Office of Inspector General

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

November 15, 2024

MEMORANDUM

FROM: Andrew Katsaros
Inspector General

TO: Lina M. Khan, Chair

SUBJECT: Report on Audit of the FTC's Fiscal Year 2024 Financial Statements

I am pleased to provide you with the attached audit report required by the Accountability of Tax Dollars Act of 2002, which presents an unmodified opinion on the Federal Trade Commission's (FTC's) fiscal year 2024 financial statements. We commend the FTC for attaining an unmodified (clean) opinion for the 28th consecutive year.

We contracted with the independent public accounting firm of Allmond & Company, LLC, to audit the financial statements of the FTC as of September 30, 2024, and 2023, and to provide a report on internal control over financial reporting and on compliance with laws and other matters. The audit was performed in accordance with U.S. generally accepted auditing standards, the Government Accountability Office's *Government Auditing Standards*, and Office of Management and Budget guidance.

In its audit of the agency, Allmond & Company reported

- that the financial statements are presented fairly, in all material respects, in accordance with U.S. generally accepted accounting principles;
- no material weaknesses in internal control over financial reporting;[1] and
- no reportable noncompliance with provisions of laws tested or other matters.

Allmond & Company is responsible for the attached auditor's report dated November 15, 2023, and the conclusions expressed in the report. We do not express opinions on FTC's financial statements or internal control over financial reporting, or conclusions on compliance and other matters.

We appreciate the cooperation given by management to Allmond & Company and the Office of Inspector General during the audit. If you have any questions or would like to discuss the report, please contact me at (202) 326-3527.

[1] A *material weakness* is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis.

FEDERAL TRADE COMMISSION

AUDIT REPORT
SEPTEMBER 30, 2024

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Independent Auditor's Report

Chair, Federal Trade Commission
Inspector General, Federal Trade Commission

Report on the Financial Statements

Opinion

In accordance with the Accountability of Tax Dollars Act of 2002, we have audited the Federal Trade Commission (FTC) financial statements. FTC's financial statements comprise the balance sheets as of September 30, 2024 and 2023; the related statements of net cost, changes in net position, budgetary resources, and custodial activities for the fiscal years then ended; and the related notes to the financial statements.

In our opinion, FTC's financial statements present fairly, in all material respects, FTC's financial position as of September 30, 2024, and 2023, and its net cost of operations, changes in net position, budgetary resources, and custodial activities for the fiscal years then ended in accordance with U.S. generally accepted accounting principles.

Basis for Opinion

We conducted our audits in accordance with U.S. generally accepted auditing standards (GAAS); the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 24-02, *Audit Requirements for Federal Financial Statements*. Our responsibilities under those standards and OMB Bulletin No. 24-02 are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the FTC and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Emphasis-of-Matter

As discussed in Note 14 to the financial statements, four projects relating to internal use software in development were improperly expensed during fiscal years 2020 to 2023, resulting in material misstatement of FTC's prior year financial statements. FTC corrected these errors, including related depreciation, during fiscal year 2024 and has accordingly restated its fiscal year 2023 financial statements. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

Management is responsible for

- the preparation and fair presentation of the financial statements in accordance with U.S. generally accepted accounting principles;
- preparing, measuring, and presenting the Required Supplementary Information (RSI) in accordance with U.S. generally accepted accounting principles;
- preparing and presenting other information included in FTC's Agency Financial Report, and ensuring the consistency of that information with the audited financial statements and the RSI; and
- designing, implementing, and maintaining effective internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to (1) obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and (2) issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit of the financial statements conducted in accordance with GAAS, generally accepted government auditing standards (GAGAS), and OMB Bulletin No. 24-02 will always detect a material misstatement or material weakness when it exists.

The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements, including omissions, are considered to be material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, GAGAS, and OMB Bulletin No. 24-02, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures that are responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to an audit of the financial statements in order to design 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 over financial reporting. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Perform other procedures we consider necessary in the circumstances.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the financial statement audit.

Required Supplementary Information (RSI)

U.S. generally accepted accounting principles issued by the Federal Accounting Standards Advisory Board (FASAB) require that the information in the RSI be presented to supplement the financial statements. Such information is the responsibility of management and, although not a part of the financial statements, is required by FASAB, which considers it to be an essential part of financial reporting for placing the financial statements in appropriate operational, economic, or historical context.

We have applied certain limited procedures to the RSI in accordance with U.S. generally accepted government auditing standards. These procedures consisted of (1) inquiring of management about the methods used to prepare the RSI and (2) comparing the RSI for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during the audit of the financial statements, in order to report omissions or material departures from FASAB guidelines, if any, identified by these limited procedures. We did not audit and we do not express an opinion or provide any assurance on the RSI because the limited procedures we applied do not provide sufficient evidence to express an opinion or provide any assurance.

Other Information

FTC's other information contains a wide range of information, some of which is not directly related to the financial statements. This information is presented for purposes of additional analysis and is not a required part of the financial statements or the RSI. Management is responsible for the other information included in FTC's Agency Financial Report. The other information comprises the following sections: *Message from the Chair; Performance Highlights, Forward Looking Information; Message from the Chief Financial Officer,* and *Other Information.* Other information does not include the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

Report on Internal Control over Financial Reporting

In connection with our audits of FTC's financial statements, we considered FTC's internal control over financial reporting, consistent with our auditor's responsibilities discussed below.

Results of Our Consideration of Internal Control over Financial Reporting

Our consideration of internal control was for the limited purpose described below, and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies[1] or to express an opinion on the effectiveness of FTC's internal control over financial reporting. Given these limitations, during our 2024 audit, we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. However, material weaknesses or significant deficiencies may exist that have not been identified.

During our fiscal year 2024 audit, we identified a deficiency in FTC's internal control over financial reporting that we consider to be a significant deficiency. This deficiency is described in the accompanying *Exhibit I, Findings and Recommendations*, to this report. We considered this significant deficiency in determining the nature, timing, and extent of our audit procedures on FTC's fiscal year 2024 and 2023 financial statements. Although the significant deficiency in internal control did not affect our opinion on FTC's fiscal year 2024 and 2023 financial statements, misstatements may occur in unaudited financial information reported internally and externally by FTC because of this significant deficiency.

We identified additional deficiencies in FTC's internal control over financial reporting that we do not consider to be material weaknesses or significant deficiencies that, nonetheless, warrant management's attention. We have communicated these matters to FTC management and, where appropriate, will report on them separately.

Basis for Results of Our Consideration of Internal Control over Financial Reporting

We performed our procedures related to FTC's internal control over financial reporting in accordance with U.S. generally accepted government auditing standards and OMB audit guidance.

Responsibilities of Management for Internal Control over Financial Reporting

FTC management is responsible for designing, implementing, and maintaining effective internal control over financial reporting relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibilities for Internal Control over Financial Reporting

In planning and performing our audit of FTC's financial statements as of and for the fiscal year ended September 30, 2024, in accordance with U.S. generally accepted government auditing standards, we considered FTC's internal control relevant to the financial statement audit in order to design 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 over financial reporting. Accordingly, we do not express an opinion on FTC's internal control over financial reporting. We are required to report all deficiencies that are considered to be significant deficiencies or material weaknesses. We did not consider all internal controls relevant to operating objectives, such as those controls relevant to preparing performance

[1] 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. A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness, yet important enough to merit the attention by those charged with governance.

information and ensuring efficient operations.

Definition and Inherent Limitations of Internal Control over Financial Reporting

An entity's internal control over financial reporting is a process effected by those charged with governance, management, and other personnel. The objectives of internal control over financial reporting are to provide reasonable assurance that

- transactions are properly recorded, processed, and summarized to permit the preparation of financial statements in accordance with U.S. generally accepted accounting principles, and assets are safeguarded against loss from unauthorized acquisition, use, or disposition, and
- transactions are executed in accordance with provisions of applicable laws, including those governing the use of budget authority, regulations, contracts, and grant agreements, noncompliance with which could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent, or detect and correct, misstatements due to fraud or error.

Intended Purpose of Report on Internal Control over Financial Reporting

The purpose of this report is solely to describe the scope of our consideration of FTC's internal control over financial reporting and the results of our procedures, and not to provide an opinion on the effectiveness of FTC's internal control over financial reporting. This report is an integral part of an audit performed in accordance with U.S. generally accepted government auditing standards in considering internal control over financial reporting. Accordingly, this report on internal control over financial reporting is not suitable for any other purpose.

Report on Compliance with Laws, Regulations, Contracts, and Grant Agreements

In connection with our audits of FTC's financial statements, we tested compliance with selected provisions of applicable laws, regulations, contracts, and grant agreements consistent with our auditor's responsibilities discussed below.

Results of Our Tests for Compliance with Laws, Regulations, Contracts, and Grant Agreements

Our tests for compliance with selected provisions of applicable laws, regulations, contracts, and grant agreements disclosed no instances of noncompliance for fiscal year 2024 that would be reportable under U.S. generally accepted government auditing standards. However, the objective of our tests was not to provide an opinion on compliance with laws, regulations, contracts, and grant agreements applicable to FTC. Accordingly, we do not express such an opinion.

Basis for Results of Our Tests for Compliance with Laws, Regulations, Contracts, and Grant Agreements

We performed our tests of compliance in accordance with U.S. generally accepted government auditing standards.

Responsibilities of Management for Compliance with Laws, Regulations, Contracts, and Grant Agreements

FTC management is responsible for complying with laws, regulations, contracts, and grant agreements applicable to FTC.

Auditor's Responsibilities for Tests of Compliance with Laws, Regulations, Contracts, and Grant Agreements

Our responsibility is to test compliance with selected provisions of laws, regulations, contracts, and grant agreements applicable to FTC that have a direct effect on the determination of material amounts and disclosures in FTC's financial statements, and to perform certain other limited procedures. Accordingly, we did not test compliance with all provisions of laws, regulations, contracts, and grant agreements applicable to FTC. We caution that noncompliance may occur and not be detected by these tests.

Intended Purpose for Report on Compliance with Laws, Regulations, Contracts, and Grant Agreements

The purpose of this report is solely to describe the scope of our testing of compliance with selected provision of applicable laws, regulations, contracts, and grant agreements, and the results of that testing, and not to provide an opinion on compliance. This report is an integral part of an audit performed in accordance with U.S. generally accepted government auditing standards in considering compliance. Accordingly, this report on compliance with laws, regulations, contracts, and grant agreements is not suitable for any other purpose.

Agency Comments

We provided FTC with a draft of our report on November 12, 2024, and received FTC's response on November 14, 2024. FTC's response to our report was not subjected to the auditing procedures that we applied to our audit of the financial statements and, therefore, we express no opinion on the response.

Allmond & Company, LLC

Lanham, MD
November 15, 2024

Financial Statements and Footnotes are Not in Accordance with Generally Accepted Accounting Principles and Office of Management and Budget (OMB) Circular A-136 Reporting Requirements (2024-01)

CONDITION

Internal control relating to the preparation and review of the financial statements and footnotes was not properly designed and implemented to prevent, detect, or correct errors and omissions. During our review of FTC's financial statements and footnotes for the interim reporting period ended June 30, 2024, we identified the following conditions:

- Unfunded Leave and Employer Contributions and Payroll Taxes Payable were incorrectly classified as Federal Employee and Veteran Benefits Payable on the Balance Sheet and Note 7.
- Accrued Funded Payroll and Leave was incorrectly classified as Other Liabilities on the Balance Sheet and incorrectly included in Note 7.
- A Commitments and Contingencies footnote was required to report a reasonably possible loss contingency with a range of $130,000 to $650,000, but was not prepared.
- Note 13 – Reconciliation of Net Cost to Net Outlays (Budget to Accrual Reconciliation) included the following errors:
    - a $9,300,000 prior period restatement of capitalized asset balances was reported as Purchases of Assets in error;
    - the Intragovernmental and With the Public variances relating to the change in asset balances were misstated by +/- $845,000;
    - the Intragovernmental and With the Public variances relating to the change in liability balances were misstated by +/- $2,014,000;
- Balances were not always reported consistently between the current year financial statements and footnotes or between prior and current year financial statements and footnotes.
- Additional errors relating to the form, content, and presentation of the financial statements or footnotes.

At year-end, we reviewed FTC's restatements of the FY 2023 Balance Sheet, Statement of Net Cost, and Statement of Changes in Net Position and related notes due to the addition of capitalized assets and Internal Use Software in Development with a total net (i.e., remaining undepreciated) amount of $7,437,270 that had been expensed in error during fiscal years 2020 – 2023. We determined that the presentation was not accurate, as follows:

- We noted that the adjustment to Cumulative Results of Operation (CRO) for the FY 2020 – FY 2022 expenditures ($5,743.340) should have been made to the beginning CRO balance of the Statement of Changes in Net Position and the FY 2023 expenditures and depreciation expense ($1,693,929) should have been reported in the Net Cost of Operations balance in the FY 2023 Statement of Net Cost and included in the ending balance of the FY 2023 Statement of Changes in Net Position.

- FTC reported an adjustment for the correction of errors for all affected years in the amount of $7,437,270 in the FY 2023 Statement of Net Cost and ending CRO balance in the Statement of Changes in Net Position in error.
- In addition, the adjustment amount was included in the FY 2023 ending balance of CRO in the restated FY 2023 column and presented on the Statement of Changes in Net Position as a FY 2024 adjustment.

CRITERIA

Office of Management and Budget (OMB) Circular A-136, Financial Reporting Requirements (May 2024), Section II.3.2.4. Liabilities, states,

> "**Federal Employee Salary, Leave, and Benefits Payable** include salaries; wages; funded and unfunded annual leave; sick leave; the employer portion of payroll taxes and benefit contributions, excluding intragovernmental amounts (e.g., the employer contributions to the Thrift Savings Plan); the employer share of health benefit payments due to benefit carriers, and employment-related liabilities not included in Pension, Post-Employment, and Veterans Benefits Payable….Unfunded annual leave previously shown in Other Liabilities should be reclassified to this line item for the prior year if it is material and referenced as a change in presentation in Note 1.
>
> **[Pension,] Post-Employment, [and Veterans] Benefits Payable** include pensions; post-employment benefits, including other retirement benefits (ORB) and other post-employment benefits (OPEB); veterans benefits, including veterans compensation, burial, education, and training benefits; life insurance actuarial liability; and the Federal Employees' Compensation Act actuarial liability."

Statement of Federal Financial Accounting Standards (SFFAS) 12, *Recognition of Contingent Liabilities Arising from Litigation: An Amendment of SFFAS 5, Accounting for the Liabilities of the Federal Government*, states, "SFFAS No. 5 uses the same general framework for evaluating loss contingencies as Financial Accounting Standards Board (FASB) Statement of Financial Accounting Standards No. 5, Accounting for Contingencies (SFAS No. 5). Contingencies can be "probable," "reasonably possible," or "remote;" and, based on that, are recognized on the balance sheet, disclosed in footnotes, or not mentioned in the financial statements, respectively.

SFFAS 7, as amended by SFFAS 53, and OMB Circular A-136, Section II.3.8.31. Note 31: Reconciliation of Net Cost to Net Outlays (Budget to Accrual Reconciliation) require agencies to "disclose a reconciliation of net cost to net outlays as required by SFFAS7…. Entities should explain significant line items in the reconciliation and are strongly encouraged to follow the [Treasury Financial Manual] TFM crosswalk."

OMB Circular A-136 (May 2024), Section II.3.2.4. Liabilities. Commitments and Contingencies, states, "A contingent liability should be recorded when a past event or exchange transaction has occurred, a future outflow or other sacrifice of resources is probable (i.e., more likely than not), and the future outflow or sacrifice of resources is measurable. Contingencies that do not meet all three of the conditions for liability recognition, but for which there is at least a reasonable possibility that a loss or an additional loss may have been incurred, should be disclosed pursuant to SFFAS 5."

OMB Circular A-136 (May 2024), Section II.3.1, Instructions for the Annual Financial Statements. Financial Statements and Notes, states, "Schedule totals presented in the notes in support of amounts presented in financial statements must agree with the amounts presented in the financial statements."

SFFAS 21: Reporting Corrections of Errors and Changes in Accounting Principles, Amendment of SFFAS 7, Accounting for Revenue and Other Financing Sources, Section 10(b), states, "If comparative financial statements are presented, then the error should be corrected in the earliest affected period presented by correcting any individual amounts on the financial statements. If the earliest period presented is not the period in which the error occurred and the cumulative effect is attributable to prior periods, then the cumulative effect should be reported as a prior period adjustment. The adjustment should be made to the beginning balance of cumulative results of operations, in the statement of changes in net position for the earliest period presented."

The Government Accountability Office (GAO) *Standards for Internal Control in the Federal Government*, Principle 10.01: Design Control Activities, states, "Management should design control activities to achieve objectives and respond to risks. The following attributes contribute to the design, implementation, and operating effectiveness of this principle:

- Response to Objectives and Risks
- Design of Appropriate Types of Control Activities
- Design of Control Activities at Various Levels
- Segregation of Duties."

CAUSE

- Incorrect or outdated guidance, such as superseded Treasury crosswalks, was used to prepare the financial statements and footnotes. Changes in reporting requirements are not implemented timely by preparers and reviewers of the financial statements and footnotes.
- Information regarding contingent liabilities relating to legal matters is not provided to the preparer and reviewer of the financial statements and footnotes timely (i.e., prior to the end of the reporting period) so that entries can be recorded when needed and the footnote can be accurately prepared;
- Communications between the General Counsel's Office and Financial Management Office occur as a result of the auditor's inquiries and not as a routine part of the preparation process.
- Control activities relating to the review and approval of the financial statements and footnotes were not fully implemented to prevent or detect and correct errors and omissions in the financial statements and footnotes.
- The presentation relating to the correction of errors and restatement of prior period adjustments per authoritative guidance was not strictly followed.

EFFECT

- Noncompliance with generally accepted accounting principles (GAAP) relating to the reporting of contingent liabilities and with OMB and Treasury financial reporting requirements.

- Material misstatements of the Reconciliation of Net Costs to Net Outlays footnote (Note 13).

- Increased risk of material misstatement, errors, and omissions in the financial statements and other required footnote disclosures.

- The financial statements were not presented in accordance with generally accepted accounting principles, as described in the Condition section of the finding.

RECOMMENDATION

We recommend that FTC management should:

- Timely implement the most current version of OMB Circular A-136 and the USSGL Treasury Crosswalks to identify changes in data elements, classification, and presentation and ensure that these changes are incorporated into financial statement and footnote templates for current year reporting. A search for new versions of the USSGL Crosswalks and OMB Circular A-136 should be performed each time the financial statements are prepared.

- Increase the precision of the preparation and review process to verify the mathematical accuracy, classification, consistency, and completeness of the financial statements and footnotes.

- Proactively and independently initiate discussions with Legal Counsel at least quarterly in order to identify contingent liabilities which should be recognized and/or disclosed in FTC's financial statements and footnotes so that appropriate entries can be recorded prior to the GTAS reporting deadline for that reporting period and all required footnote disclosures can be prepared.

- Document the process for determining the appropriate accounting entries and/or presentation for corrections of errors and other unusual accounting events, including the authoritative guidance that supports the actions to be taken.

MANAGEMENT RESPONSE

Management's response was provided in a separate memo that follows the independent auditor's report.

AUDITOR RESPONSE

We will perform follow up procedures during the FY 2025 audit to determine if corrective actions have been fully implemented.