

OIG Audit
of the Federal Trade Commission
Financial Statements for Fiscal Year 2015
Management Letter

Report No. 15-01A // January 2016





Office of Inspector General

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

January 8, 2016

MEMORANDUM

TO: Chairwoman Edith Ramirez
Commissioner Julie Brill
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 2015 Financial Statement Audit

On November 16, 2015 we transmitted 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 2015 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 2015 Financial Statement Management Letter that reports on such matters. This letter does not affect the auditors' unmodified opinion on the financial statements.

FTC has continued to work to address many of the pending recommendations from prior financial statement audits. At the beginning of the FY 2015 financial audit, there were seven recommendations to improve FTC's financial operations and internal controls. In the course of performing the FY 2015 financial statement audit, Brown & Company identified actions FTC took to address many of the matters previously identified. On the basis of FTC's actions, which were substantiated through the audit, Brown & Company closed six of the seven pending recommendations from previous audits.

This letter contains two new recommendations that warrant management's consideration. Management concurred with both recommendations and has implemented or is in the process of implementing actions to address the issues identified. Management also documents actions to

address the remaining recommendation from the FY 2013 financial statement audit. 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, 2015 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 and regulations.

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

Cc: Heather Hipsley, Chief of Staff
David Robbins, Chief Executive Officer
Patricia Bak, Deputy Executive Officer
Monique Fortenberry, Deputy Executive Officer
David Rebich, Chief Financial Officer and Performance Improvement Officer
Tonia Hill, Internal Controls Manager
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
David Burgman, Assistant CFO, Financial Systems and Reporting Division
George Adam, Financial Operations Accounting Officer
Justin Nguyen, Brown & Company

FEDERAL TRADE COMMISSION

MANAGEMENT LETTER

For the Year Ended
September 30, 2015



FEDERAL TRADE COMMISSION
September 30, 2015

FY 2015 MANAGEMENT LETTER COMMENTS

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BROWN & COMPANY

CERTIFIED PUBLIC ACCOUNTANTS AND MANAGEMENT CONSULTANTS, PLLC

December 18, 2015

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, 2015, on which we have issued our report dated November 13, 2015, 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, 2015 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.

Very truly yours,

Largo, Maryland

FEDERAL TRADE COMMISSION
September 30, 2015

FY 2015 MANAGEMENT LETTER COMMENTS

ML-15-1 The Federal Trade Commission (FTC) did not adequately document the basis for a Small Business Administration (SBA) Sole Source Award

Condition

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.

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.

Criteria

Subpart 19.8-*Contracting with the Small Business Administration (The 8(a) Program)*, 9.805 Competitive 8(a), 19.805-1 General, states:

(a) Except as provided in paragraph (b) of this subsection, an acquisition offered to the SBA under the 8(a) Program shall be awarded on the basis of competition limited to eligible 8(a) firms if-

(1) There is a reasonable expectation that at least two eligible and responsible 8(a) firms will submit offers and that award can be made at a fair market price; and

(2) The anticipated total value of the contract, including options, will exceed \$6.5 million for acquisitions assigned manufacturing North American Industry Classification System (NAICS) codes and \$4 million for all other acquisitions.

Cause:

FTC's objective was to obtain a fair and reasonable price. However, the agency did not adequately document a government estimate for services at or below the \$4 million threshold before awarding a sole source contract.

Effective:

The effect of not adequately documenting the agency's "below \$4 million estimate," increases the risk of not complying with the Small Business Administration 8(a) Program for making 8(a) sole source contract awards.

Recommendation:

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.

ML-15-2 Search For Unrecorded Liabilities – Subsequent Expense

Condition:

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.

Criteria:

GAO “Standards for Internal Control in the Federal Government, date September 2014, Control Activities, Principle 10 – Design Control Activities, Design of Appropriate Types of Control Activities, 10.03 Accurate and timely recording of transactions,” states:

Transactions are promptly recorded to maintain their relevance and value to management in controlling operations and making decisions. This applies to the entire process or life cycle of a transaction or event from its initiation and authorization through its final classification in summary records. In addition, management designs control activities so that all transactions are completely and accurately recorded.

Cause:

FTC lack internal controls to ensure accurate and timely recording of accounts payable. Financial Operations did not immediately run the “Invoice on Hold” report after the purchasing module was closed for month-end. When Financial Operations runs the Invoice on Hold report from Oracle to calculate the accounts payable accrual, the invoice was no longer on hold because IBC had removed the hold on the invoice and posts the payable/expense to the general ledger.

Effect:

The accounts payable balance as of June 30, 2015 is understated by \$227,516. The amount is below materiality for transaction testing.

Recommendations:

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.

FEDERAL TRADE COMMISSION September 30, 2015
 STATUS OF PRIOR YEARS RECOMMENDATIONS

Status of FY 2014 Recommendations			
Report Reference	Description	Recommendation	OIG Comment on status as of September 30, 2015
ML-14-1 Timeliness of Delivery of Documents Requested	There was a significant delay by Financial Management Office (FMO) in providing the requested documentation to complete the payroll internal control testing. Brown & Company provided the payroll sample and made the request for documentation on July 24, 2014; however, we did not receive the payroll documentation until September 18, 2014.	To ensure that requested documentation be made readily available for examination of internal control, all transactions, and other significant events, we recommend that FTC establish internal controls to ensure production of requested documentation. This could include written notification of the start of the financial audit, including Human Capital Management Office personnel in weekly audit meetings, and including timely production of deliverables to the OIG in employee performance reviews.	Closed.
ML-14-2 Expenditure Exceeded the Obligation	FTC paid an invoice for FY 2013 Option Year 2 with FY 2014 Option Year 3 funds because Option Year 2 funds were depleted. FTC received an invoice dated September 3, 2013 for services rendered during the Option Year 2 contract period that ended September 30, 2013. There were not enough funds remaining in Option Year 2 and a contract modification to increase the funding for Option Year 2 was not obtained. The FY 2014 Option Year 3 contract was exercised and funded on	We recommend that FTC enhance its compliance with internal controls over contract management and monitoring by establishing processes to ensure that contract management is alerted of the need for contract modifications prior to FTC incurring cost.	Closed.

Status of FY 2014 Recommendations			
Report Reference	Description	Recommendation	OIG Comment on status as of September 30, 2015
	November 6, 2013 and the outstanding invoice in the amount of \$32,771.73, dated September 3, 2013 was paid from these funds.		
ML-14-3 Lodging Costs Exceeded Federal Travel Regulation (FTR) Lodging Per Diem Allowance	FTC paid a contractor invoice for expert services that included reimbursement of lodging expenses that exceeded the Federal government per diem on two separate trips. The total unauthorized amount that was reimbursed to the contractor was \$415.84. The contract included a clause that stated: <i>Lodging reimbursement will be limited to the U.S. Government General Service Administration (GSA) lodging rate for the city in question. Specific rates for different localities may be found on the GSA website (www.gsa.gov).</i> No documentation was provided showing that lodging was approved for the higher amounts prior to travel dates.	We recommend: <ol style="list-style-type: none"> 1. FTC provide training and improve internal controls to ensure that FTR per diem rates are being followed when approving vendor invoices for travel reimbursements. 2. FTC bill the consultant for the overpayment amount. 	Closed.
ML-14-4 The Physical Access Plan Is Not	During our examination of FTC's Oracle Federal Financial System (OFF) Complementary Client Controls, we determined that FTC has established physical access	We recommend that FTC update and finalize the Physical Access Control Plan for management review and approval and dissemination to FTC employees and contractors.	Closed.

Status of FY 2014 Recommendations			
Report Reference	Description	Recommendation	OIG Comment on status as of September 30, 2015
Updated and Finalized	security controls to provide reasonable assurance that physical access to the OFF applications, using computer terminals at client locations, is restricted to authorized individuals. We also noted that the FTC Physical Access Control Plan, dated April 29, 2010, remains in draft form. The plan should be updated, reviewed, approved by management and then disseminated to FTC employees and contractors.	We also recommend the Plan clearly state the purpose, scope, roles, responsibilities, management commitment, coordination among organizational entities, and compliance.	
ML-14-5 Accounts Receivable – Civil Monetary Penalties	FTC’s policy is to recognize a receivable for civil monetary penalties once it receives a final judgment. FMO’s Financial Operation Branch relies on the BCP “Accomplishment Report” for a complete list of final judgments. During our review of receivables, we noted that one of the civil monetary penalties for \$2,000,000 was signed by the judge on June 11, 2014, but was not listed as a final judgment on the Accomplishment Report for June 30, 2014. As a result, FMO did not recognize the receivable for the civil penalty in June 2014. The receivable was subsequently recognized in July 2014.	We recommend the FTC implement internal controls to ensure that accounts receivable civil monetary penalties are recorded within the quarter that the case is signed by the judge.	Closed.

Status of FY 2013 Recommendations			
Report Reference	Description	Recommendation	OIG Comment on status as of September 30, 2015
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: <ul style="list-style-type: none"> 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. 	In progress.

Status of FY 2012 Recommendations			
Report Reference	Description	Recommendation	OIG Comment on status as of September 30, 2015
ML-12-1 Capitalization Procedures Need Improvement	During the FY 2012 audit, the auditors identified a lack of oversight and written procedures for capitalization of assets. The auditors identified \$1 million in fixed assets that were not properly capitalized and FMO identified \$2.5 million in assets capitalized in prior years that needed to be written off.	FMO review and strengthen its capitalization policies and procedures to ensure that: <ul style="list-style-type: none"> i) Capitalization determinations are being made by individuals designated to do so; ii) They are versed in the capitalization standards iii) They document their determinations. 	Closed.

FEDERAL TRADE COMMISSION
September 30, 2015

Management's Response



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

Office of the Chief Financial Officer

December 17, 2015

MEMORANDUM

TO: Roslyn A. Mazer
Inspector General

FROM: David Rebich 
Chief Financial Officer

SUBJECT: Management's Response to the Draft FY 2015 Management Letter

Management has reviewed the draft Management Letter for the Fiscal Year (FY) 2015 Financial Statements. We are pleased that the Inspector General was able to close six of the seven open recommendations made in connection with prior audits. The Financial Management Office (FMO) concurs with recommendations contained in the draft FY 2015 Management Letter. The following is Management's response to the FY 2015 recommendations and the remaining open recommendation from the FY 2013 audit.

ML-15-1 The Federal Trade Commission (FTC) did not adequately document the basis for a Small Business Administration (SBA) Sole Source Award

Recommendation:

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.

Responsible Management Official:

Nancy Moreno, Assistant Chief Financial Officer for Acquisitions

Action Plan:

Management concurs. FMO's Acquisitions Division will develop and implement internal control procedures to conduct a Small Business Review prior to contract award (this will be inclusive of all small business awards to include 8(a) set asides). The review will ensure that a small business award is appropriate, the justification for the award is adequately documented in the contract file, and the award adheres to the Federal Acquisition Regulation. The review will include a checklist of documents that must be included within the contract file. Finally, the Assistant Chief Financial Officer for Acquisitions will conduct training for the Acquisitions Division staff on the internal control procedures, and follow up individually with staff to ensure they understand the program requirements and the review procedures.

Expected Completion Dates:

Draft procedures to be completed by April 15, 2016. Final procedures and training to be completed by July 15, 2016.

ML-15-2 Search For Unrecorded Liabilities – Subsequent Expense

Recommendation:

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.

Responsible Management Official:

George Adam, Accounting Officer for Financial Operations

Action Plan:

Management concurs. FMO Financial Operations Division will develop and implement procedures to ensure all accounts payable transactions are timely identified and promptly recorded in the accounting period incurred. These procedures will be incorporated into the Financial Operations Division's existing monthly, quarterly and year-end general ledger closing processes.

Expected Completion Date:

New procedures will be finalized and implemented by March 31, 2016.

ML-13-2 Liquidation of Obligations

Recommendation:

FTC should perform the following:

- 1) *Review and determine the validity of undelivered orders on a semi-annual basis.*
- 2) *Develop policy requiring certification for all open obligation balances that are inactive for more than 12 months.*

Responsible Management Officials:

Nancy Moreno, Assistant Chief Financial Officer for Acquisitions

David Burgman, Assistant Chief Financial Officer for Financial Systems and Reporting

Action Plan:

Management concurs.

- 1) To address the validity of undelivered orders, beginning in FY 2014, FMO dedicated resources to review and close-out inactive contracts, and FMO has made substantial progress towards validating undelivered orders and closing invalid undelivered orders. Procedures have been drafted to review and validate the remaining undelivered orders and to conduct the validation on a semi-annual basis.
- 2) Policies and procedures for requiring certification of all open obligation balances that are inactive for more than 12 months have been drafted and are being refined by FMO leadership.

Expected Completion Dates:

Procedures to review and validate undelivered orders on a semi-annual basis will be finalized and implemented by June 30, 2016. Policies and procedures for requiring certification of all open obligation balances that are inactive for more than 12 months will be finalized and implemented by September 30, 2016.