An employee in the Office of the General Counsel was assigned the responsibility to communicate information related to potential bonds or civil penalties to the Office of Finance.

- Complied with the Federal Acquisition Regulations (FAR) on all blanket purchase agreements. The Office of Finance obligated funds in the official accounting records based on dollar amounts, and the Office of Facilities Management monitored all blanket purchase agreements.

- Performed mid-year reviews of prior year outstanding funds to identify and alert the Office of Finance to funds that should be de-obligated.

The Commission also effectively implemented internal controls over disbursements and payroll. We tested 40 disbursements related to purchase cards, travel, the Intra-governmental Payment and Collection System, and vendor payments, and determined that all disbursements were made in accordance with the Commission's Directives and Handbooks. Employees obtained proper approval; purchases made were within maximum thresholds and were allowable under the FAR; supporting documents were obtained; and payments were made timely. Of the 40 employees selected for our payroll test, we found that all personnel files contained all required completed forms. Also, the employees' time and attendance information was properly authorized and maintained, voluntary withholdings were properly administered, and all employees existed.

Additionally, we reviewed the Commission's program for employees who the Commission allows to work for another agency for a specified period of time and determined that the program operated as prescribed. Both the Commission and the borrowing agency complied with the terms contained in the Memorandum of Understanding between the two agencies.

While the above internal controls were effective, the Commission needs to take additional actions to produce accurate and complete financial statements. As discussed in the remaining sections of this report, the Commission needs to strengthen its oversight of property, improve the accuracy of the financial records, and improve cash and accounts receivable procedures.

B. Oversight of Property Should be Strengthened

The Commission's financial records may be misstated because property records were not accurate. We found that Accountable Officers[5] did not notify the Office of Facilities Management when an asset was disposed; lease agreements were not reviewed for capitalization; and the costs of an asset under development were not tracked.

Disposal of Property

Fixed asset and accountable property lists were inaccurate. Using the lists, we were unable to locate 2 of 9 fixed assets and 2 of the 40 randomly selected accountable property items. The Commission had not performed an agency-wide annual physical inventory of capital property, nor had the Accountable Officer prepared and submitted Form 110 to the proper official. 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. Furthermore, the Accountable Officers must conduct an annual physical inventory and report the results to the Office of Facilities Management by January 15 of each year.

For fixed assets, SFFAS 6, *Accounting for Property, Plant and Equipment* states that each agency is allowed to determine the capitalization threshold. Effective October 1, 1999, the Commission elected to increase the fixed asset capitalization threshold from $5,000 to $50,000.

As of January 24, 2003, the Office of Facilities Management's list of fixed assets consisted of nine items totaling $1,100,671. Using this list, we conducted a physical inventory of all nine items and could not locate two which represented an initial cost of $482,826. According to the list, the Office of Publishing was the Accountable Office for both missing items. Through further review, we determined that both items were traded in – one was traded in by another Office prior to the Office of Publishing absorbing some of their duties and the remaining item was traded in by the Office of Publishing.

[5] Accountable Officers are the Commissioners and office directors who have been assigned property.

Presented below are the details of the missing items.

Property I.D. #	Year Placed in Service	Description	Cost	Accumulated Depreciation @ 9/30/02	Net Book Value @ 9/30/02	Month/Year Disposed
1867	1996	Xerox 5790 Copier	$ 60,755	$ 54,679	$ 6,076	Sep-99
1871	1997	Xerox Docutech	$422,071	$298,535	$123,536	Sep-98

The list of fixed assets was not updated because the Accountable Office at the time each item was traded in did not prepare a Form 110 indicating the disposal of the traded in items. Unclear guidance may have contributed to the Accountable Office's failure to complete Form 110. Form 110 included "trade in property" as a reason to complete the Form, but it was labeled "For Accountable Property Use Only" and the Form referenced the Directive's predecessor 3550.2. The current Directive did not provide guidance on trade in property.

Also, the current Directive was vague on the responsibility to conduct an annual physical inventory of fixed assets. In practice, the Office of Facilities Management conducted this inventory. However, their master property list had not been updated to eliminate fixed assets below the Commission's revised threshold of $50,000, thus causing errors when the inventory was taken.

Accountable property is government-owned property that the Commission controls because of its sensitivity and/or potential for theft. These items are:

- Automated Data Processing (ADP) equipment (all computer equipment, including laptops, printers, and facsimile machines)
- Televisions
- Video Cassette Recorders
- Video Cameras
- 35 mm Cameras

For accountable property, we randomly selected 40 items for physical verification from the Office of Facilities Management's list of accountable property. We were unable to locate 2 items. Both were assigned to the Office of Information Services (OIS). OIS listed these items on their own OIS inventory listing dated December 19, 2002, that they provided to the Office of Facilities Management. However, in response to our preliminary results, OIS officials investigated the items and determined that both were no longer located at the Commission. Although accountable property items are expensed in the period of acquisition, it is imperative that these items be reported within the proper

period to ensure accuracy of the accountable property list. Details of the property are presented below.

Property I.D. #	Description	Month/Year disposed
0266	Printer HP 4SI	May 2001
1557	Panasonic Fax	Unknown, but prior to December 2002

Capitalizing Leased Property

We reviewed the current agreements for all three assets being leased and determined that one of the three leases should have been recorded as a capital lease. Management did not review the lease agreements to determine whether capitalization of the property was applicable. Failure to properly capitalize leased property will result in a misstatement once the Commission produces financial statements.

In accordance with SFFAS Number 6, one of the following criteria must be met for the lease to be classified as a capital lease:

- The leasor transfers ownership of the property to the lessee by the end of the lease term.
- The lease contains an option to purchase the leased property at a bargain price.
- The lease term is equal to or greater than 75% of the estimated economic life of the lease property.
- The present value of the rental and other minimum lease payments, excluding that portion of the payments representing executory cost, equals or exceeds 90% of the fair value of the leased property.

The 60 month lease for the Xerox Custom Publisher 6180 Docutech (serial number 8VE050675), which was placed in service on February 21, 2001, should have been capitalized. The title of the equipment will transfer to the Commission at the conclusion of the specified lease period without any additional payment.

EDIS Costs

As of February 2003, approximately $2,450,000 was obligated for the development and implementation of the new EDIS. While the Commission assigned an individual with the responsibility to manage EDIS' development and implementation, no one employee was responsible for monitoring the accumulated costs for EDIS and advising the Office of

Finance of the costs to be capitalized. Failure to monitor expenditures for capitalization increases the risk of financial records not being properly stated.

Currently, the Commission has spent approximately $2.2 million (90 percent) of the funds obligated to this project. We did not assess the planning and management of this major investment because our object was to evaluate financial data. A key goal of the *Clinger-Cohen Act*[6] (Public Law 104-106, February 10, 1996) is that agencies should have processes and information in place to help ensure that projects are being implemented at acceptable costs, within reasonable and expected time frames, and are contributing to tangible, observable improvements in mission performance.

SFFAS Numbers 6 and 10 apply to capitalizing for automated system's hardware and software. As previously discussed, the Commission determined a $50,000 threshold for capitalizing under SFFAS 6. SFFAS Number 10, *Accounting for Internal Use Software* requires entities to capitalize the cost of software when such software is used in providing goods and services. Furthermore, the capitalized cost should include the full cost (direct and indirect) incurred during the software development stage.

Recommendation 1

The Director, Office of Administration should revise Form 110 and the Property Management Directive to include guidance for both fixed assets and accountable property and obtain appropriate approval for prompt issuance. The revised Directive should: (a) require the Accountable Officer to promptly advise the Office of Facilities Management of a change in status or location of all types of property through the use of Form 110; (b) assign responsibility and develop procedures to conduct an accurate physical inventory of fixed assets and accountable property; (c) assign responsibility to review all lease agreements and determine whether any leases should be capitalized under the provisions of SFFAS Number 6; and (d) assign responsibility to monitor capital expenditures to identify the proper accounting treatment according to SFFAS Numbers 6 and 10. Procedures should be included to ensure the Office of Finance is promptly alerted of all items affecting the financial records.

Management Response

The Director, Office of Administration concurred with the recommendation. The Director of Administration directed the Directors of Finance and Facilities Management to revise Directive 3550.3 and Form 110 to address the issues identified in this recommendation. The new directive will be issued by October 30, 2003.

[6] The President signed the Information Technology Management Reform Act (ITMRA) into law; ITMRA together with the Federal Acquisition Reform Act became known as the Clinger-Cohen Act.

OIG Comment

When accomplished, the above actions will satisfy this recommendation.

C. Controls over Payroll Reconciliation, Accounts Receivable and Cash Should be Improved

Payroll balances may be misstated because the Office of Finance adjusted the Commission's payroll records to agree with the figures reported by DOI without determining the cause for the differences. Additionally, the Commission had not set up a receivable account to properly record the employees' obligation and repayment of their portion of parking subsidized by the Commission. Finally, the Office of Finance should separate the various duties related to cash transactions. We found that one employee had the responsibility to collect and process cash transactions.

Payroll Reconciliation

Personnel in the Office of Finance completed all required cash and payroll account reconciliations, but payroll was not properly reconciled. An employee in the Office of Finance posted entries to the Federal Financial System (FFS) to make the FFS payroll figures agree with the DOI report, without investigating the differences. Although the net adjustments were normally small, they may contain many different components. The effect of not properly researching payroll variances increases the risk of misstated financial records and loss of assets.

Accounts Receivable

For the subsidized parking program, the Office of Finance recorded in total the Commission's portion and the employees' reimbursable portion as an expense on the general ledger at the beginning of the fiscal year. The portion due from the employees was not reflected on the general ledger. Employees reimburse the Commission for their portions through bi-weekly payroll deductions, and the Office of Finance posted those amounts against the expense account. DOI provides the Commission with a *Transportation Not Taxed* report, which discloses the amount withheld from the employees, but no one reviewed the report to ensure that all participating employees repaid the Commission. Furthermore, by not recording the prepaid expense and relieving the prepaid expense when employees reimburse the Commission, financial records are not properly stated.

Commission Directive 2102.0 states that the Director of the Office of Finance is responsible for performing reviews of the financial management system and advising the

Director of Administration whether the Commission's financial management system is in accordance with OMB Guidelines. OMB Circular A-127 states that transactions should be promptly recorded, properly classified and accounted for in order to prepare timely accounts and reliable financial and other reports.

Cash

The Office of Finance had one employee maintaining the cash receipts log, preparing the cash deposits, delivering the deposit to the bank, and recording the deposit in the accounting system, without any management oversight. We tested cash receipts for FY 2003, and determined that the employee properly made the deposits. While we recognize that the Commission normally has a small[7] amount of cash receipts and limited staff in the Office of Finance, a separation of this employee's duties is needed to minimize the risk of loss of funds.

OMB Circular A-127 states that key duties and responsibilities for authorizing, processing, recording, and reviewing official agency transactions should be separated among individuals. Managers should exercise appropriate oversight to ensure individuals do not exceed their assigned authorities.

Recommendation 2

The Director, Office of Administration, should direct the Director, Office of Finance, to monitor all reconciliations to assure that all adjustments and variances are properly supported.

Management Response

The Director, Office of Administration concurred with the recommendation and completed the recommended action. On June 30, 2003, the Director of Administration instructed the Director of Finance to monitor all payroll reconciliations to assure that adjustments and variances are properly supported. The Director of Finance will ensure this is accomplished at least once a month.

OIG Comment

The above action satisfies this recommendation.

[7] Median receipt was approximately $150 over four months.

Recommendation 3

The Director, Office of Administration, should direct the Director, Office of Finance, to set-up a receivable account in the beginning of the year for the employees' share of the subsidized parking; reduce the receivable at time of the reimbursements; and monitor the program to verify that employees reimburse the Commission.

Management Response

The Director, Office of Administration concurred with the recommendation and completed the recommended actions. On June 30, 2003, the Director of Administration instructed the Director of Finance to set-up a receivable account at the beginning of FY 2004 for the employee's share of the subsidized parking, reduce the receivable at the time of reimbursement, and monitor the program to verify that employees reimburse the Commission.

OIG Comment

The above actions satisfy this recommendation.

Recommendation 4

The Director, Office of Administration, should assign: (a) some of the cash receipts tasks to other employees and (b) an employee to monitor this function.

Management Response

The Director, Office of Administration concurred with the recommendation and completed the recommended actions. In June 2003, the Director of Administration through the Director of Finance, separated the cash receipt tasks among several employees in the Office of Finance and assigned the operating accountant the responsibility of monitoring deposit receipts.

OIG Comment

The above actions satisfy this recommendation.

D. Policies and Procedures Could be Revised to Facilitate Timely Financial Information and Reporting

The Commission may not be in a position to submit accurate financial statements within the required due dates because of its current policies and procedures. These policies and procedures should be revised to ensure balances are timely updated. With the enactment of the *Accountability of Tax Dollars Act of 2002*, OMB may require the Commission to file unaudited financial statements quarterly as early as the first quarter of FY 2004. Also, agencies' due date for submitting their audited financial statements has been on an accelerated pace. The FYs 2003 and 2004 audited financial statement due dates to OMB are February 1, 2004 and November 15, 2004, respectively.

Examples of current policies and procedures that came to our attention which the Commission should consider revising to ensure financial records are accurate and timely included the:

- Depreciation expense, approximately $160,000 for FY 2002, was recorded once rather than on a monthly basis.

- Annual physical inventory process ran from December to February 15, as prescribed in Directive 3550.3, which is past OMB's due dates for financial statements.

Suggestion

The Director, Office of Administration, should take the appropriate action to revise current policies and procedures to ensure financial information is timely updated to meet the financial statement reporting requirements.

UNITED STATES INTERNATIONAL TRADE COMMISSION

WASHINGTON, DC 20436

July 1, 2003 AD-AA-072

MEMORANDUM

TO: Inspector General

FROM: Stephen A. McLaughlin, Director
Office of Administration

SUBJECT: Response to OIG Draft Audit Report: The U.S. International Trade Commission's Financial Management System Controls

The Office of Inspector General issued the subject draft audit on May 13, 2003. Action on three recommendations has been completed, and we agree on the one remaining recommended action.

Recommendations

1. The Office of Administration Director should revise Form 110 and the Property Management Directive to include guidance for both fixed assets and accountable property and obtain appropriate approval for prompt issuance. The revised Directive should:

(a) require the Accountable Officer to promptly advise the Office of Facilities Management of a change in status or location of all types of property through the use of Form 110;

(b) assign responsibility and develop procedures to conduct an accurate physical inventory of fixed assets and accountable property;

(c) assign responsibility to review all lease agreements and determine whether any leases should be capitalize under the provision of SFFAS number 6; and

(d) assign responsibility to monitor capital expenditures to identify the proper accounting treatment according to SFFA Number 6 and 10. Procedures should be included to ensure the Office of Finance is promptly alerted to all items affecting the financial records.

The Director of Administration has directed the Directors of Finance and Facilities Management to revise Directive 3550.3 and Form 110 to address the issues identified in the recommendation. The new directive will be issued by October 30, 2003.

Status: Action to be completed by October 30, 2003.

2. The Director, Office of Administration, should direct the Director, Office of Finance, to monitor all reconciliations to assure that all adjustments and variances are properly supported.

On June 30, 2003, the Director of Administration instructed the Director of Finance to monitor all payroll reconciliations to assure that adjustments and variances are properly supported. The Director of Finance will ensure this is accomplished at least once a month.

Status: Closed.

3. The Director, Office of Administration, should direct the Director, Office of Finance, to set-up a receivable account in the beginning of the year for the employees share of the subsidized parking; reduce the receivable at the time of the reimbursement; and monitor the program to verify that employees reimburse the Commission.

On June 30, 2003, the Director of Administration directed the Director of Finance to set-up a receivable account at the beginning of Fiscal Year 2004 for the employees share of the subsidized parking, reduce the receivable at the time of reimbursement, and monitor the program to verify that employees reimburse the Commission. The Director of Finance will use this account to monitor employee payments.

Status: Closed

4. The Director, Office of Administration, should assign; (a) some of the cash receipts tasks to other employees and (b) an employee to monitor this function.

In June 2003, the Director of Administration, through the Director of Finance, separated the cash receipt tasks among several employees in the Office of Finance and has assigned the operating accountant the responsibility of monitoring deposit receipts.

Status: Closed

cc: Office of Finance
Office of Facilities Management