

# **OIG Audit**

## **of the Federal Trade Commission's Financial Statements for Fiscal Year 2017**

### **Management Letter**

**Report No. AR 18-02A // December 2017**





Office of Inspector General

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

December 21, 2017

**MEMORANDUM**

TO: Maureen K. Ohlhausen, Acting Chairman  
Terrell McSweeney, Commissioner

FROM: Roslyn A. Mazer  
Inspector General

A handwritten signature in black ink, appearing to read "Roslyn A. Mazer". The signature is written in a cursive style with a long horizontal line extending to the right.

SUBJECT: Transmittal of the Management Letter for the Fiscal Year 2017 Financial Statement Audit

On November 13, 2017, 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 2017 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 2017 Financial Statement Management Letter dated December 18, 2017, 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 2017 financial statement audit, there were two recommendations to improve the FTC's financial operations and internal controls. In the course of performing the FY 2017 financial statement audit, Brown & Company identified actions the FTC took to address all of the matters previously identified.

This letter contains one new recommendation that warrants management's consideration. Management concurred with this recommendation and is in the process of implementing actions to address the issue 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 18, 2017, and the conclusions expressed in the letter. We do not express opinions on the FTC's financial statements, nor do we provide conclusions on internal control or compliance with laws, regulations, and contracts tested.

In accordance with the Inspector General Act of 1978, as amended, we are providing copies of this letter to congressional committees with oversight and appropriation responsibilities over the FTC. In addition, we will post the report on our public website.

We appreciate the cooperation afforded by management to Brown & Company and my office during the audit. Should you have any questions or would like to discuss the report, please contact me or OIG Audit Manager Mary Harmison at (202) 326-3527.

Enclosure

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**FEDERAL TRADE COMMISSION**

**MANAGEMENT LETTER**

**FOR THE YEAR ENDED  
SEPTEMBER 30, 2017**

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**FEDERAL TRADE COMMISSION  
SEPTEMBER 30, 2017**

**FY 2017 MANAGEMENT LETTER COMMENTS**

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December 18, 2017

Federal Trade Commission  
Washington, D.C.

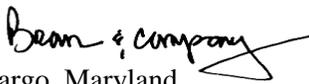
To: Management and the Commissioners of the Federal Trade Commission

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, 2017, on which we have issued our report dated November 13, 2017, 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, 2017 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 the U.S. Congress, and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

  
Largo, Maryland

**FEDERAL TRADE COMMISSION  
SEPTEMBER 30, 2017  
FY 2017 MANAGEMENT LETTER COMMENT**

**Finding 2017-01: Employee Debt Receivables Over 120 Days Old For Which FTC Financial Management Operations Had Taken No Recent Follow-Up Action.**

**Condition:**

FTC Financial Management Operations has taken or plans to take to ensure the employee debt receivables are valid and accurate. However, the lack of aggressive action to collect outstanding employee debts or follow-up action has led to employee debt receivables over 120 days old. During our interim substantive testing, we randomly select seven (7) transactions for testing. We noted the receivables outstanding on June 30<sup>th</sup> for separated employees were substantially past due, increasing the likelihood that they would not be collected in full. FTC Financial Management Operations were generally not collecting receivables for separated employees as aggressively due to lack of Agency policies and procedures. They were not periodically contacting the debtors or regularly evaluating the debts to determine collection action needed.

In addition, FTC Financial Management Operations did not compute and record additional charges correctly for delinquent receivables associated with separated employees. The Debt Collection Act of 1982 or the Federal Claims Collections Standards generally allow the Agency to collect interest and handling charges and penalties where the debtor does not promptly pay its bills. These additional charges were not accurately recorded for the seven transactions.

As of June 30, 2017, the employee debt receivable balance is \$81,585.34.

**Criteria:**

Federal Trade Commission 16 CFR Part 1 Administrative Debt Collection Procedures, *Subpart P – Administrative Debt Collection, Including Administrative Offset*, stated that “The Commission shall apply the Federal Claims Collection Standards (FCCS), 31 CFR parts 900-904, in the administrative collection, offset, compromise, suspension, termination, and referral of collection activity for civil claims for money, funds, or property, as defined by 31 U.S.C 3701(b), unless specific Federal agency statutes or regulations apply to such activities or, as provided by the Title 11 of the United States Code, when the claims involve bankruptcy. The Commission shall also follow Department of Treasury regulations set forth at 31 CFR part 285, as applicable, for administrative debt collection, including centralized offset of federal payments to collect non-tax debts that may be owed to the Commission, 31 CFR 285.5. Nothing in this subpart shall be construed to supersede or require the Commission to provide additional notice or other procedures that may have already been provided or afforded to a debtor in the course of administrative or judicial litigation or otherwise”.

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 which made it difficult to take action to collect outstanding employee debt. In addition, resource limitations was also a factor for not regularly recording additional charges. The computations needed, as well as the related accounting entries, were many and time consuming to perform. Also, locate documentation supporting the validity of the outstanding employee debt receivables is a challenge.

**Effect:**

Employee debt receivables balance could be understated or overstated.

**Recommendations:**

We recommend that the Chief Financial Officer:

- a. Ensure the FTC finalizes Agency policies and procedures regarding employee debt receivables.
- b. Evaluate the outstanding employee debt receivables and make a decision to collect or refer to Treasury for collections.
- c. Generate demand letters for Agency identified collection initiatives.
- d. Make a decision on how to compute and record additional charges.

**FEDERAL TRADE COMMISSION  
SEPTEMBER 30, 2017  
STATUS OF PRIOR YEARS RECOMMENDATIONS**

Report Reference	Description	Recommendation	Status as of September 30, 2017
2016-01  Improved Accounting and Controls are Needed Over Disbursements	During our testing of disbursements in fiscal year 2016, we identified errors in 1 of 77 samples. Specifically, we noted the following: <ol style="list-style-type: none"> <li>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.</li> <li>2. The CLINs on the related receiving report signed by the COR did not agree with invoice.</li> <li>3. The CLINs entered in Oracle for disbursement did not agree with invoice or receiving report.</li> </ol>	We recommend FTC management implement written procedures to ensure invoice will not be processed for payment unless is it 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.	Closed.
2016-02  Improved Accounting and Controls are Needed Over Interest Receivables	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.	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.	Closed.

**FEDERAL TRADE COMMISSION  
SEPTEMBER 30, 2017  
MANAGEMENT'S RESPONSE**



Office of the Chief Financial Officer

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

December 18, 2017

**MEMORANDUM**

TO: Roslyn A. Mazer  
Inspector General

FROM: David Rebich   
Chief Financial Officer

SUBJECT: Management's Response to the Draft FY 2017 Management Letter

Management has reviewed the draft Management Letter for the Fiscal Year (FY) 2017 Financial Statements. We are pleased that the Inspector General was able to close both of the open recommendations made in connection with the FY 2016 Financial Statement Audit. The Financial Management Office (FMO) concurs with recommendations contained in the draft FY 2017 Management Letter. The following is Management's response to the FY 2017 recommendations.

**ML-2017-01 - Employee Debt Receivables Over 120 Days Old For Which FTC Financial Management Operations Had Taken No Recent Follow-Up Action**

**Recommendation 1:**

*We recommend that the Chief Financial Officer:*

- a. *Ensure the FTC finalizes Agency policies and procedures regarding employee debt receivables.*
- b. *Evaluate the outstanding employee debt receivables and make a decision to collect or refer to Treasury for collections.*
- c. *Generate demand letters for Agency identified collection initiatives.*
- d. *Make a decision on how to compute and record additional charges.*

**Responsible Management Official:**

Joseph O'Leska, Deputy Chief Financial Officer

**Action Plan:**

Management concurs with the recommendation. The Corrective Action Plan to be implemented includes:

- a. FMO will work with General Counsel to finalize the policies and procedures for employee debt.
- b. FMO will evaluate employee debt receivables and make a determination to collect the employee debt or refer the debt to Treasury for collection.
- c. FMO will make a determination to compute and record relevant fines and penalties, as applicable.

**Expected Completion Dates:**

Final policies and procedures to be completed by May 31, 2018. Employee debt eligible for referral will be processed and referred, and relevant fines and penalties will be computed and recorded by June 30, 2018.

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