AR 04-060

FEDERAL TRADE COMMISSION

Review of FTC's Management of Funds Transferred in Fiscal Year 2003 For Technical Assistance to Developing Countries

OFFICE OF INSPECTOR GENERAL

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

Office of Inspector General

July 12, 2004

MEMORANDUM

TO: James Hamill
Office of the General Counsel

FROM: Frederick J. Zirkel
Inspector General

Frederick J. Zirkel

SUBJECT: Transmital of OIG Audit Report AR04-060, Review of FTC Management of USAID Funds for FY 2003

The Office of Inspector General recently completed its review of the Federal Trade Commission's use of funds transferred from the U.S. Agency for International Development. The objectives of the audit were to determine whether, for fiscal year ending 9/30/03, the payroll and other related program costs charged against USAID funds were (i) supported by approved documentation, and that these allocations appeared proper and reasonable; and (ii) used only for the purposes stipulated by USAID in formal agreements with the FTC.

The review was undertaken pursuant to requirements contained in H. J. Res. 2, the Consolidated Appropriations Resolution, 2003 (P.L. 108-7). Section 509(d) of the Appropriations Act requires that any agreement entered into by USAID with another agency must include periodic financial and program audits of the transferred funds by that agency's Office of Inspector General.

In complying with this new mandate, the OIG found that, for items selected for review, procedures were in place to allocate costs among USAID programs consistently and correctly, and that funds were spent in compliance with the agreements between USAID and the FTC for the period reviewed. The OIG found three instances where some costs were incorrectly coded into the accounting system despite program staff's proper classification of these expenses. The OIG also noted that the agency lacks a policy to allocate airfare in select circumstances. Details of these findings are provided in the attached report. Program staff have reviewed and agreed with the OIG findings.

As always, the OIG appreciates the cooperation of program staff. Please contact Adam Trzeciak if you have any questions or wish to discuss the report's contents.

cc: Rosemarie Straight
William Kovacic
Timothy Hughes
Russell Damtoft

Review of FTC's Management of Funds Transferred from the United States Agency for International Development in Fiscal Year 2003 for Technical Assistance to Developing Countries

Since 1992, the Federal Trade Commission has assisted transition economies that are committed to market and commercial law reforms. With funding principally from the U.S. Agency for International Development (USAID), the FTC has provided technical assistance to approximately 30 nations to assist in the development of their competition laws. This technical assistance can be in the form of consulting services, training seminars and conferences for competition authorities from various countries. The resulting costs charged to the USAID programs are personnel, travel, facility rental, materials and other services (such as translations and interpreters) required to provide the technical service.

The FTC receives funding for this purpose from USAID in two forms; through an *appropriation transfer* or through a *reimbursable work agreement.* The primary difference between the two funding types lies in the oversight of how the funds are used. For an appropriation transfer, the FTC has full responsibility to administer and account for the funds, similar to an appropriation that was directly given to it by Congress. Conversely, when the FTC provides technical assistance services under a reimbursable work agreement, USAID maintains primary responsibility for administering and accounting for the funds.

USAID funds two primary programs with similar objectives through the appropriation transfer: (1) The Support for Eastern European Democracy Act of 1989 ("SED" program) builds capacity for the enforcement of competition laws in Albania, Bosnia-Herzegovina, Bulgaria, Croatia, Kosovo, Macedonia, Romania, Serbia and Montenegro; (2) the Freedom Support Act of 1992 (FSA) targets developing countries of the former Soviet Union to include Armenia, Azerbaijan, Georgia, Kazakhstan, Kyrgyzstan, Moldova, Russia, Tajikistan, Ukraine, and Uzbekistan.

The FTC also provides technical assistance on competition to other countries with funding from the *reimbursable work agreements* with USAID. There are separate programs for Romania & the Balkans, Macedonia, the Community of Andean Nations, South Africa and Indonesia.

<u>OBJECTIVES, SCOPE & METHODOLOGY</u>

On February 20, 2003, the president signed into law H. J. Res. 2, the Consolidated Appropriations Resolution, 2003 (P.L. 108-7). Section 507(d) requires that any agreement entered into by USAID with another agency that allocates or transfers funds to that agency under section 632(a) of the

Foreign Assistance Act, or any other comparable provision of law, must include periodic financial and program audits of the transferred funds by that agency's Office of Inspector General.

Pursuant to these requirements, the objectives of the audit were to determine whether, for fiscal year ending 9/30/03, the payroll and other related program costs charged against USAID funds were (i) supported by approved documentation, and that these allocations appeared proper and reasonable; and (ii) used only for the purposes spelled out by USAID in its Memorandum of Agreement (MOA) and reimbursable work agreements with the FTC.

Appropriation Transfer Programs - To assess compliance with the MOA for the appropriation transfer programs, the OIG reviewed 15 expenditure charges to the appropriation transfer fund during the period of 7/1/03 to 9/30/03. (See Table 1.) The 15 items reviewed totaled $ 169,830, or 53% of the total FY 2003 Fund 4 expenditures of $317,525. The selected transactions involved multiple individual payments and included travel vouchers, bank cards, payment vouchers, direct disbursements, accruals, payroll and adjustments. The OIG noted one exception totaling $328 which is detailed in the "Accounting Exceptions" section on page 4.

Table 1. Appropriation Transfer Transactions

No.	***Date***	***Transaction No.***	***Expended ($$)***	***Approved Documentation***	***Proper Charge***
1	7/01/2003	03398026	2,981	Yes	Yes
2	7/02/2003	03CITIMAR	1,078	Yes	Yes
3	7/28/2003	BC030721001	10,860	Yes	Yes
4	8/08/2003	03398047B	9,215	Yes	Yes
5	8/15/2003	03081570007	3,987	Yes	Yes
6	8/21/2003	0317J000001	13,685	Yes	Yes
7	8/22/2003	BC030821001	16,979	Yes	**No ($328)**
8	9/04/2003	0398044A	3,450	Yes	Yes
9	9/10/2003	V033981007	3,000	Yes	Yes
10	9/18/2003	V033981008	11,209	Yes	Yes
11	9/23/2003	04811554A	7,001	Yes	Yes
12	9/23/2003	04811556	28,021	Yes	Yes
13	9/26/2003	03092600001	19,838	Yes	Yes
14	9/30/2003	0320J000003	19,296	Yes	Yes
15	9/30/2003	03398101	19,230	Yes	Yes
		TOTAL:	**$169,830 of $317,525**		

Reimbursable Work Agreement Programs - To assess compliance with the reimbursable work agreement, the OIG reviewed four transactions (comprised of multiple individual payments) that occurred during the period 7/1/03 to 9/30/03. The four transactions totaled $187,334 out of total FY 2003 expenditures of $563,348 and comprised 33 percent of all reimbursable program expenditures for the year. The OIG noted two exceptions totaling $861 (see Table 2.) which are discussed on page 4 below under the "Accounting Exceptions" section.

Table 2. - Reimbursable Work Agreement

No.	Division	Program	Project Title	Expended	Approved Documentation	Proper Charge
1	3953	Y26	Andean Community Competition Policy Reforms	$75,636	Yes	Yes
2	3944	Y44	Recovery of Economic & Financial systems	$9,967	Yes	**No ($158)**
3	3944	Y44	Recovery of Economic & Financial Systems	$30,775	Yes	**No ($703)**
4	3944	Y44	Recovery of Economic & Financial Systems	$70,956	Yes	Yes
			TOTAL	**$187,334 of $563,348**		

REVIEW RESULTS

The OIG's review of the appropriation transfer program found that, for items selected for review, procedures were in place to allocate costs between the two programs consistently and correctly, and that funds were spent in compliance with the agreements between USAID and the FTC for the period reviewed.[1] The OIG did find three instances where costs were inaccurately coded into the accounting system, resulting in charges made to the incorrect USAID program, and one instance of a questionable allocation of airfare charges. Details of the OIG findings are noted below.

[1] Given the positive results of our limited sample, the OIG chose not to conduct an expanded-scope audit, the objective of which would be the expression of an opinion on all expenditures charged against the USAID appropriation transfer and the reimbursable services. Accordingly, the OIG does not express such an opinion. However, nothing came to our attention on the selected items reviewed to indicate that the process of expenditures charged against USAID funding is not working properly. Had the OIG performed additional procedures, other matters might have come to our attention that would have been reported.

ACCOUNTING EXCEPTIONS DETAILS

The FTC uses the *Citibank Direct* system and its government purchase cards to assist in automatically posting credit card charges to the FTC's financial accounting system. Individual credit card charges are posted to the accounting system based upon previously established program and object class defaults. Each individual credit card holder reviews his/her monthly statement and approves the charges. If an individual charge requires posting to another program or object class other than to the defaults established, then the credit card holder can make changes through the credit card log. These changes are processed through the *Citibank Direct* system and posted to the FTC's accounting system.

In all cases reviewed the FTC's program manager for the USAID funds made the proper allocation on the credit card bills. However, the *Citibank Direct* system failed to process and post the charges as directed. The OIG notes that in its FY 2003 financial statement audit, management experienced similar glitches with the new *Citibank Direct* system.

In the results of the sample of 15 charges against *appropriation transfer* funds, the following exception was noted:

<u>1. Sample #7 - $328 undercharge to SED Program</u>: An AT&T wireless charge for $328 related to the SED program was not properly recorded in the FTC's accounting system. This charge was one expenditure transaction listed on the 7/22/03 -8/21/03 Citibank credit card statement. The statement totaled $16,979 and included several travel-related transactions, including hotel bills, rental car charges, Internet hook-up fees and other similar expenditures.

In this particular instance, the entire amount of $16,979 was initially charged against the SED program as its default. Subsequently, charges for individual amounts related to programs <u>other</u> than SED were appropriately reversed by the program manager on the credit card log. However, the OIG identified a charge to AT&T Wireless for $414 that was supposed to be split between the SED program for $328 and the Y44 (Indonesia) program for $86. Although the program manager made the appropriate split on the credit card log the entire $414 was reversed out from the SED program and charged to the Y44 program on the FTC's accounting system. As a result, the $328 was charged to the wrong program.

The OIG noted the following two exceptions in the transactions reviewed that were charge to the *reimbursable program*:

<u>2. Sample #2 $158 (net) undercharge to the Indonesia Program</u>:

The selected transaction was for $9,966 which represented several small credit card charges and one payroll adjustment for $6,867. The OIG identified credit card charges that should have been charged to the Indonesia program (Y44), but were not. Conversely, the OIG identified one charge made to the Indonesia program that belonged to a different USAID program. The net effect of the four exceptions are detailed below:

	Charged to Y44, should not have been	*Not charged to Y44, should have been*
AOL services -Indonesia		$23
FedEx-Stability Pact country	$5	
Medex Assistance		$115
AOL service-Indonesia		$23
		$163
		$(5)
		Net $158

Similar to the situation reported in Sample #7 above, the credit card log indicated the proper classification of the charges, but these charges were not reflected and recorded under those classifications in the accounting system via *Citibank Direct.*

3. Sample #3-$703 undercharge to the Indonesia Program:

The OIG identified two shipping-related misclassifications from a sample of expenditures totaling $30,775 in project charges. The total represented mostly payroll adjustments ($19,702), large travel vouchers and some credit card charges. The two program undercharges are noted below:

	Not charged to Y44, but should have been
FedEx -Shipment to Indonesia	$642
DHL -Shipment to Indonesia	$61
	$703

Similarly, the credit card log had these undercharges properly classified, but they were not posted to the accounting system under those classifications.

In addition to the accounting exception identified in #1 above, the OIG also noted the following airfare allocation issue in the SED program:

4. Sample #8 - Airfare Allocation to SED Program:

Travel costs charged to SED for a trip to Bucharest totaled $3,450. Part of the trip itinerary included a stop in Brussels, Belgium. While the per diem costs for the Brussels portion of the trip were properly allocated between the two programs, the entire airfare of $1,520 was charged to SED.

There is no agency policy that addresses how to allocate airfare between two programs when a side trip does not change the airfare total. Therefore the program official did not make any airfare cost allocation for the Brussels leg of the trip.

The OIG believes that the International Program should have a formal policy to address such instances, otherwise identical situations could be handled differently, depending on the circumstances of the trip and/or the funding available. Possible cost allocation alternatives include (i) days spent at each location (i.e., if 2 days out of 10 were spent in Brussels, for example, then 20 percent of the airfare could be allocated); (ii) splitting the costs equally; or (iii) assigning the full cost to the primary trip, as was done in this example. Again, whatever convention is used should be documented in a policy then applied consistently.

> **Recommendation: The OIG recommends that the International Technical Assistance Program staff establish, in consultation with AID program staff, a policy to allocate airfare costs whenever two or more program/funding sources are charged in a single trip.**