



Audit Report



OIG-22-025

FINANCIAL MANAGEMENT

Management Letter for the Audit of the Alcohol and Tobacco Tax and Trade Bureau's Financial Statements for Fiscal Years 2021 and 2020

December 21, 2021

Office of Inspector General
Department of the Treasury

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OFFICE OF
INSPECTOR GENERAL

DEPARTMENT OF THE TREASURY
WASHINGTON, D. C. 20220

December 21, 2021

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

FROM: Ade Bankole /s/
Acting Director, Financial Statement Audits

SUBJECT: Management Letter for the Audit of the Alcohol and Tobacco
Tax and Trade Bureau's Financial Statements for Fiscal Years
2021 and 2020

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, 2021 and 2020, 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. 21-04, *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 17, 2021, that discusses matters involving deficiencies in internal control over financial reporting that were identified during the audit. These matters involved inappropriate access granted in the Integrated Revenue Information System application and insufficient controls over presentation of criminal restitution receivables in financial statement footnotes.

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) 927-5329, 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 17, 2021

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, 2021, 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. 21-04, *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 17, 2021 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. *Inappropriate Access Granted in the Integrated Revenue Information System (IRIS) application.*

The control over the provisioning of access to IRIS did not operate effectively. Specifically, we inspected all 44 new user accounts that were created during the audit period and identified one new user who was inappropriately granted the Supervisory role instead of the authorized Specialist role. The user had inappropriate access to the IRIS Application for about a month when the inappropriate role assignment was discovered. TTB management updated the user's access to address the noted condition.

We recommend TTB management reemphasize access provisioning procedures and the importance of conducting self-reviews to administrators, to ensure users are granted appropriate access to the IRIS application. 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 17, 2021
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2. *Lack of Sufficient Controls over Presentation of Criminal Restitution Receivables in Financial Statement Footnotes.*

TTB management did not have sufficient controls in place to timely resolve and document an accounting policy for criminal restitution receivables that were previously recorded as excise tax receivables, for which judgments were subsequently issued. Two taxpayer's receivables that were the result of this situation were not appropriately disclosed. Specifically, TTB Management did not initially disclose as Criminal Restitution Receivables an additional \$1.6 million of Tax and Trade receivables that were assessed by TTB through normal operations, and recorded as Excise Tax Receivables, then subsequently determined to also have restitution judgements. TTB management has updated the footnote language to disclose receivables with this status.

We recommend that TTB management finalize their evaluation of the legal definition of criminal restitution. Additionally, management should implement and disclose an accounting policy surrounding their process to review if current tax receivables should be identified as criminal restitutions. Management stated that they concur with our finding and recommendation.

See Appendix A for the status of prior year findings.

The 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

Washington, DC

Appendix A – Status of Prior Year Findings

TTB management addressed the following prior year findings and recommendations:

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

TTB management appropriately implemented the prior year recommendation and closed the finding. Management considered the potential risks over post-closing entries and the impact on related accounts. TTB appropriately recorded post-closing entries in Fiscal Year (FY) 21.

2. Inappropriate segregation of duties in certain system access and provisioning.

Management implemented corrective actions during FY20. We did not identify this issue in the FY21 and therefore closed this finding.



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