

FEDERAL TRADE COMMISSION

OFFICE OF INSPECTOR GENERAL



SEMIANNUAL REPORT TO CONGRESS

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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 \$931,100 for fiscal year 2004.

AUDIT ACTIVITIES

FTC began collecting fees associated with the implementation and enforcement of the National Do-Not-Call Registry. This registry operates under Section 5 of the FTC Act, which enforces the Telemarketing Sales Rule (TSR). Telemarketers under FTC's jurisdiction are required to pay a user fee and download from the DNC database a list of consumers' telephone numbers who do not wish to receive calls from telemarketers. Fees are based on the number of area codes downloaded. The fees range from \$25 for one area code to \$7,375 for all area codes within the United States. The agency earned \$5.2 million in fees in fiscal year 2003, representing 2.9 percent of the total financing sources for the year.

The third source of exchange revenue was earned through reimbursable agreements with other federal agencies. Total earnings were \$1.2 million and \$1.3 million, representing 0.6 percent and 0.8 percent of total financing sources for fiscal years 2003 and 2002, respectively.

Financing sources were received from direct appropriations from the General Fund of the Treasury and transfers in the amount of \$115.6 million in fiscal year 2003 and \$86.6 million in fiscal year 2002. The budgetary authority appropriated from the General Fund was reduced by the amount of offsetting collections (HSR and DNC fees) received during the year to arrive at the final amount of resources appropriated from the General Fund. In fiscal years 2003 and 2002, the amount of direct appropriations and transfers that were recorded as a net financing source was 62.7 percent and 53.8 percent of total funding sources received.

The gross cost of operations during the 2003 fiscal year was approximately \$174.7 million, an 8.8 percent increase over fiscal year 2002. During 2003, expenses for salaries and related benefits totaled \$114.3 million, or 65.4 percent of the gross cost of operations. Lease space rental amounted to \$16.8 million, or 9.6 percent, and the remaining \$43.6 million, or 25.0 percent, included travel, facility maintenance and equipment rental, utilities, imputed benefit costs, depreciation, future funded expenses, which the agency employed in fulfilling its mission.

The OIG also issued a *Management Letter to the FY 2003 Financial Statements (AR 03-057A)*. The objective of the management letter is to bring to management's attention financial statements and to make recommendations for corrective action. The audit also follows up on past recommendations made in the prior year's management letter. For example, this year's management letter contains two new findings and the status (follow up) of four prior-year findings. Follow up on one prior year finding identified \$16,750 in questioned costs. These costs resulted from an overpayment for leased parking fees by the agency to the General Services Administration.

In AR04-058, *Policy Review: Contractor Participation at Agency-Sponsored Social Events*, the OIG received an allegation of a possible violation of government contract regulations relating to the participation of contractor employees in agency-sponsored social events, such as holiday and retirement parties.

The OIG found that contractor employees occasionally plan and attend FTC-sponsored social functions during regular working hours. However, because the OIG found no agency or

government-wide policies or procedures to guide staff actions in this area, we did not attempt to determine who authorized and paid for such involvement. Further, because of a lack of written policy and/or guidance provided to contracting officer's technical representatives (COTR) in this area, it is likely that contractors and their employers are not being adequately instructed on their involvement in and attendance at such events.

The OIG believes that the agency needs a policy that provides practical guidance to agency COTR's on the narrow issue of contractor employees attending FTC-endorsed social events (retirement events, holiday parties, etc.). At a minimum, the policy should (i) ensure that the agency is charged only for work authorized under the contract; (ii) maintain an integrated

(iii) employees follow program guidelines when calculating their monthly subsidy request, thus ensuring that they receive only the amount of subsidy authorized under the program; and (iv) only eligible authorized agency staff receive a subsidy.

The OIG provided management with a draft audit report for its review and comments.

Audits in Which Field Work is In Progress

Audit Report Number
AR04-XXX

Subject of Review

Audit of the FTC's Technical Assistance Activities Funded by the U.S. Agency for International Development For over a decade, the FTC has assisted transition economies that are committed to market and commercial law reforms. With funding principally from the USAID, about 30 nations have received technical assistance with the development of their competition laws.

The Foreign Operations, Export Financing and Related Programs Appropriations Act of 2003 provides USAID with authority to make such fund transfers. In addition, and for the first time, the Act contains an audit provision directed to the Office of Inspectors General for recipient agencies. Specifically, Sec. 509(d) requires the OIG to perform periodic program and financial audits of the use of AID funds.

In keeping with this new mandate, an audit program was developed with the objectives to determine whether the costs charged against USAID funds (i) are supported by approved documentation and payroll allocations and that these allocations appear proper and reasonable and (ii) conform to the requirements stipulated by USAID in its Memorandum of Agreement and reimbursable work agreements.

AR04-XXX

Review of the Federal Trade Commission Implementation of the Federal Information Security Management Act for Fiscal Year 2004 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 focus its review on the FTC's *Plan of Action and Milestones* at the time they are submitted to OMB to determine to what extent 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 consider other well known vulnerabilities, including access controls to FTC databases by program and IT staff.

Planned Audits

Audit Report Number
AR04-XXX

Subject of Review

Audit of the Use of Government Purchase and Travel Cards Recent reports by the General Accounting Office and Inspectors General, as well as congressional hearings and press reports, have once again raised serious concerns regarding the adequacy of internal control systems that monitor the use of the more than 2.5 million Government credit cards in circulation. To date, millions of dollars of fraudulent and unauthorized expenditures have been made using these cards. While the purchase and travel card programs have increased efficiency in the federal acquisition process, they have also created large, new opportunities for fraud and abuse.

The overall objective of this audit will be to ensure that the credit card programs have effective internal controls to prevent abuses. The OIG will also perform transaction tests to identify (i) potentially fraudulent, improper and abusive uses of purchase cards and (ii) any patterns of improper cardholder transactions, such as purchases of prohibited items.

AR04-XXX

Survey of Do-Not Call Registry Removal Procedures

The OIG has learned of some consumers being inadvertently removed from the Do-Not-Call Registry without their knowledge or consent. DNC officials informed the OIG that on occasion, when a caller makes

changes to his/her phone service the local companies might mistakenly identify such requests as a disconnect. In turn, when the agency's contractor routinely scrubs the registry, it also identifies such numbers as disconnects and removes them from the DNC registry.

In conclusion, the objectives of this OIG survey are to assess whether adequate internal controls are in place and appropriately working to guard against any unintended removal of consumers from the DNC registry.

INVESTIGATIVE ACTIVITIES

referred to other government and/or law enforcement agencies for ultimate disposition.

Of the remaining 28 complaints, 23 were closed without any action, two are being monitored during the pendency of an administrative adjudication at the FTC, two are matters that are under investigation by the OIG and one resulted in an OIG audit.

Following is a summary of the OIG's investigative activities for the six-month period ending March 31, 2004.

Cases pending as of 9/30/03.....	5
Plus: New cases.....	+2
Less: Cases closed.....	(2)
Cases pending as of 3/31/04.....	5

The first closed investigation resulted from an allegation made by an agency employee regarding a possible security breach of his personal computer. This employee, before discussing his concerns with the OIG, had informed management of his suspicions. Management investigated this employee's allegations and concluded that no intrusion had occurred. Believing that some of his concerns had not been fully investigated by management, this employee came to the OIG.

Beginning with a chronology of the alleged intrusions, the OIG researched each allegation to determine whether the activity reported constituted an attempted intrusion and performed independent testing to determine the true nature of the activity reported. While the employee's concerns appeared valid, detailed research and testing revealed them to be unfounded. The OIG agreed with management that no intrusion had occurred and closed the investigation.

The second closed investigation involved an alleged leak of nonpublic information by an FTC staff member. Counsel for the defendant in a consent decree proceeding raised the allegation with the OIG. The OIG investigation did not develop sufficient evidence to establish that the alleged unauthorized disclosure occurred. We informed management of our investigative findings and closed the matter.

Matters Referred for Prosecution

During the current reporting period the OIG conferred with a Federal prosecutor on a matter involving the unauthorized disclosure of information by an agency employee. After receiving a declination from the prosecutor, the matter was referred to management for final disposition.

OTHER ACTIVITIES

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 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 IG

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>1</u>	<u>8,400</u>	<u>[0]</u>
B. Which were issued during the reporting period	<u>1</u>	<u>16,750</u>	<u>[0]</u>
Subtotals (A + B)	<u>2</u>	<u>25,150</u>	<u>[0]</u>
C. For which a management decision was made during the reporting period	<u>2</u>	<u>25,150</u>	<u>[0]</u>
(i) dollar value of disallowed costs	<u>1</u>	<u>16,750</u>	<u>[0]</u>
(ii) dollar value of cost not disallowed	<u>1</u>	<u>8,400</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	<u>0</u>	<u>0</u>
B. Which were issued during this reporting period	<u>0</u>	<u>0</u>
C. For which a management decision was made during the reporting period	<u>0</u>	<u>0</u>
(i) dollar value of recommendations that were agreed to by management	<u>0</u>	<u>0</u>
- based on proposed management action	<u>0</u>	<u>0</u>
- based on proposed legislative action	<u>0</u>	<u>0</u>
(ii) dollar value of recommendations that were not agreed to by management	<u>0</u>	<u>0</u>
D. For which no management decision has been made by the end of the reporting period	<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>