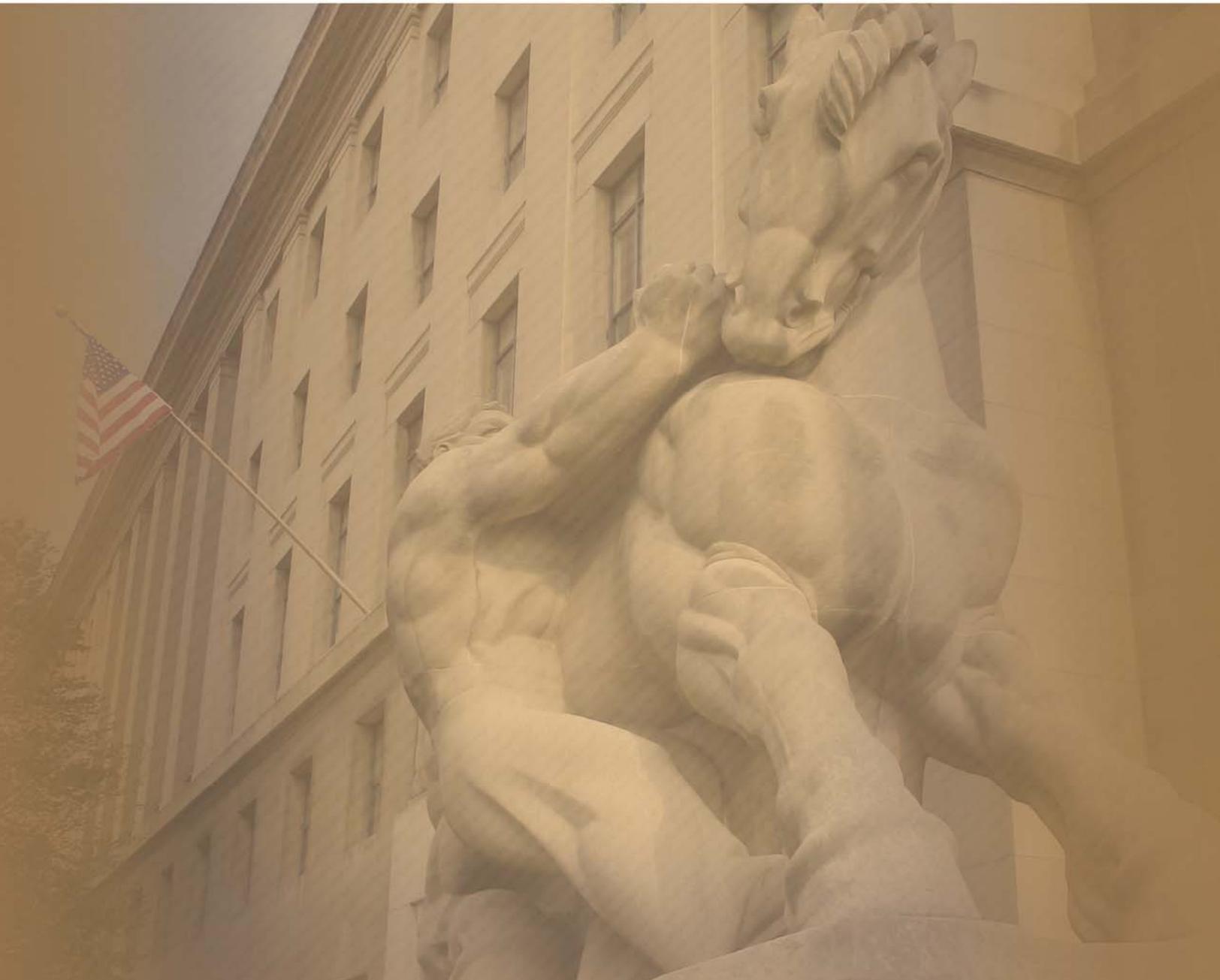


# **OIG Audit**

## **of the Federal Trade Commission's Financial Statements for Fiscal Year 2016**

### **Management Letter**

**Report No. 17-01A // November 2016**





Office of Inspector General

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

December 22, 2016

**MEMORANDUM**

TO: Chairwoman Edith Ramirez  
Commissioner Maureen K. Ohlhausen  
Commissioner Terrell McSweeney

FROM: Roslyn A. Mazer  
Inspector General

A handwritten signature in black ink, appearing to read "Roslyn A. Mazer", with a long horizontal flourish extending to the right.

SUBJECT: Transmittal of the Management Letter for the Fiscal Year 2016 Financial Statement Audit

On November 15, 2016, we issued 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 Fiscal Year (FY) FY 2016 financial statements; one material weakness in internal control over financial reporting, and no reportable noncompliance with applicable provisions of laws, regulations, and contracts tested.

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 2016 Financial Statement Management Letter that reports on such matters. This letter does not affect the auditors' unmodified opinion on the financial statements.

The FTC has addressed all of the open recommendations from prior financial statement audits. At the beginning of the FY 2016 financial statement audit, there were three recommendations to improve the FTC's financial operations and internal controls. In the course of performing the FY 2016 financial statement audit, Brown & Company identified actions the FTC took to address all of the matters previously identified.

This letter contains two new recommendations that warrant management's consideration. Management concurred with both recommendations and 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 20, 2016, 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, regulations, and contracts tested.

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

Cc: Heather Hipsley, Chief of Staff  
David Robbins, Executive Director  
Patricia Bak, Deputy Executive Director  
Monique Fortenberry, Deputy Executive Director  
David Rebich, Chief Financial Officer and Performance Improvement Officer  
Tonia Hill, Internal Controls  
Joseph O'Leska, Deputy Chief Financial Officer  
Valerie Green, Deputy Chief Financial Officer  
Kimberly Mayo, Assistant CFO for Budget  
Nancy Moreno, Assistant CFO for Acquisitions  
George Adam, Financial Operations Accounting Officer  
Justin Nguyen, Brown & Company

# FEDERAL TRADE COMMISSION

## MANAGEMENT LETTER

For the Year Ended  
September 30, 2016

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**FEDERAL TRADE COMMISSION**  
**September 30, 2016**

**FY 2016 MANAGEMENT LETTER COMMENTS**

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**BROWN & COMPANY**

CERTIFIED PUBLIC ACCOUNTANTS AND MANAGEMENT CONSULTANTS, PLLC

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, 2016, on which we have issued our report dated November 14, 2016, 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 14, 2016 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.

  
Largo, Maryland  
December 20, 2016

FEDERAL TRADE COMMISSION

September 30, 2016

FY 2016 MANAGEMENT LETTER COMMENTS

**ML-2016-01 Improved Accounting and Controls are Needed Over Disbursements**

**Condition:**

During our testing of disbursements in fiscal year 2016, we identified errors in 1 of 77 samples. Specifically, we noted the following:

1. The invoice number 1021715 in the amount of \$264,719.76 did not clearly define the Contract Line Item Numbers (CLINs) to be billed for services.
2. The CLINs on the related receiving report signed by the COR did not agree with invoice.
3. The CLINs entered in Oracle for disbursement did not agree with invoice or receiving report.

**Criteria:**

Office of Management and Budget (OMB) Circular A-123, *Management's Responsibility for Internal Control*, requires management to be responsible for establishing and maintaining internal controls to achieve the objectives of effective and efficient operations, reliable financial reporting and compliance with applicable laws and regulations.

**Cause:**

1. According to the FTC program office, the vendor could not clearly distinguish the services under CLIN 1 - consulting and CLIN 3 - testifying phases, because the billed services were a combination of both as outlined in the Performance Work Statement (PWS). Therefore, the vendor listed all services under one CLIN.
2. FTC management identified the discrepancies between the CLINs listed on the invoice and receiving report, and determined the CLIN allocations for the disbursement. However, the agency lacked proper documentation and/or a revised invoice and receiving report to support the CLINs entered for disbursement.

**Effect:**

The disbursement was not adequately documented and applied to the appropriate CLINs per the contract. There is an increased risk that contract accounts by CLIN are not correct.

**Recommendations:**

We recommend FTC management implement written procedures to ensure invoice will not be processed for payment unless it is properly invoiced, accurate, and in compliance with contract terms.

We recommend FTC management ensure any changes to the receiving report are clearly documented prior to processing disbursement for payment.

## **ML-2016-02 Improved Accounting and Controls are Needed Over Interest Receivables**

### **Condition:**

Although FTC had implemented a process for calculating the interest receivable for redress judgements, the agency did not estimate and report interest receivable of \$ \$408,627.00 as of June 30, 2016. The initial testing of the interest receivable balance as of June 30, 2016 (\$405,609.56) led to the discovery of a calculation error in one sample that was selected from a population of 29 matters. The result was an increase in the overall calculated balance.

### **Criteria:**

Office of Management and Budget (OMB) Circular A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control*, requires management to be responsible for establishing and maintaining internal controls to achieve the objectives of effective and efficient operations, reliable financial reporting and compliance with applicable laws and regulations.

### **Cause:**

The agency lacks policies and procedures that require the interest receivable to be recorded on a quarterly basis.

### **Effect:**

Matters that should be included in the interest receivable balance could be omitted and account balances could be misstated.

### **Recommendation:**

We recommend FTC Financial Management Operations follow and improve the approved process policy and procedures to ensure that the interest receivable balance is reconciled quarterly.

**FEDERAL TRADE COMMISSION September 30, 2016  
STATUS OF PRIOR YEARS RECOMMENDATIONS**

<b>Status of FY 2015 Recommendations</b>			
<b>Report Reference</b>	<b>Description</b>	<b>Recommendation</b>	<b>OIG Comment on status as of September 30, 2016</b>
ML-15-1  The Federal Trade Commission (FTC) did not adequately document the basis for a Small Business Administration (SBA) Sole Source Award	<p>Federal Trade Commission solicited a sole source contract from Seven Sense Consulting Inc. under the Small Business Administration 8(a) Program. The agency anticipated that the total value of the contract would be below \$4 million based on market research that yielded lower hourly rates from selected 8(a) firms than the previous 8(a) contractors did. The agency received Seven Sense Consulting Inc. quote for \$1,488,051.20 for the base period and 1,509,638 for the option period for a total estimate award amount of \$2,997,689.60.</p> <p>Due to procedural error, FTC's contract file included an independent Government Cost Estimate, dated March 24, 2015, for \$4,237,662, instead of the documenting the anticipated total value of the contract below \$4 million.</p>	We recommend the FTC Contracting Officer develop, document and implement internal control procedures to ensure the agency adequately documents the basis for Small Business Act 8(a) program.	Closed.
ML-15-2  Search For Unrecorded Liabilities – Subsequent Expense	Federal Trade Commission Financial Operations did not run the "Invoice on Hold Report" immediately after the purchasing module closed for month-end to determine the June 30, 2015 accounts payable accrual amounts. We noted that one of nine transactions tested (Invoice #19800817A \$227,516) was not properly accrued for the period ending June 30, 2015. Management explained that the exception was due to the timing of when the "Invoice on Hold Report" was produced and when the invoice was removed from being on hold.	We recommend FTC Financial Operations improve internal control procedures to ensure accounts payable transactions are promptly recorded to maintain their relevance and value to management in controlling operations and making decisions.	Closed.

**Status of FY 2013 Recommendations**

<b>Report Reference</b>	<b>Description</b>	<b>Recommendation</b>	<b>OIG Comment on status as of September 30, 2016</b>
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.	Closed.

FEDERAL TRADE COMMISSION  
September 30, 2016

Management's Response



Office of the Chief Financial Officer

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

December 19, 2016

MEMORANDUM

TO: Roslyn A. Mazer  
Inspector General

FROM: David Rebich  
Chief Financial Officer

SUBJECT: Management's Response to the Draft FY 2016 Management Letter

Management has reviewed the draft Management Letter for the Fiscal Year (FY) 2016 Financial Statements. We are pleased that the Inspector General was able to close all three of the open recommendations made in connection with prior audits. The Financial Management Office (FMO) concurs with recommendations contained in the draft FY 2016 Management letter. The following is Management's response to the FY 2016 recommendations.

**ML-2016-01 Improved Accounting and Controls are Needed Over Disbursements**

**Recommendation:**

- 1) *We recommend FTC management implement written procedures to ensure invoices will not be processed for payment unless properly invoiced, accurate, and in compliance with contract terms.*
- 2) *We recommend FTC management ensure any changes to the receiving report are clearly documented prior to processing disbursement for payment.*

**Responsible Management Official:**

Nancy Moreno, Assistant Chief Financial Officer for Acquisitions

**Action Plan:**

Management concurs with the recommendation. The FMO will communicate to IBC formal expectations for reviewing and approving proper invoices and receiving reports for payment certification. The FMO will also develop and implement procedures for Contracting Officer Representatives to properly review invoices and complete receiving reports.

**Expected Completion Dates:**

Draft procedures to be completed by April 15, 2017. Final procedures and training to be completed by July 15, 2017. Communication to IBC will be completed by June 1, 2017.

**ML-2016-02 Improved Accounting and Controls are Needed Over Interest Receivables**

**Recommendation:**

*We recommend that the FTC Financial Management Office follow and improve the approved process policy and procedures to ensure that the interest receivable balance is reconciled quarterly.*

**Responsible Management Official:**

Joseph O'Leska, Deputy Chief Financial Officer

**Management Response:**

Management concurs with the recommendation. The FMO will implement procedures in FY 2017 for the recording of court ordered judgment interest and the quarterly reconciliation of interest receivable balances.

**Expected Completion Dates:**

Draft procedures to be completed by March 1, 2017. Final procedures to be implemented by April 1, 2017.