November 14, 2007

Chairman Majoras:

In accordance with the Accountability of Tax Dollars Act of 2002, we are responsible for conducting audits of the financial statements of the Federal Trade Commission. In our audits of the Commission for fiscal years 2007 and 2006, we found:

- The financial statements are presented fairly, in all material respects, in conformity with U.S. generally accepted accounting principles;
- The Commission had no material weaknesses in internal control over financial reporting (including safeguarding assets);
- No reportable instances of noncompliance with laws and regulations we tested.

The following sections discuss in more detail these conclusions as well as our conclusions on Management’s Discussion and Analysis and other supplementary information. They also present information on the objectives, scope, and methodology of our audit.

**Objectives, Scope, and Methodology**

Federal Trade Commission management is responsible for (1) preparing the financial statements in conformity with U.S. generally accepted accounting principles; (2) establishing, maintaining, and assessing internal control to provide reasonable assurance that the broad control objectives of FMFIA are met; and (3) complying with applicable laws and regulations.

We are responsible for obtaining reasonable assurance about whether (1) the financial statements are presented fairly, in all material respects, in conformity with U.S. generally accepted accounting principles; and (2) management maintained effective internal control that provides reasonable, but not absolute, assurance the following objectives are met:

- Financial reporting: Transactions are properly recorded, processed, and summarized to permit the timely and reliable preparation of financial statements in conformity with U.S. generally accepted accounting principles, and assets are safeguarded against loss from unauthorized acquisition, use, or disposition.
• Compliance with applicable laws and regulations: Transactions are executed in accordance with (1) laws governing the use of budgetary authority, (2) other laws and regulations that could have a direct and material effect on the financial statements, and (3) any other laws, regulations, or government-wide policies identified by OMB audit guidance.

We are also responsible for (1) testing compliance with selected provisions of laws and regulations that could have a direct and material effect on the financial statements and for which OMB audit guidance requires testing and (2) performing limited procedures with respect to certain other information appearing in the Commission’s Performance and Accountability Report. In order to fulfill these responsibilities, we:

• examined, on a test basis, evidence supporting the amounts and disclosures in the financial statements;

• assessed the accounting principles used and significant estimates made by Commission management;

• evaluated the overall presentation of the financial statements;

• obtained an understanding of the Commission and its operations, including its internal control related to financial reporting (including safeguarding of assets), compliance with laws and regulations (including execution of transactions in accordance with budget authority), and performance measures reported in Management’s Discussion and Analysis;

• tested relevant internal controls over financial reporting and compliance with applicable laws and regulations, and evaluated the design and operating effectiveness of internal control;

• considered the Commission’s process for evaluating and reporting on internal control and financial management systems under the Federal Managers’ Financial Integrity Act (FMFIA); and

• tested compliance with selected provisions of laws and regulations.

We did not evaluate all internal controls relevant to operating objectives as broadly defined by FMFIA, such as those controls relevant to preparing statistical reports and ensuring efficient operations. We limited our internal control testing to controls over financial reporting and compliance. Because of inherent limitations in internal control, misstatements due to error or fraud, losses, or noncompliance may nevertheless occur and not be detected. We also caution that projecting our evaluation to future periods is subject to the risk that controls may become inadequate because of changes in conditions or that the degree of compliance with controls may deteriorate.

We did not test compliance with all laws and regulations applicable to the Commission. We limited our tests of compliance to those required by OMB audit guidance and other laws and regulations that had a direct and material effect on the Commission’s financial statements for the fiscal year ended
September 30, 2007. We caution that noncompliance may occur and not be detected by these tests and that such testing may not be sufficient for other purposes.

**Opinion on Financial Statements**

The Commission’s balance sheets as of September 30, 2007 and 2006, and its related statements of net cost, changes in net position, budgetary resources, and custodial activity, with accompanying notes for the fiscal years then ended, are presented fairly, in all material respects, in conformity with U.S. generally accepted accounting principles.

**Consideration of Internal Control**

In planning and performing our audits, we considered the Federal Trade Commission’s internal control over financial reporting and compliance. We did this to determine our procedures for auditing the financial statements and to comply with OMB audit guidance, not to express an opinion on internal control. Accordingly, we do not express an opinion on internal control over financial reporting and compliance or on management’s assertion on internal control included in Management’s Discussion and Analysis.

However, for the controls we tested, we found no material weaknesses in internal control over financial reporting (including safeguarding assets) and compliance. A material weakness is a significant control deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected. Our internal control work would not necessarily disclose all material weaknesses.

We found certain matters involving the control environment that we do not consider significant deficiencies. We are communicating these matters to the Commission’s management, along with our recommendations for improvement, in a separate letter.

**Compliance with Laws and Regulations**

Our tests for compliance with selected provisions of laws and regulations disclosed no instances of noncompliance that would be reportable under U.S. generally accepted government auditing standards or OMB audit guidance. However, the objective of our audit was not to provide an opinion on overall compliance with laws and regulations. Accordingly, we do not express such an opinion.

**Consistency of Other Information**

The Commission’s Management’s Discussion and Analysis, and other accompanying information contain a wide range of data, some of which are not directly related to the financial statements. We did not audit and do not express an opinion on this information. However, we compared this information for consistency with the financial statements and discussed the methods of measurement and presentation with Commission officials. Based on this limited work, we found no material inconsistencies with the financial statements or nonconformance with OMB guidance.
We performed our work in accordance with U.S. generally accepted government auditing standards and OMB audit guidance.

While this report is intended solely for the information and use of the Federal Trade Commission, the Office of Management and Budget and the Congress, it is also a matter of public record, and its distribution is, therefore, not restricted.

Inspector General
Federal Trade Commission