Federal Trade Commission
Office of Inspector General

Financial Statement Audit
for Fiscal Year 2014

Management Letter

AR 15-01A

March 18, 2015

UNITED STATES OF AMERICA
FEDERAL TRADE COMMISSION
WASHINGTON, D.C. 20580

Office of Inspector General

March 17, 2015

MEMORANDUM

TO: Chairwoman Edith Ramirez
Commissioner Julie Brill
Commissioner Maureen K. Ohlhausen
Commissioner Joshua D. Wright
Commissioner Terrell McSweeny

FROM: Roslyn A. Mazer
Acting Inspector General

SUBJECT: Transmittal of the Management Letter for the FY 2014 Financial Statement Audit

In November 17, 2014, we transmitted to you the financial statement audit performed by the independent accounting firm of Brown & Company CPAs, PLLC. The auditors issued an unmodified (clean) opinion on the FTC's FY 2014 financial statements.

When performing an audit of an agency's major financial systems and accounting processes, auditors often detect certain matters involving internal controls that do not rise to a level of seriousness to be reflected in the auditor's opinion report. These findings are communicated in a management letter. This memorandum transmits a copy of the FY 2014 Financial Statement Management Letter that reports on such matters. This letter does not affect the auditors' unmodified opinion on the financial statements.

FTC has continued to work to address many of the open recommendations from prior financial statement audits. At the beginning of the FY 2014 financial audit, there were eight recommendations to improve FTC's financial operations and internal controls. In the course of performing the FY 2014 financial statement audit, Brown & Company identified actions FTC took to address many of the matters previously identified. On the basis of FTC's actions, which were substantiated through the audit, Brown & Company closed six of the eight recommendations from previous audits.

This letter contains five additional recommendations that warrant management's consideration. Management concurred with the five recommendations and has implemented or is in the process of implementing actions to address the issues identified. Management's response is reprinted in its entirety as Appendix C.

Brown & Company CPAs, PLLC is responsible for the attached Management Letter dated December 12, 2014 and the conclusions expressed in the letter. We do not express opinions on FTC's financial statements, nor do we provide conclusions on internal control or compliance with laws and regulations.

Should you have any questions or concerns, please do not hesitate to contact me.

Cc: Heather Hippsley, Chief of Staff
David Robbins, Chief Executive Officer
Pat Bak, Deputy Executive Officer
Monique Fortenberry, Deputy Executive Officer
David Rebich, Chief Financial Officer and Performance Improvement Officer
Joseph O'Leska, Deputy Chief Financial Officer
Milissa Young-Loiselle, Assistant CFO for Financial Policy, Reporting, and Controls
Valerie Green, Deputy Performance Improvement Officer
Kimberly Mayo, Assistant CFO for Budget
Nancy Moreno, Assistant CFO for Acquisitions
George Adam, Financial Operations Accounting Officer
Randy Salzer, Senior Accountant
Kimberly Penn, Brown & Company

FEDERAL TRADE COMMISSION

MANAGEMENT LETTER

For the Year Ended
September 30, 2014

FEDERAL TRADE COMMISSION
September 30, 2014

FY 2014 MANAGEMENT LETTER COMMENTS

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BROWN & COMPANY CPAs, PLLC
CERTIFIED PUBLIC ACCOUNTANTS AND MANAGEMENT CONSULTANTS

March 12, 2015

Federal Trade Commission
Washington, D.C.

To: Management and the Commissioners of the Federal Trade Commission

In planning and performing our audit of the financial statements of the Federal Trade Commission (FTC) as of and for the year ended September 30, 2014, on which we have issued our report dated November 13, 2014, in accordance with auditing standards generally accepted in the United States of America, we considered FTC's internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of FTC's internal control. Accordingly, we do not express an opinion on the effectiveness of FTC's internal control. This report is based on our knowledge as of the date of our report on the financial statements, obtained in performing our audit thereof, and should be read with that understanding.

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. However, during the audit, we noted certain matters involving the internal control and other operating matters that are presented for your consideration. This letter does not affect our report dated November 13, 2014 on the financial statements. The management letter comments are summarized in Appendix A. The status of prior year recommendations is presented in Appendix B. Although we have included management's written response to our comments in Appendix C, such responses have not been subjected to the auditing procedures applied in our audit of the financial statements and, accordingly, we do not express an opinion or provide any form of assurance on the appropriateness of the response or the effectiveness of any corrective actions described therein.

This communication is intended solely for the information and use of the management of FTC, OMB, OIG and Congress, and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

Brown & Company

Largo, Maryland

1101 MERCANTILE LANE, SUITE 122 ● LARGO, MD 20774
PHONE: (240) 770-4900 ● FAX: (301) 773-2090 ● mail@brownco-cpas.com ● www.brownco-cpas.com

Appendix A

FEDERAL TRADE COMMISSION
September 30, 2014

FY 2014 MANAGEMENT LETTER COMMENTS

ML-14-1 Timeliness of Delivery of Documents Requested

Condition:
There was a significant delay by Financial Management Office (FMO) in providing the requested documentation to complete the payroll internal control testing. Brown & Company provided the payroll sample and made the request for documentation on July 24, 2014; however, we did not receive the payroll documentation until September 18, 2014.

Criteria:
OMB Circular No. A-123, *Management's Responsibility for Internal Control*, states that internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting. Reliability of financial reporting means that management can reasonably make the following assertions: 1) Transactions are in compliance with applicable laws and regulations and 2) Documentation for internal control, all transactions, and other significant events is *readily available* for examination (emphasis added).

Cause:
FTC does not have adequate internal controls in place to ensure payroll records are readily available for examination.

Effect:
The effect of not providing payroll documentation for internal control in a timely manner increases the risk of errors in financial reporting being missed, occurrences of material misstatements in the financial statements, noncompliance with internal control over financial reporting, and noncompliance with applicable laws and regulations.

Recommendation:
To ensure that requested documentation be made readily available for examination of internal control, all transactions, and other significant events, we recommend that FTC establish internal controls to ensure production of requested documentation. This could include written notification of the start of the financial audit, including Human Capital Management Office personnel in weekly audit meetings, and including timely production of deliverables to the OIG in employee performance reviews.

ML-14-2 Expenditure Exceeded the Obligation

Condition:
FTC paid an invoice for FY 2013 Option Year 2 with FY 2014 Option Year 3 funds because Option Year 2 funds were depleted. FTC received an invoice dated September 3, 2013 for services rendered during the Option Year 2 contract period that ended September 30, 2013. There were not enough funds remaining in Option Year 2 and a contract modification to increase the funding for Option Year 2 was not obtained. The FY 2014 Option Year 3 contract was exercised and funded on November 6, 2013 and the outstanding invoice in the amount of $32,771.73, dated September 3, 2013 was paid from these funds.

Criteria:
Federal Acquisition Regulation (FAR) subpart 43.204 (a) *Change order documentation*. When change orders are not forward priced, they require two documents: the change order and a supplemental agreement reflecting the resulting equitable adjustment in contract terms. If an equitable adjustment in the contract price or delivery terms or both can be agreed upon in advance, only a supplemental agreement need be issued, but administrative changes and changes issued pursuant to a clause giving the Government a unilateral right to make a change (e.g., an option clause) initially require only one document.

Cause:
Internal controls over contract monitoring and management are designed to alert contract management of the need for contract modifications prior to FTC incurring cost. The internal controls failed to signal the need for a contract modification prior to FTC receiving the good(s) or service(s).

Effect:
Spending and/or incurring costs beyond the obligation may result in non-compliance and violations of rules, laws and regulations.

Recommendation:
We recommend that FTC enhance its compliance with internal controls over contract management and monitoring by establishing processes to ensure that contract management is alerted of the need for contract modifications prior to FTC incurring cost.

ML-14-3 Lodging Costs Exceeded Federal Travel Regulation (FTR) Lodging Per Diem Allowance

Condition:
FTC paid a contractor invoice for expert services that included reimbursement of lodging expenses that exceeded the Federal government per diem on two separate trips. The total unauthorized amount that was reimbursed to the contractor was $415.84. The contract included a clause that stated: *Lodging reimbursement will be limited to the U.S. Government General Service Administration (GSA) lodging rate for the city in question. Specific rates for different localities may be found on the GSA website (www.gsa.gov.)*. No documentation was provided showing that lodging was approved for the higher amounts prior to travel dates.

Criteria:
Federal Travel Regulation (FTR) Subpart B 301-11.100 states, "when travel is more than 12 hours and overnight lodging is required, you are reimbursed your actual lodging cost not to exceed the maximum lodging rate for the TDY (temporary duty) location or stopover point."

Cause:
FTC's internal controls did not ensure that the travel reimbursement to the contractor was made in accordance with the FTR per diem for the specific TDY location.

Effect:
FTC did not follow the FTR guidelines and overpaid when reimbursing the consultant.

Recommendations:
We recommend:

1. FTC provide training and improve internal controls to ensure that FTR per diem rates are being followed when approving vendor invoices for travel reimbursements.
2. FTC bill the consultant for the overpayment amount.

ML-14-4 The Physical Access Plan is not Updated and Finalized

Condition:
During our examination of FTC's Oracle Federal Financial System (OFF) Complementary Client Controls, we determined that FTC has established physical access security controls to provide reasonable assurance that physical access to the OFF applications, using computer terminals at client locations, is restricted to authorized individuals. We also noted that the FTC Physical Access Control Plan, dated April 29, 2010, remains in draft form. The plan should be updated, reviewed, approved by management and then disseminated to FTC employees and contractors.

Criteria:
National Institute of Standards and Technology (NIST) Special Publication 800-53 Revision 3 *Recommended Security Controls for Federal Information Systems and Organizations,* PE-1 Physical and Environmental Protection Policy and Procedures states:

> The organization develops, disseminates, and reviews/updates:
>
> - A formal, documented physical and environmental protection policy that addresses purpose, scope, roles, responsibilities, management commitment, coordination among organizational entities, and compliance; and
> - Formal, documented procedures to facilitate the implementation of the physical and environmental protection policy and associated physical and environmental protection controls.

Oracle Federal Financial, Report on the U.S. Department of the Interior's Description of Its Oracle Federal Financial System (OFF) and the Suitability of the Design and Operation Effectiveness of Its Controls (SSAE 16 – Type 2 Report), for the Period July 1, 2013 to June 30, 2014, Complementary Client Control, page 35, states:

"Interior's processing of transactions and the control over the processing was designed with the assumption that certain controls would be placed in operation by clients. This section describes some of the controls that should be in operation at clients to complement the controls at Interior. Client auditors should determine whether clients have established controls to provide reasonable assurance that:

1. Physical and logical access to the Interior Business Center's (IBC) applications, using computer terminals at client locations, is restricted to authorized individuals.
2. Designated individuals, at FTC locations, comply with the IBC security policies, standards and procedures.

Cause:
FTC management is in the process of updating the Standard Operating Procedure relating to physical and procedural security for all FTC Washington D.C. locations. FTC does not have adequate controls in place to ensure the Physical Access Control Plan is updated, reviewed, and disseminated in a timely manner.
Effect:

The effect of not updating the Physical Access Control Plan is that the FTC risks not producing the procedures that are required for the effective implementation of selected security controls and control enhancements in the physical and environmental protection family. In addition, the policy and procedures may not be consistent with applicable federal laws, Executive Orders, directives, policies, regulations, standards, and guidance.

Recommendations:
We recommend that FTC update and finalize the Physical Access Control Plan for management review and approval and dissemination to FTC employees and contractors.

We also recommend the Plan clearly state the purpose, scope, roles, responsibilities, management commitment, coordination among organizational entities, and compliance.

ML-14-5 Accounts Receivable - Civil Monetary Penalties

Condition:
FTC's policy is to recognize a receivable for civil monetary penalties once it receives a final judgment. FMO's Financial Operation Branch relies on the BCP "Accomplishment Report" for a complete list of final judgments. During our review of receivables, we noted that one of the civil monetary penalties for $2,000,000 was signed by the judge on June 11, 2014, but was not listed as a final judgment on the Accomplishment Report for June 30, 2014. As a result, FMO did not recognize the receivable for the civil penalty in June 2014. The receivable was subsequently recognized in July 2014.

Criteria:
Title 31 of the U.S. Code Section 902(a) (3) states that an agency Chief Financial Officer shall "develop and maintain an integrated agency accounting and financial management system, including financial reporting and internal controls, provide for complete, reliable, consistent, and timely information which is prepared on a uniform basis and which is responsive to the financial information needs of agency management."

Cause:
FTC's process for obtaining information on civil penalties accomplished does not ensure that a complete and accurate list of accomplishments is compiled in time for 3rd quarter financial closing.

Effect:
The accounts receivable civil penalty balance was incorrect as of the fiscal year quarter 3, ended June 30, 2014.

Recommendation:
We recommend the FTC implement internal controls to ensure that accounts receivable civil monetary penalties are recorded within the quarter that the case is signed by the judge.

Appendix B

FEDERAL TRADE COMMISSION September 30, 2014
STATUS OF PRIOR YEARS RECOMMENDATIONS

Status of FY 2013 Recommendations			
Report Reference	**Description**	**Recommendation**	**OIG Comment on status as of September 30, 2014**
ML-13-1 Federal Acquisition Regulation (FAR) Compliance Should Be Strengthened	During the FAR compliance testing, the auditor examined thirteen (13) procurement actions that were awarded in fiscal year 2013 and noted that the justification of contractor selection was not maintained for one of the actions taken.	FTC review all contract files for completeness and ensures contract files include justification for the award in accordance with federal guidelines. We recommend the justification include the following information: i. The authority and supporting rationale and if applicable, a demonstration of the proposed contractor's unique qualification to provide the required supply or service. ii. A determination by the ordering activity contracting officer that the order represents the best value, consistent with federal guidelines. iii. Any other facts supporting the justification. iv. The ordering activity contracting officer's certification that the justification is accurate and complete to the best of the contracting officer's knowledge and belief.	Closed.
ML-13-2 Liquidation of Obligations	The auditor noted that 15 out of 20 undelivered orders were considered invalid (lacking supporting documentation) or inactive transactions.	FTC should perform the following: i. Review and determine the validity of undelivered orders on a semi-annual basis. ii. Develop policy requiring certification for all open obligation balances that are inactive for more than 12 months.	In progress.

Status of FY 2013 Recommendations			
Report Reference	**Description**	**Recommendation**	**OIG Comment on status as of September 30, 2014**
ML-13-3 Redress Accounts Receivables (AR)-Collections	Noted one matter number in which the collection amount selected did not agree to the accounts receivable collection subsidiary ledger. The collection should have been applied to the redress accounts receivable, but instead was posted as a miscellaneous receipt.	FTC reconcile the total collection amount as reported on the redress account receivable summary Excel schedule to the redress accounts receivable collections subsidiary ledger for completeness and accuracy.	Closed.
ML-13-4	FTC has not fully documented and implemented its complementary client controls required by Interior Business Center (IBC), Oracle Federal Financials (OFF).	The information system owner for OFF formally document and implement policies and procedures that address the Client Control Considerations and provide the required formal documentation to the OCIO's Information Assurance Branch.	Closed.
ML-13-5	FTC has not fully documented and implemented its complementary client controls required by Interior Business Center (IBC), Federal Personnel and Payment System (FPPS)	The information system owner for formally document and implement policies and procedures that address the Client Control Considerations and provide the required formal documentation to the OCIO's Information Assurance Branch.	Closed.

Status of FY 2012 Recommendations			
Report Reference	**Description**	**Recommendation**	**OIG Comment on status as of September 30, 2014**
ML-12-1 Capitalization Procedures Need Improvement	During the FY 2012 audit, the auditors identified a lack of oversight and written procedures for capitalization of assets. The auditors identified $1 million in fixed assets that were not properly capitalized and FMO identified $2.5 million in assets capitalized in prior years that needed to be written off.	FMO review and strengthen its capitalization policies and procedures to ensure that: i) Capitalization determinations are being made by individuals designated to do so; ii) They are versed in the capitalization standards iii) They document their determinations.	In progress.
ML-12-3 Recording of Obligations Needs Improvement	During the FY 2012 audit, the auditors identified: 1) Interest paid on invoices where funding was not on the right line item and 2) an invoice paid from the incorrect fiscal year's funds.	FMO establish a crosswalk between OFF and contracts written so that IBC has specific instruction on how to establish an obligation in Oracle. This information should also be distributed to CORs in order to track contracts they are in charge of.	Closed.
ML-12-5 Closing Procedures Should be Improved	During the FY 2012 audit, the auditors noted delays in closing the general ledger for the last two years. In FY 2011 the general ledger was not closed until October 31. In FY 2012, FMO closed out the general ledger on October 23; however, two additional year-end journal entries were subsequently posted that completed all journal entries for the year on November 2nd.	FMO: i) Review the monthly and year-end close planning process and identify procedures and improvements needed to streamline the year-end close process. ii) For undelivered orders, review the source of the manual entries and make corrections to ensure that the balance in these general ledger accounts reconcile to the subsidiary ledger.	Closed.

Appendix C

FEDERAL TRADE COMMISSION
September 30, 2014

Management's Response

United States of America
FEDERAL TRADE COMMISSION
WASHINGTON, D.C. 20580

Office of the Chief Financial Officer

March 11, 2015

MEMORANDUM

TO: Roslyn Mazer
Acting Inspector General

FROM: David Rebich
Chief Financial Officer

SUBJECT: Management's Response to the Draft FY 2014 Management Letter

Management has reviewed the draft Management Letter for the Fiscal Year (FY) 2014 Financial Statements. We are pleased that the Inspector General was able to close six of the eight open recommendations made in connection with prior audits. In general, we concur with recommendations contained in the draft FY 2014 letter. The following is Management's response to the FY 2014 recommendations and the remaining open recommendations from prior years' audits.

ML-14-1 Timeliness of Delivery of Documents Requested

Recommendation:
To ensure that requested documentation be made readily available for examination of internal control, all transactions, and other significant events, we recommend that FTC establish internal controls to ensure production of requested documentation. This could include written notification of the start of the financial audit, including Human Capital Management Office personnel in weekly audit meetings, and including timely production of deliverables to the OIG in employee performance reviews.

Management Response:
Management concurs with the recommendation. The Financial Management Office (FMO) is establishing a process to ensure requested documentation is readily available for examination. By July 1, 2015, FMO will provide FTC offices that are responsible for audit deliverables with notification of the start of the audit; description of material(s) requested and due date(s); and guidelines on submitting audit material. FMO also will follow-up with offices and invite appropriate officials to audit status meetings, as necessary, to ensure delivery of requested materials. Furthermore, all FTC managers have a performance element that addresses

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accountability and results. This element requires timely and accurate submission of data to our stakeholders and customers.

The Responsible Senior Official for this recommendation is Milissa Young-Loiselle, Assistant CFO, Financial Policy, Reports, and Controls. The target completion date for addressing this recommendation is September 30, 2015.

ML-14-2 Expenditure Exceeded the Obligation

Recommendation:
We recommend that FTC enhance its compliance with internal controls over contract management and monitoring by establishing processes to ensure that contract management is alerted of the need for contract modifications prior to FTC incurring cost.

Management Response:
Management concurs with the recommendation. FMO will be addressing internal controls over contract monitoring in two key ways:

- Targeted Training - To strengthen internal controls in FY 2015, FMO will conduct targeted training for all Contracting Officer Representatives (CORs) on monitoring contract funding, monthly invoices, and burn-rate. This training will be in addition to the required annual training for all CORs.
- Replace Acquisition System - To address long-term needs for strengthened internal controls, FMO has received approval and funding to replace FTC's legacy acquisition system, Comprizon, with Oracle's Contract Lifecycle Management (CLM) system. CLM is fully integrated with FTC's current financial management system and the combination of full-integration with enhanced capabilities (e.g., alerts when contracts are expiring or funds near depletion) will enable FTC to better monitor contracts. FMO is currently working with the Interior Business Center (IBC) to finalize an inter-agency agreement to implement CLM. FMO plans to begin implementation in FY 2015.

The Responsible Senior Official for this recommendation is Nancy Moreno, Assistant CFO for Acquisitions. The target completion date for addressing this recommendation is September 30, 2015 (through targeted training).

ML-14-3 Lodging Costs Exceeded Federal Travel Regulation (FTR) Lodging per Diem Allowance

Recommendations:
We recommend:

1) *FTC provide training and improve internal controls to ensure that FTR per diem rates are being followed when approving vendor invoices for travel reimbursements.*
2) *FTC bill the consultant for the overpayment amount.*

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Management Response:
Management concurs with the recommendation. FTC will address these recommendations as follows:

1) Training and Improved Internal Controls - To strengthen internal controls in FY 2015, FTC will conduct targeted training to CORs on Federal Travel Regulation (FTR) rules for travel reimbursement to contractors. To address longer-term needs, FMO will incorporate a revised approval routing chain into the configuration of CLM. The current process requires a COR to approve invoices for payment. However, in CLM, FTC will require a Contracting Officer to approve invoices in addition to the COR.

   The Responsible Senior Official for this recommendation is Nancy Moreno, Assistant CFO for Acquisitions. The target completion date for addressing this recommendation is September 30, 2015 (through targeted training).

2) Bill Consultant - FMO will bill the consultant to recoup the overpayment amount.

   The Responsible Senior Official for this recommendation is George Adam, Accounting Officer for Financial Operations. The target completion date for addressing this recommendation is September 30, 2015.

ML-14-4 The Physical Access Plan is not Updated and Finalized

Recommendations:

1) *We recommend that FTC update and finalize the Physical Access Control Plan for management review and approval and dissemination to FTC employees and contractors.*
2) *We also recommend the Plan clearly state the purpose, scope, roles, responsibilities, management commitment, coordination among organizational entities, and compliance.*

Management Response:
Management concurs with the recommendation. In December 2014, FTC updated the Physical Security section (Chapter 4, Section 800) of the FTC Administrative Manual. The FTC Security Office also updated its Physical Security Plan as of February 11, 2015.

The Responsible Senior Official for this recommendation is Mark Oemler, Director, Administrative Services Office. Management considers this recommendation completed.

ML-14-5 Accounts Receivable - Civil Monetary Penalties

Recommendation:
We recommend the FTC implement internal controls to ensure that accounts receivable civil monetary penalties are recorded within the quarter that the case is signed by the judge.

Management Response:
Management concurs with the recommendation. FMO, in collaboration with the Bureau of Consumer Protection (BCP), is reviewing its quarter-end procedures for recording receivables

and making improvements to ensure receivables are recorded within the quarter that cases are signed by a judge.

The Responsible Senior Official for this recommendation is George Adam, Accounting Officer for Financial Operations. The target completion date for addressing this recommendation is September 30, 2015.

ML-13-2 Liquidation of Obligations

Recommendation:
FTC should perform the following:

1) *Review and determine the validity of undelivered orders on a semi-annual basis.*
2) *Develop policy requiring certification for all open obligation balances that are inactive for more than 12 months.*

Management Response:
Management concurs with these recommendations.

1) To address the validity of undelivered orders, FMO has dedicated contractor support working on contract close-out of inactive contracts. FMO made substantial progress during FY 2014 towards closing invalid undelivered orders from FY 2004 through 2007. In FY 2015, FMO has been focusing on determining the validity of undelivered orders from FY 2008 through 2011.

   The Responsible Senior Official for this recommendation is Nancy Moreno, Assistant CFO for Acquisitions. The target completion date for determining the validity of undelivered orders is June 30, 2016.

2) Policies and procedures on closing inactive and invalid contracts have been drafted and were reviewed with CORs during January 2015.

   The Responsible Senior Official for this recommendation is Nancy Moreno, Assistant CFO for Acquisitions. The target completion date for final Acquisition policies and procedures is September 30, 2016.

ML-12-1 Capitalization Procedures Need Improvement

Recommendation:
FMO review and strengthen its capitalization policies and procedures to ensure that:

1) *Capitalization determinations are being made by individuals designated to do so;*
2) *They are versed in capitalization standards; and*
3) *They document their determinations.*

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Management Response:
Management concurs with the recommendation. FMO has drafted a revision to its capitalization policy and is circulating the draft policy for comment. FMO is scheduling sessions with offices that purchase capital assets to educate them on capitalization standards and will be updating its processes to ensure capitalization determinations are made by individuals designated to do so.

The Responsible Senior Official for this recommendation is Milissa Young-Loiselle, Assistant CFO, Financial Policy, Reports, and Controls. The target completion date for addressing this recommendation is April 30, 2015.

cc: David B Robbins, Executive Director