

FEDERAL TRADE COMMISSION

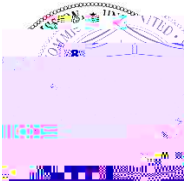
OFFICE OF INSPECTOR GENERAL



SEMIANNUAL REPORT TO CONGRESS

October 1, 2006 - March 31, 2007

Report #36



Office of Inspector General

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

April 30, 2007

The Honorable Deborah Majoras
Chairman
Federal Trade Commission
600 Pennsylvania Avenue, N.W.
Washington, D.C. 20580

Dear Chairman Majoras:

The attached report covers the Office of Inspector General's (OIG) activities for the first half of fiscal year 2007 and is submitted according to Section 5 of the Inspector General Act of 1978, as amended.

During the six-month reporting period ending March 31, 2007, the OIG issued an audit of the FTC's FY 2006 financial statements and a companion report to management containing financial-related findings and recommendations resulting from the audit. Additionally, the OIG released an audit of the FTC's Purchase Card Program. The OIG also conducted an *External Peer Review* of the Library of Congress' Office of Inspector General.

In addition, the OIG processed 53 consumer inquiries and complaints/allegations of possible wrongdoing during the period, opened four new investigations into wrongdoing and referred one matter to the Department of Justice for prosecutorial consideration.

As in the past, management has been responsive in attempting to implement all OIG recommendations. I appreciate management's support and I look forward to working with you in our ongoing efforts to promote economy and efficiency in agency programs.

Sincerely,

Howard L. Sribnick
Inspector General

INTRODUCTION

Summary of Audits and Reviews Issued During the Current Period

AR 07-001, Audit of the Federal Trade Commission's Financial Statements for the Fiscal Year Ending September 30, 2006

The objective of this audit was to determine whether the agency's financial statements present fairly the financial position of the agency. The statements audited were the Balance Sheets as of September 30, 2006 and 2005 and the related Statements of Net Cost, Statements of Changes in Net Position, Statements of Budgetary Resources, Statements of Financing and Statements of Custodial Activity for the years then ended. This was the tenth consecutive year that the FTC prepared financial statements for audit. OIG audit resulted in the agency receiving an unqualified opinion, the highest opinion given by independent auditors.

The FY 2006 audited statements provide insight into the mission and operations of the Federal Trade Commission. The FTC had total assets of \$322 million and \$259 million as of September 30, 2006 and 2005, respectively. Approximately \$238 million and \$166 million of the 2006 and 2005 assets, respectively, were funds collected or to be collected and distributed through the consumer redress program under the agency's Consumer Protection mission.

Revenue and financing sources received in fiscal years 2006 and 2005 totaled \$214 and \$215 million, respectively. Exchange revenue, classified as earned revenue on the financial statements, was received from three sources; the collection of premerger notification filing fees, Do-Not-Call (DNC) user fees, and reimbursements received for services provided to other government agencies. Financing was received through direct appropriations and imputed costs absorbed by others.

Exchange revenue totaled \$133 million and \$119 million for fiscal years 2006 and 2005, respectively. The primary source of exchange revenue collected, \$111 million in fiscal year 2006 and \$99 million in fiscal year 2005, was premerger filing fees. The FTC collects a filing fee from each business entity that files a Notification and Report form transaction, as required by the Hart-Scott-Rodino (HSR) Anti-Trust Improvement Act. Qualifying mergers with a transaction amount over \$50 million in total assets are charged a filing fee. The fee is based on a three-tiered structure: \$45,000, \$125,000, and \$280,000, depending upon the combined total of assets of the merger transaction. The fee is divided equally between the FTC and the Antitrust Division of the Department of Justice (DOJ).

The second largest source of exchange revenue was Do Not Call fees. The FTC collects fees associated with the implementation and enforcement of the national Do Not Call Registry sufficient to cover registry costs. The Registry operates under Section 5 of the FTC Act, which enforces the Telemarketing Sales Rule (TSR). Telemarketers under the FTC's jurisdiction are required to pay a user fee and download from the DNC database a list of consumer telephone numbers on the Registry. Fees are based on the number of area codes downloaded. In fiscal years 2006 and 2005, respectively, the FTC collected \$22 million and \$18 million in DNC fees.

In addition to exchange revenue, other financing sources were realized through a direct appropriation from the General Fund of the Treasury, and other non-expenditure transfers, in the amount of \$78 million in fiscal year 2006 and \$87 million in fiscal year 2005. Direct appropriation and transfers represent 36 percent and 41 percent of total funding sources received for fiscal years 2006 and 2005, respectively.

The gross cost of operations for 2006 fiscal year was \$208 million and represents an increase of 4.8 percent over the fiscal year 2005 gross cost of operations. Rent expenditures for the years ending September 30, 2006 and 2005, were approximately \$17.5 million and \$17.3 million, respectively. These costs supported 1,019 staff-years employed in fulfilling the FTC's missions.

The statement of Custodial Activity details the monetary results of the agency's law enforcement mission. Fighting consumer fraud is one of the FTC's highest priorities; as consumers lose billions of dollars every year to perpetrators of traditional fraud and fraud on the eshe m2238yFi

It was our opinion that the system of quality control for the audit function of the Library of Congress, Office of Inspector General, had been designed to meet the requirements of the quality control standards established by the Comptroller General of the United States for a Federal Government audit organization and was complied with during the year to provide the OIG with reasonable assurance of conforming with applicable auditing standards, policies, and procedures.

Other Activity

Other events during this reporting period was the writing a new audit manual and editing and updating the manual when GAGAS was revised in January 2007. We also prepared for the Smithsonian Institution OIG to conduct an external peer review of our audit program system of quality control.

Planned Audits

Audit Report Number

Subject of Review

AR 07-003

Review of the Federal Trade Commission Consumer Response Center The objective is to review pertinent policies and procedures regarding the operation of the CRC, review the kind of information obtained from consumers, and determine how consumer complaints are categorized. The OIG will review consumer complaints received during FY 2005, FY 2006, and FY 2007. A limited sample of consumer complaints will be taken for in depth review. In addition, we will review the customer interface and consumer satisfaction with the website and automated phone system.

AR 07-XXX

Review of the Federal Trade Commission Implementation of the Federal Information Security Management Act for Fiscal Year 2007 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 again focus its review on the FTC's *Plan of Action and Milestones* to determine the extent to which 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 visit an FTC regional office to assess information security there.

AR 07-XXX

Audit of the FTC's Financial Statements for Fiscal Year 2007 The purpose of the audit is to express an opinion on the financial statements of the Federal Trade Commission for the fiscal y

Of the remaining complaints, the OIG opened four new investigations. No complaints remained ongoing at the end of the last reporting period.

Following is a summary of the OIG's investigative activities for the six-month period ending March 31, 2006:

Cases pending as of 9/30/06	0
PLUS: New cases	4
LESS: Cases closed	(0)
Cases pending as of 3/31/07	4

Investigations Closed

The OIG closed no investigations during this reporting period.

Matters Referred for Prosecution

During this reporting period the OIG referred one new case to the Department of Justice for consideration of potential criminal action. That matter remains as an open investigative file.

OTHER ACTIVITIES

Management Advisory

The OIG issued no new Management Advisories during this reporting period.

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 its response to 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 OIG disagreed and management did not revise any earlier decisions on an OIG audit recommendation.

Access to Information

The IG is to be provided with ready access to all agency records, information, or assistance when conducting an investigation or audit. Section 6(b)(2) of the IG Act requires the IG to report to the agency head, without delay, if the IG believes that access to required information, records or assistance has been unreasonably refused, or otherwise has not been provided. A summary of each report submitted to the agency head in compliance with Section 6(b)(2) must be provided in the semiannual report in accordance with Section 5(a)(5) of the Act.

During this reporting period, the OIG did not encounter any problems in obtaining assistance or access to agency records. Consequently, no report was issued by the IG to the agency head in accordance with Section 6(b)(2) of the IG Act.

Audit Resolution

As of the end of this reporting period, all OIG audit recommendations for reports issued in prior periods have been resolved. That is, management and the OIG have reached agreement on what actions need to be taken.

Review of Legislation

Section 4(a)(2) of the IG Act authorizes the IG to review and comment on proposed legislation or regulations relating to the agency or, upon request, affecting the operations of the OIG. During this reporting period, the OIG reviewed no legislation.

Contacting the Office of Inspector General

Employees and the public are encouraged to contact the OIG regarding any incidents of possible fraud, waste, or abuse occurring within FTC programs and operations. The OIG telephone number is **(202) 326-2800**. To report suspected wrongdoing, employees may also call the OIG's investigator directly on **(202) 326-2618**. A confidential or anonymous message can be left 24 hours a day. Complaints or allegations of fraud, waste or abuse can also be emailed directly to chogue@ftc.gov. OIG mail should be addressed to: 600 Pennsylvania Avenue or access Td(aud)TNWsp

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	0	0
B Which were issued during this reporting period	0	0
C. For which a management decision was made during the reporting period	0	0
(i) dollar value of recommendations that were agreed to by management	0	0
- based on proposed management action	0	0
- based on proposed legislative action	0	0
(ii) dollar value of recommendations that were not agreed to by management	0	0
D. For which no management decision has been made by the end of the reporting period	0	0
Reports for which no management decision was made within six months of issuance	0	0