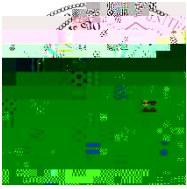


UNITED STATES OF AMERICA
FEDERAL TRADE COMMISSION
WASHINGTON, D.C. 20580



Office of Inspector General

April 29, 2008

The Honorable William E. Kovacic
Chairman
Federal Trade Commission
600 Pennsylvania Avenue, N.W.
Washington, D.C. 20580

Dear Chairman Kovacic:

I am pleased to present the attached report that covers the Office of Inspector General's (OIG) activities for the first half of fiscal year 2008 and is submitted according to Section 5 of the ClO.0000 TD(tion 5 of)Tjbe8 5 ofen

INTRODUCTION

The Federal Trade Commissi

The FY 2007 audited statements provide insight into the mission and operations of the Federal Trade Commission. The FTC had total assets of \$346 million and \$322 million as of September 30, 2007 and 2006, respectively. Approximately \$248 million and \$238 million of the 2007 and 2006 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 2007 and 2006 totaled \$231 and \$214 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) registry 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 \$167 million and \$133 million for fiscal years 2007 and 2006, respectively. The primary source of exchange revenue collected, \$145 million in fiscal year 2007 and \$111 million in fiscal year 2006, was premerger filing fees. The FTC collects a filing fee from each business entity that files a Notification and Report transaction form, as required by the Hart-Scott-Rodino (HSR) Antitrust 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 listed on the Registry. Fees are based on the number of area codes downloaded. In fiscal years 2007 and 2006, respectively, the FTC collected \$22 million in each year 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 \$75 million in fiscal year 2007 and \$78 million in fiscal year 2006. Direct appropriation and transfers represent 32 percent and 36 percent of total funding sources received for fiscal years 2007 and 2006, respectively.

The gross cost of operations for 2007 fiscal year was \$224 million and represents an increase of 8.1 percent over the fiscal year 2006 gross cost of operations. These costs supported 1,059 staff 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 and internet fraud. In FY 2006 and FY 2005, the agency obtained monetary judgments against defendants in consumer fraud cases totaling \$250 million and \$315 million, respectively. Collections against judgments

are generally returned to the fraud victims through the redress program.

AR 08-001A- Financial Statement Audit Management Letter

During the financial statement audit, the OIG identified deficiencies in internal controls that were not significant deficiencies or material weaknesses (that is, they did not rise to a level of seriousness to be reported in the auditor's opinion). The OIG communicated these findings to management in a letter (*Management Letter to the FY 2007 Financial Statements* (AR 08-001A)).

The objective of the management letter is to bring to management's attention financial and/or internal control weaknesses and to make recommendations for corrective action. The current management letter also follows up on past recommendations made in the prior year's management letter. This year's management letter contains one new finding and the status (follow-up) of eight prior year findings. FTC Management has taken action to close 6 of the 8 open recommendations from our audit of the agency's 2006 financial statement. The one new finding recommended improving procedures for recording year-end journal entries.

External Peer Review of Office of Inspector General Audit Program

In accordance with Government Auditing Standards, we are required to have an external quality control review conducted of our audit operations and quality control system at least once every three years. The purpose of the peer review is to determine whether the audit organization has a quality control system in place to provide reasonable assurance that it is following all applicable a

- *AR-09-XXX - Follow-up review of Redress Administration Office (RAO) database for tracking judgments and collections*

AR 09-001- Audit of the FTC's Financial Statements for Fiscal Year 2008

This audit is required annually under the Accountability of Tax Dollars Act of 2002. The purpose of the audit is to express an opinion on the financial statements of the Federal Trade Commi

In response to the OIG's findings, the Bureau of Consumer Protection launched a new Redress/Enforcement database that incorporates data about court orders, defendants, receivers, redress distributions, and other financial data for redress matters. The OIG will undertake a follow-up review of the tracking and reporting of judgments and coll

period. The OIG is currently conducting a preliminary inquiry into these related complaints.

In addition, the OIG successfully recovered \$45,000 in unclaimed funds held by the State of Ohio on behalf of the FTC. Following a referral to the OIG, we conducted a preliminary inquiry and determined that the specified amount was being held in the state's agency responsible for holding unclaimed funds. The OI

interviews of FTC personnel and sought information directly from the online reporter who refused to cooperate, citing statutory protections for the press. The investigation was closed without identification of the source who disclosed the nonpublic information to the reporter.

Matters Referred for Prosecution

During this reporting period the OIG did not refer any new matters to the Department of Justice (DOJ) for consideration of potential criminal action. We consulted with DOJ regarding the Government travel card misuse investigation described above. Both the OIG and DOJ agreed that a declination for prosecution was appropriate, based on the facts presented.

A matter referred to DOJ during the previous reporting period remains pending at DOJ, with no final action to date.

OTHER ACTIVITIES

During this reporting period, our investigative staff assisted the Legal Services Corporation (LSC) OIG in the presentation of a matter before the Grand Jury in the Western District of Texas. Our staff member investigated the matter as an employee of LSC OIG prior to joining the FTC OIG. In similar manner, our OIG has sought the technical expertise of the United States Postal Service OIG in conducting an ongoing investigation in our office.

Our Counsel participates regularly in the monthly meeting of the Council of Counsel to the Inspectors General, as well as contributes to the legal discourse within that Council on matters that are germane to the entire IG community.

Management Advisories

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 ~~MEM~~ (r C)e

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**. A confidential or anonymous message can be left 24 hours a day. Complaints or allegations of fraud 2800

TABLE I
SUMMARY OF INSPECTOR GENERAL
REPORTING REQUIREMENTS

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TABLE II
INSPECTOR GENERAL ISSUED REPORTS
WITH QUESTIONED COSTS

TABLE III
INSPECTOR GENERAL ISSUED REPORTS
WITH RECOMMENDATIONS ISSUED