

FEDERAL TRADE COMMISSION

OFFICE OF INSPECTOR GENERAL



SEMIANNUAL REPORT TO CONGRESS

October 1, 2006 - March 31, 2007

Report #36



Office of Inspector General

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

April 30, 2007

The Honorable Deborah Majoras
Chairman
Federal Trade Commission
600 Pennsylvania Avenue, N.W.
Washington, D.C. 20580

Dear Chairman Majoras:

The attached report covers the Office of Inspector General's (OIG) activities for the first half of fiscal year 2007 and is submitted according to Section 5 of the Inspector General Act of 1978, as amended.

During the six-month reporting period ending March 31, 2007, the OIG issued an audit of the FTC's FY 2006 financial statements and a companion report to management containing financial-related findings and recommendations resulting from the audit. Additionally, the OIG released an audit of the FTC's Purchase Card Program. The OIG also conducted an *External Peer Review* of the Library of Congress' Office of Inspector General.

In addition, the OIG processed 53 consumer inquiries and complaints/allegations of possible wrongdoing during the period, opened four new investigations into wrongdoing and referred one matter to the Department of Justice for prosecutorial consideration.

As in the past, management has been responsive in attempting to implement all OIG recommendations. I appreciate management's support and I look forward to working with you in our ongoing efforts to promote economy and efficiency in agency programs.

Sincerely,

Howard L. Sribnick
Inspector General

INTRODUCTION

The Federal Trade Commission (FTC) seeks to assure that the nation's markets are competitive, efficient and free from undue restrictions. The FTC also seeks to improve the operation of the marketplace by ending unfair and deceptive practices, with emphasis on those practices that might unreasonably restrict or inhibit the free exercise of informed choice by consumers. The FTC relies on economic analysis to support its law enforcement efforts and to contribute to the economic policy deliberations of Congress, the Executive Branch and the public.

To aid the FTC in accomplishing its consumer protection and antitrust missions, the Office of Inspector General (OIG) was provided five work years and a budget of \$917,500 for fiscal year 2007.

AUDIT ACTIVITIES

During this semiannual period ending March 31, 2007, the OIG issued an audit of the FTC's FY 2006 financial statements and a companion report to management containing financial-related findings and recommendations resulting from the audit. Additionally, the OIG released an audit of the FTC's Purchase Card Program. The OIG also conducted an External Peer Review of the Library of Congress' Office of Inspector General. The OIG plans to begin the following activities during the second half of FY 2007:

1. an audit of the FTC's Consumer Response Center,
2. an audit of the FTC's FY 2006 financial statements, and
3. the OIG's annual security review mandated in the Federal Information Security Management Act

Detailed information regarding these audits and reviews completed during the reporting period is provided below.

Completed Audits

<u>Audit Report Number</u>	<u>Subject of Audit</u>
AR 07-001	Audit of the Federal Trade Commission's Financial Statements for the Fiscal Year Ending September 30, 2006
AR 07-001A	Management Letter to the FY 2006 Financial Statements
AR 07-002	Review of the FTC Purchase Card Program
N/A	External Peer Review of the Library of Congress Office of Inspector General (OIG)

Summary of Audits and Reviews Issued During the Current Period

AR 07-001, Audit of the Federal Trade Commission's Financial Statements for the Fiscal Year Ending September 30, 2006

The objective of this audit was to determine whether the agency's financial statements present fairly the financial position of the agency. The statements audited were the Balance Sheets as of September 30, 2006 and 2005 and the related Statements of Net Cost, Statements of Changes in Net Position, Statements of Budgetary Resources, Statements of Financing and Statements of Custodial Activity for the years then ended. This was the tenth consecutive year that the FTC prepared financial statements for audit. OIG audit resulted in the agency receiving an unqualified opinion, the highest opinion given by independent auditors.

The FY 2006 audited statements provide insight into the mission and operations of the Federal Trade Commission. The FTC had total assets of \$322 million and \$259 million as of September 30, 2006 and 2005, respectively. Approximately \$238 million and \$166 million of the 2006 and 2005 assets, respectively, were funds collected or to be collected and distributed through the consumer redress program under the agency's Consumer Protection mission.

Revenue and financing sources received in fiscal years 2006 and 2005 totaled \$214 and \$215 million, respectively. Exchange revenue, classified as earned revenue on the financial statements, was received from three sources; the collection of premerger notification filing fees, Do-Not-Call (DNC) user fees, and reimbursements received for services provided to other government agencies. Financing was received through direct appropriations and imputed costs absorbed by others.

Exchange revenue totaled \$133 million and \$119 million for fiscal years 2006 and 2005, respectively. The primary source of exchange revenue collected, \$111 million in fiscal year 2006 and \$99 million in fiscal year 2005, was premerger filing fees. The FTC collects a filing fee from each business entity that files a Notification and Report form transaction, as required by the Hart-Scott-Rodino (HSR) Anti-Trust Improvement Act. Qualifying mergers with a transaction amount over \$50 million in total assets are charged a filing fee. The fee is based on a three-tiered structure: \$45,000, \$125,000, and \$280,000, depending upon the combined total of assets of the merger transaction. The fee is divided equally between the FTC and the Antitrust Division of the Department of Justice (DOJ).

The second largest source of exchange revenue was Do Not Call fees. The FTC collects fees associated with the implementation and enforcement of the national Do Not Call Registry sufficient to cover registry costs. The Registry operates under Section 5 of the FTC Act, which enforces the Telemarketing Sales Rule (TSR). Telemarketers under the FTC's jurisdiction are required to pay a user fee and download from the DNC database a list of consumer telephone numbers on the Registry. Fees are based on the number of area codes downloaded. In fiscal years 2006 and 2005, respectively, the FTC collected \$22 million and \$18 million in DNC fees.

In addition to exchange revenue, other financing sources were realized through a direct appropriation from the General Fund of the Treasury, and other non-expenditure transfers, in the amount of \$78 million in fiscal year 2006 and \$87 million in fiscal year 2005. Direct appropriation and transfers represent 36 percent and 41 percent of total funding sources received for fiscal years 2006 and 2005, respectively.

The gross cost of operations for 2006 fiscal year was \$208 million and represents an increase of 4.8 percent over the fiscal year 2005 gross cost of operations. Rent expenditures for the years ending September 30, 2006 and 2005, were approximately \$17.5 million and \$17.3 million, respectively. These costs supported 1,019 staff-years employed in fulfilling the FTC's missions.

The statement of Custodial Activity details the monetary results of the agency's law enforcement mission. Fighting consumer fraud is one of the FTC's highest priorities; as consumers lose billions of dollars every year to perpetrators of traditional fraud and fraud on the Internet. In FY 2006 and FY 2005, the agency obtained monetary judgments against defendants in consumer fraud cases totaling \$315.2 million and \$835 million, respectively. Collections against judgments are generally returned to the fraud victims.

During the financial statement audit, the OIG identified deficiencies in internal control that were not considered reportable conditions (that is, they did not rise to a level of seriousness to be reported in the auditor's opinion). The OIG communicated these findings to management in a letter (*Management Letter to the FY 2006 Financial Statements* (AR 07-001A)).

The objective of the management letter is to bring to management's attention financial and/or internal control weaknesses and to make recommendations for corrective action. The current management letter also follows up on past recommendations made in the prior year's management letter. For example, this year's management letter contains four new findings and the status (follow-up) of six prior-year findings. One of the new findings identified undelivered order balances totaling \$487,130 for orders between FY 2001 and FY 2005 that should have been deobligated by September 30, 2006. Upon discovery, the Financial Management Office made the appropriate adjustments to the financial statements.

No detail review was performed on outstanding undelivered orders balances identified within FY 2001 (\$231,570) and FY 2002 (\$338,783). Due to the length of time that these remaining undelivered orders have been open, it is doubtful that they still represent legitimate obligations awaiting delivery of goods or services.

AR 07-002, Review of FTC Purchase Card Program

The objective of this review was to determine how the FTC Purchase Card Program is managed, to whom purchase cards are issued, and, whether internal controls are sufficient to detect and/or prevent fraudulent use of the purchase card.

The OIG found that, contrary to applicable regulations, the purchase charge card was used for official government travel. Between the months of November 2005 and July 2006, \$23,334 was inappropriately charged on purchase charge cards for government travel. Cardholders and their supervisors/managers said they were not aware of the requirement to use only the travel charge card for official government travel.

Additionally, the Agency/Organization Program Coordinator (A/OPC) had not reviewed and restricted the card provider's merchant category codes (MCC) applicable to the agency issued purchase card. The MCC include goods and services that are not appropriate for a government entity. Some of the inappropriate MCC's, were for dating/escort services, massage parlors, package stores (beer, wine, and liquor) and membership in clubs (sports, recreation, athletic), country clubs, and private golf courses. With those MCC codes not being restricted, there was a potential for abuse and ultimately embarrassment for the FTC. It should be noted that, however, that except for using the purchase card for official government travel we did not find any purchases for inappropriate goods or services.

To address these weaknesses, the OIG recommended that the agency update, document, and implement risk management controls on the FTC purchase card program (including training) consistent with OMB Circular A-123 Appendix B, and with Public Law 105-264, §2(a) (1998). We also recommend that the A/OPC review the card providers MCC and bar the use of the purchase card for those MCC's for inappropriate goods and services. The Financial Management Office has taken appropriate action to address these issues.

External Peer Review of the Library of Congress Office of Inspector General (OIG)

We conducted an *External Peer Review* of the Library of Congress Office of Inspector General (OIG). We reviewed the system of quality control for the audit function in effect for the year ended June 30, 2006.

A system of quality control encompasses the OIG organizational structure, and the policies adopted and procedures established to provide it with reasonable assurance of conforming to generally accepted government auditing standards (GAGAS). The elements of quality control as described in GAGAS, are promulgated by the Comptroller General of the United States. The design of the system, and compliance with it in all material respects, were the responsibility of the Library of Congress' OIG. Our objective was to determine whether the internal quality control system was adequate as designed and implemented to provide reasonable assurance that applicable auditing standards, policies, and procedures were met. Our responsibility was to express an opinion on the design of the system and the OIG's compliance with the system based on our review.

We conducted our review in accordance with the guidelines established by the President's Council on Integrity and Efficiency and the Executive Council on Integrity and Efficiency. In performing the review, we obtained an understanding of the system of quality control for the OIG. In addition, we tested compliance with the OIG's quality control policies and procedures to the extent we considered appropriate. These tests included the application of the OIG's policies and procedures on selected audits.

It was our opinion that the system of quality control for the audit function of the Library of Congress, Office of Inspector General, had been designed to meet the requirements of the quality control standards established by the Comptroller General of the United States for a Federal Government audit organization and was complied with during the year to provide the OIG with reasonable assurance of conforming with applicable auditing standards, policies, and procedures.

Other Activity

Other events during this reporting period was the writing a new audit manual and editing and updating the manual when GAGAS was revised in January 2007. We also prepared for the Smithsonian Institution OIG to conduct an external peer review of our audit program system of quality control.

Planned Audits

Audit Report Number

Subject of Review

AR 07-003

Review of the Federal Trade Commission Consumer Response Center The objective is to review pertinent policies and procedures regarding the operation of the CRC, review the kind of information obtained from consumers, and determine how consumer complaints are categorized. The OIG will review consumer complaints received during FY 2005, FY 2006, and FY 2007. A limited sample of consumer complaints will be taken for in depth review. In addition, we will review the customer interface and consumer satisfaction with the website and automated phone system.

AR 07-XXX

Review of the Federal Trade Commission Implementation of the Federal Information Security Management Act for Fiscal Year 2007 The Federal Information Security Management Act of 2002 (FISMA) requires an independent assessment of federal agency information security programs and practices to determine their effectiveness. The OIG will evaluate the adequacy of the FTC's computer security program and practices for its major systems. This year, the OIG will again focus its review on the FTC's *Plan of Action and Milestones* to determine the extent to which the agency has implemented previously agreed-to OIG and other internally-identified recommendations. This will enable the OIG to provide more timely feedback to management on the results of its efforts to address weaknesses. In addition, the OIG will visit an FTC regional office to assess information security there.

Audit of the FTC's Financial Statements for Fiscal Year 2007 The purpose of the audit is to express an opinion on the financial statements of the Federal Trade Commission for the fiscal year ending September 30, 2006. The principal statements to be audited include the (a) Balance Sheet; (b) Statement of Net Cost; (c) Statement of Changes in Net Position; (d) Statement of Budgetary Resources; (e) Statement of Financing; (f) Statement of Custodial Activity, and notes to the financial statements. The OIG will also test the internal controls associated with the movement of transactions through the FTC's financial system and assess compliance with selected laws and regulations.

The OIG is using guidance contained in OMB Bulletin No. 01-02, *Audit Requirements for Federal Financial Statements*, in performing this audit. The audited financial statements are required to be included in the financial section of the agency's Performance and Accountability Report to be issued on or before November 15, 2007.

INVESTIGATIVE ACTIVITIES

The Inspector General is authorized by the IG Act to receive and investigate allegations of employee misconduct as well as fraud, waste and abuse occurring within FTC programs and operations. Matters of possible wrongdoing are referred to the OIG in the form of allegations or complaints from a variety of sources, including FTC employees, other government agencies and the general public.

Reported incidents of possible fraud, waste and abuse can give rise to administrative, civil or criminal investigations. OIG investigations are also initiated when there is an indication that firms or individuals are involved in activities intended to improperly affect the outcome of particular agency enforcement actions. Because this kind of wrongdoing strikes at the integrity of the FTC's consumer protection and antitrust law enforcement missions, the OIG places a high priority on these investigations.

In conducting criminal investigations during the past several years, the OIG has sought assistance from, and worked jointly with, other law enforcement agencies, including other OIG's, the Federal Bureau of Investigation, the U.S. Postal Inspection Service, the U.S. Secret Service, the U.S. Marshal's Service, the Internal Revenue Service, Capitol Hill Police, Federal Protective Service as well as state agencies and local police departments.

Investigative Summary

During this reporting period, the OIG received 53 consumer and other inquiries and reports of possible wrongdoing. Of the 53 complaints 35 involved issues that fall under the jurisdiction of FTC program components (identity theft, credit repair, etc.). These matters were referred to the appropriate FTC component for disposition.

Of the remaining complaints, the OIG opened four new investigations. No complaints remained ongoing at the end of the last reporting period.

Following is a summary of the OIG's investigative activities for the six-month period ending March 31, 2006:

Cases pending as of 9/30/06	0
PLUS: New cases	4
LESS: Cases closed	(0)
Cases pending as of 3/31/07	4

Investigations Closed

The OIG closed no investigations during this reporting period.

Matters Referred for Prosecution

During this reporting period the OIG referred one new case to the Department of Justice for consideration of potential criminal action. That matter remains as an open investigative file.

OTHER ACTIVITIES

Management Advisory

The OIG issued no new Management Advisories during this reporting period.

Significant Management Decisions

Section 5(a)(12) of the Inspector General Act requires that if the IG disagrees with any significant management decision, such disagreement must be reported in the semiannual report. Further, Section 5(a)(11) of the Act requires that any decision by management to change its response to a significant resolved audit finding must also be disclosed in the semiannual report. For this reporting period there were no significant final management decisions made on which the OIG disagreed and management did not revise any earlier decisions on an OIG audit recommendation.

Access to Information

The IG is to be provided with ready access to all agency records, information, or assistance when conducting an investigation or audit. Section 6(b)(2) of the IG Act requires the IG to report to the agency head, without delay, if the IG believes that access to required information, records or assistance has been unreasonably refused, or otherwise has not been provided. A summary of each report submitted to the agency head in compliance with Section 6(b)(2) must be provided in the semiannual report in accordance with Section 5(a)(5) of the Act.

During this reporting period, the OIG did not encounter any problems in obtaining assistance or access to agency records. Consequently, no report was issued by the IG to the agency head in accordance with Section 6(b)(2) of the IG Act.

Audit Resolution

As of the end of this reporting period, all OIG audit recommendations for reports issued in prior periods have been resolved. That is, management and the OIG have reached agreement on what actions need to be taken.

Review of Legislation

Section 4(a)(2) of the IG Act authorizes the IG to review and comment on proposed legislation or regulations relating to the agency or, upon request, affecting the operations of the OIG. During this reporting period, the OIG reviewed no legislation.

Contacting the Office of Inspector General

Employees and the public are encouraged to contact the OIG regarding any incidents of possible fraud, waste, or abuse occurring within FTC programs and operations. The OIG telephone number is (202) 326-2800. To report suspected wrongdoing, employees may also call the OIG's investigator directly on (202) 326-2618. A confidential or anonymous message can be left 24 hours a day. Complaints or allegations of fraud, waste or abuse can also be emailed directly to chogue@ftc.gov. OIG mail should be addressed to:

Federal Trade Commission
Office of Inspector General
Room NJ-1110
600 Pennsylvania Avenue, NW
Washington, D.C. 20580

OIG reports can access via the internet at: www.ftc.gov/oig. A visitor to the OIG home page can download recent (1996-2006) OIG semiannual reports to Congress, the FY 1998 - 2006 financial statement audits, and other program and performance audits issued beginning in FY 1999. A list of audit reports issued prior to FY 1999 can also be ordered via an e-mail link to the OIG. In addition to this information resource about the OIG, visitors are also provided a link to other federal organizations and Office of Inspectors General.

TABLE I**SUMMARY OF INSPECTOR GENERAL
REPORTING REQUIREMENTS**

IG Act Reference	Reporting Requirement	Page(s)
Section 4(a)(2)	Review of legislation and regulations	8
Section 5(a)(1)	Significant problems, abuses and deficiencies	2-5
Section 5(a)(2)	Recommendations with respect to significant problems, abuses and deficiencies	6
Section 5(a)(3)	Prior significant recommendations on which corrective actions have not been made	7
Section 5(a)(4)	Matters referred to prosecutive authorities	7
Section 5(a)(5)	Summary of instances where information was refused	8
Section 5(a)(6)	List of audit reports by subject matter, showing dollar value of questioned costs and funds put to better use	10,11
Section 5(a)(7)	Summary of each particularly significant report	2 - 5
Section 5(a)(8)	Statistical tables showing number of reports and dollar value of questioned costs	10
Section 5(a)(9)	Statistical tables showing number of reports and dollar value of recommendations that funds be put to better use	11
Section 5(a)(10)	Summary of each audit issued before this reporting period for which no management decision was made by the end of the reporting period	8
Section 5(a)(11)	Significant revised management decisions	7
Section 5(a)(12)	Significant management decisions with which the inspector general disagrees	7

TABLE II
INSPECTOR GENERAL ISSUED REPORTS
WITH QUESTIONED COSTS

	<u>Number</u>	<u>Dollar Value</u>	
		<u>Questioned Costs</u>	<u>Unsupported Costs</u>
A. For which no management decision has been made by the commencement of the reporting period	<u>0</u>	<u>0</u>	<u>(0)</u>
B. Which were issued during the reporting period	<u>1</u>	<u>23,334</u>	<u>(0)</u>
Subtotals (A + B)	<u>1</u>	<u>23,334</u>	<u>(0)</u>
C. For which a management decision was made during the reporting period	<u>1</u>	<u>23,334</u>	<u>(0)</u>
(I) dollar value of disallowed costs	<u>0</u>	<u>0</u>	<u>(0)</u>
(ii) dollar value of cost not disallowed	<u>0</u>	<u>0</u>	<u>(0)</u>
D. For which no management decision was made by the end of the reporting period	<u>0</u>	<u>0</u>	<u>(0)</u>
Reports for which no management decision was made within six months of issuance	<u>0</u>	<u>0</u>	<u>(0)</u>

TABLE III

**INSPECTOR GENERAL ISSUED REPORTS
WITH RECOMMENDATIONS THAT FUNDS BE PUT TO BETTER USE**

	<u>Number</u>	<u>Dollar Value</u>
A. For which no management decision has been made by the commencement of the reporting period	0	0
B Which were issued during this reporting period	0	0
C. For which a management decision was made during the reporting period	0	0
(i) dollar value of recommendations that were agreed to by management	0	0
- based on proposed management action	0	0
- based on proposed legislative action	0	0
(ii) dollar value of recommendations that were not agreed to by management	0	0
D. For which no management decision has been made by the end of the reporting period	0	0
Reports for which no management decision was made within six months of issuance	0	0