



Audit Report



OIG-21-017

FINANCIAL MANAGEMENT

Management Letter for the Audit of the Alcohol and Tobacco Tax and Trade Bureau's Financial Statements for Fiscal Years 2020 and 2019

December 15, 2020

Office of Inspector General
Department of the Treasury

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DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

OFFICE OF
INSPECTOR GENERAL

December 15, 2020

**MEMORANDUM FOR MARY RYAN, ADMINISTRATOR
ALCOHOL AND TOBACCO TAX AND TRADE BUREAU**

FROM: James Hodge /s/
Director, Financial Audit

SUBJECT: Management Letter for the Audit of the Alcohol and Tobacco
Tax and Trade Bureau's Financial Statements for Fiscal Years
2020 and 2019

We hereby transmit the attached subject management letter. Under a contract monitored by our office, KPMG LLP (KPMG), a certified independent public accounting firm, audited the financial statements of the Alcohol and Tobacco Tax and Trade Bureau (TTB) as of September 30, 2020 and 2019, and for the years then ended. The contract required that the audit be performed in accordance with U.S. generally accepted government auditing standards, Office of Management and Budget (OMB) Bulletin No. 19-03, *Audit Requirements for Federal Financial Statements*, and the Government Accountability Office/Council of the Inspectors General on Integrity and Efficiency, *Financial Audit Manual*.

As part of its audit, KPMG LLP issued the attached management letter dated December 15, 2020, that discusses matters involving deficiencies in internal control over financial reporting that were identified during the audit. These matters relate to insufficient processes to evaluate and review post-closing journal entries and inappropriate segregation of duties in certain system access and provisioning.

In connection with the contract, we reviewed KPMG's management letter and related documentation and inquired of its representatives. KPMG is responsible for the letter and the conclusions expressed in the letter. However, our review disclosed no instances where KPMG did not comply, in all material respects, with U.S. generally accepted government auditing standards.

If you wish to discuss this report, please contact me at (202) 927-0009, or a member of your staff may contact Shiela Michel, Manager, Financial Audit, at (202) 927-5407.

Attachment

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KPMG LLP
Suite 12000
1801 K Street, NW
Washington, DC 20006

December 15, 2020

Mr. Richard K. Delmar
Deputy Inspector General
Department of the Treasury

Ms. Mary Ryan
Administrator
Alcohol and Tobacco Tax and Trade Bureau

Mr. Delmar and Ms. Ryan:

In planning and performing our audit of the financial statements of the Alcohol and Tobacco Tax and Trade Bureau (TTB) as of and for the year ended September 30, 2020, 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 and the Office of Management and Budget (OMB) Bulletin No. 19-03, *Audit Requirements for Federal Financial Statements*, we considered TTB's internal control over financial reporting (internal control) 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 TTB's internal control. Accordingly, we do not express an opinion on the effectiveness of TTB's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses and/or significant deficiencies and therefore, material weaknesses and/or significant deficiencies may exist that were not identified. In accordance with *Government Auditing Standards*, we issued our report dated December 15, 2020 on our consideration of the TTB'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. During our audit, we identified the following deficiencies in internal control:

1. *Insufficient processes to evaluate and review post-closing journal entries.*

We observed that management recorded a post-closing adjusting journal entry to correct for a reconciling item identified as part of the Accounts Receivable process. In testing this item, we determined management had not considered the corresponding impact of this adjustment on the Allowance for Doubtful Accounts. In recalculating the allowance, we identified an overstatement of the Allowance account balance by approximately \$888,000. Management did not sufficiently consider and recognize the potential risk associated with certain adjusting journal entries and their impact on other related accounts that could occur after other controls and financial reporting processes were performed. We recommend that management evaluate the processes over post-closing entries to consider the potential for risks that may be more likely present for certain classes of transactions and impacts on related accounts and that management implement appropriate controls that are responsive to those risks. Management stated that they concur with our finding and recommendation.



Mr. Richard K. Delmar
Ms. Mary Ryan
Alcohol and Tobacco Tax and Trade Bureau
December 15, 2020
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2. Inappropriate segregation of duties in certain system access and provisioning.

There were ten users with incompatible or conflicting roles and/or access within the system for processing certain tax transactions. Management did not have appropriate policies in place to identify and enforce segregation of duties of current operational roles when provisioning the users with incompatible or conflicting roles. Additionally, management had not made periodic updates to the relevant policies to document segregation of duties identified in other existing operational policies. Management did not appropriately implement their controls in place to timely de-provision individuals with roles changes whose new role was incompatible with the prior access. Ineffective controls over segregation of duties may increase the risk of inappropriate access to the systems, which could lead to a compromise in data confidentiality, integrity and availability. We recommend that management: 1) implement periodic monitoring procedures to identify any Segregation of Duties conflicts, and if conflicts are identified, remove such access; 2) consider opportunities to design and implement automated or other procedures to identify and prevent Segregation of Duties conflicts prior to user access provisioning; 3) perform a reconciliation between the roles stated in the Information Technology Segregation of Duties Policies and the roles assigned within the technology systems to ensure there is appropriate segregation of duties; and 4) update the Information Technology Segregation of Duties Policies to document the appropriate segregation of duties between roles and responsibilities. Management stated that they concur with our finding and recommendations.

This purpose of this letter is solely to describe the deficiencies in internal control identified during our audit. Accordingly, this letter is not suitable for any other purpose.

Very truly yours,

KPMG LLP

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