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FEDERAL TRADE COMMISSION

Office of Inspector General



**Review of Federal Trade Commission Implementation of the
Government Performance and Results Act**



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

Office of Inspector General

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Chairman Majoras,

The Office of Inspector General has completed a review to determine whether the Federal Trade Commission reports performance data that (i) complies with laws and regulations, (ii) effectively aligns with the agency's vision and annual performance plan, and (iii) is properly and accurately reported in the agency's performance and accountability report.

The agency has made significant strides in preparing multi-year strategic plans that convey the general goals of the agency, an annual performance plan (as part of the performance budget or budget request) which lays out mission objectives and performance measures, and a performance and accountability report which effectively communicates agency progress in meeting its objectives. The OIG noted that performance management staff continues to develop and refine objectives and measures to best present the accomplishments of the agency in protecting consumers.

On the other hand, the OIG noted areas where some improvements could be made by performance staff. For example, performance measures developed by the FTC tend to be output, rather than outcome, measures. As a result, the performance measures do not fully demonstrate how the agency is meeting its strategic goals and objectives and how consumers benefit from the activity being measured. Further, we did not identify a "bridge" that explained the relationship between output and outcome measures. In addition, the agency is not routinely performing program evaluations as described in the agency's strategic plan. These evaluations will assist staff to better identify how data (complaint totals, internet hits) is being used to address agency goals and objectives.

In the attached report we highlight the specific recommendations that will enable the agency to address these and other findings. We also identify "best practices" used by other similar federal agencies that will provide the FTC with insight on objective setting and performance measurement alternatives.

The OIG wishes to thank the performance management staff for its assistance during this review. Its help was invaluable in preparing this report.

Respectfully Submitted,

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Inspector General

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1. EXECUTIVE SUMMARY

Project

The Office of Inspector General (OIG) conducted a review of performance activity at the Federal Trade Commission pursuant to the Government Performance and Results Act (GPRA) of 1993. The overall objectives of this review were to ensure that the agency has, uses and reports on performance data that is compliant with laws and regulations and effectively aligns to the agency's vision and annual performance plan.

Methodology

The OIG reviewed applicable laws and regulations that provide federal agencies with guidance on what is required in order to have a comprehensive, compliant agency strategic plan, performance budget (to include an annual performance plan) and performance and accountability report.

The OIG collected information from the agency's web page and from publicly available FTC performance-related reports. We also met with agency staff responsible for developing, maintaining and reporting the FTC's performance to gain an understanding of the performance management and reporting process.

We analyzed performance activity reports prepared by other agencies to look for "best practices" to compare to FTC's current reporting. Our review focused on strategic plans, performance budgets (annual performance plans) and performance and accountability reports for the Federal Communication Commission (FCC), Consumer Product Safety Commission (CPSC) and Securities and Exchange Commission (SEC). We also reviewed the Department of Justice (DOJ) performance activity reports to identify antitrust division objectives and measures. However, we learned that DOJ does not prepare antitrust division-specific performance reports.

Interview Results

The OIG met with all members of the "GPRA committee¹." We found that performance staff has developed an effective process that generally complies with applicable laws and regulations. The staff expressed its belief that the current goals and objectives tie to the FTC's mission. On the other hand, staff told the OIG that a better mix of measures i.e. output, outcome and efficiency measures, would better support the agency's goals and objectives.² Each program office also provided a review of its measures and explained the data collection methodology behind each performance measure.

¹ The committee is comprised of representatives of the three bureaus, the Financial Management Office and the Office of the General Counsel.

² Outcomes describe the intended result of carrying out a program or activity. Outputs describe the level of activity that will be provided over a period of time. Outputs refer to the internal activities of a program (i.e., the products and services delivered). Efficiency is defined as the relationship between input (labor and materials) and output.

The OIG believes that performance management staff are aware of the issues surrounding the development of an effective performance program and has taken steps to improve performance management at the agency.

Compliance with Laws and Regulations

The OIG found that the FTC generally complies with requirements found in GPRA and OMB Circulars A-11 (*Preparation, Submission and Execution of the Budget*) and A-136 (*Financial Reporting Requirements*). However, the OIG identified room for improvement in the FTC's implementation of the Federal Accounting Standards Advisory Board, Statement of Federal Financial Accounting Standard (SFFAS) No. 4, *Managerial Cost Accounting Standards and Concepts*. The FTC accumulates costs by organization codes, program codes and budget codes. However, this data is infrequently used to prepare the statement of net cost in the financial statements. Most costs are allocated on a full-time equivalent (FTE) basis, as opposed to utilizing activity based costing. SFFAS No. 4 now requires agencies to present financial results in more detail and to link costs to performance measures.

Performance Measurements Review

The FTC has identified 14 performance measures in the FY 2005 – FY 2006 Performance Plan: eight (8) measures are related to the Bureau of Consumer Protection (BCP) and six (6) measures are associated with the Bureau of Competition (BC). (See Appendix A.) There are no measures that relate to the agency as a whole.

The OIG found that neither BCP nor BC is effectively performing evaluations of the reported results. As a result, the agency is not adjusting or modifying its performance plan to guide the agency into activities that will better address the stated goals and objectives of the FTC. In other words, the agency is reporting its performance measures, comparing the results with targeted levels, then claiming success (or failure) if the target is met (or missed). However it is also important to understand why a particular target was established to begin with and why the target was met or missed. The agency should also be asking whether an adjustment in agency enforcement strategy is needed to enable it to meet its stated target the following year.

Each of the measures within BCP that identify a volume count (e.g., number of complaints and inquiries entered into a database, number of data searches, etc.) do not explain how the number of complaints entered into the database or data searches meet the intended results of a program (e.g., to identify fraud). In other words, the quantitative measures lack a nexus between the output (complaint numbers) and the desired outcome (fraud identification).

BCP's measure capturing dollar savings for consumers is another example of outcome information that stops short of tying these results back to the program's goal and its objectives. The objective is to stop fraud. The agency identifies an estimated dollar savings as a result of agency efforts in this regard. The next step should be to analyze the data in relation to the program. How does dollar savings (the measure) relate to stopping fraud (the objective)? Does it point the agency in one direction or another as far as enforcement strategies are concerned? What do the counts mean to FTC's performance? How does the public benefit when the numbers increase (or decrease)?

Similarly, select measures within BC that are based on counts (e.g., number of hits on the FTC website) fail to demonstrate how this information relates to the program goal of maintaining competition or the objective to prevent, for example, anti-competitive mergers. What is the information used for? How is this information used to channel resources? If more (hits, inquiries, complaints) is better, then this needs to be explained.

Best Practices

The OIG reviewed strategic plans, performance budgets, and performance and accountability reports issued by the FCC, SEC and the CPSC to identify how other regulatory agencies are reporting their strategic plans and objectives and whether they have successfully identified outcome measures. These "lessons learned" could be used to assist FTC's strategic planning staff to enhance its processes when applicable.

Generally, each agency identified its mission, goals, and objectives/outcomes in its strategic plans. The objectives/outcomes for each of these agencies were linked to a strategic goal. In each case, the strategic plans identified how each goal was to be achieved and the timeframe to achieve the goal. The plan also identified how each of the objectives supported achievement of the goal, the strategies used to develop the objectives, and how progress was to be measured. Agencies included goals and objectives involving agency effectiveness and/or efficiency (President's Management Agenda initiatives).

These agencies also identified detailed performance measures with targets in the annual performance plan which were included as part of the performance budget. The performance measures were linked to specific objectives/outcomes and identified targets to be reached in order to meet the strategic goal. Each performance measure identified the strategies, methods and processes to be used to meet the targets and how progress in meeting the targets would be measured. A relationship was identified with each measure to show how meeting the measure would achieve the strategic goal.

The OIG compared performance information reports from these agencies with FTC reports. Areas of similarity are noted, and the methodology used for communicating measures pertaining to these regulatory agencies is identified.

2. INTRODUCTION AND BACKGROUND

Introduction

The Federal Trade Commission issues a Strategic Plan, Budget Request (and Annual Performance Plan with performance measures), and Performance and Accountability Report (PAR) to comply with the GPRA requirements. The intent of these efforts is to provide full agency accountability to the Congress, the public and the agency's stakeholders.

Background – Federal Intent

The goal of GPRA is to improve the confidence of the American people in the capabilities of the federal government. Through implementation of this Act and related regulations, systems and/or processes were put into place to hold federal agencies accountable for achieving program results. This enables agency management to provide congressional decision makers and the public with objective information. GPRA requirements were also designed to improve the effectiveness of Federal programs and ensure public accountability by promoting a new focus on results, effective use of resources and customer satisfaction.

The OMB and the Federal Accounting Standards Advisory Board (FASAB) issued guidance to clarify the systems, processes, reports and standards of reporting that are necessary for agencies to have in place to meet GPRA requirements. Specifically, in addition to GPRA, two current OMB circulars, and one FASAB statement provide the over-arching guidance to agencies in regard to full/proper performance reporting:

- OMB Circular No. A-11, *Preparation, Submission, and Execution of the Budget* (OMB A-11), June 21, 2005
- OMB Circular A-136, *Financial Reporting Requirements* (OMB A-136), August 23, 2005
- FASAB, *Statements of Federal Financial Accounting Standards (SFFAS) No. 4: Managerial Cost Accounting Standards and Concepts*, July 31, 1995, Volume 1, Version 4, June, 2004

OMB A-11 is a comprehensive document that provides (i) an overview of the budget process, (ii) detailed steps related to the development of the President's Budget, (iii) specific guidance related to agency submission of its performance budget, and (iv) the requirements for strategic plans, the performance budget (annual performance plan) and the Performance and Accountability Report.

OMB A-136 establishes a central point of reference for all Federal financial reporting by agencies and entities that are required to submit audited financial statements, interim financial statements, and Performance and Accountability Reports under the Chief Financial Officers Act of 1990, the Accountability of Tax Dollars Act of 2002, and Annual Management Reports under the Government Corporations Control Act.

SFFAS No. 4 provides managerial cost accounting concepts and standards aimed at providing reliable and timely information on the full cost of federal programs, their activities and outputs. Basically, agencies are required to:

- Accumulate and report costs of activities on a regular basis;
- Establish responsibility segments to match costs with outputs;
- Determine full costs of government goods and services;
- Recognize the costs of goods and services provided among federal entities; and
- Use appropriate costing methodologies to accumulate and assign costs to outputs

Background - Agency Process

The FTC has prepared three, five-year strategic plans since September 1997 (Fiscal Years 1997-2002, Fiscal Years 2000-2005 and Fiscal Years 2003-2008). The agency is planning to update and revise the Strategic Plan by 9/30/06 as required by GPRA.

The FTC has established a GPRA Committee which has senior level representation from the Bureau of Competition, Bureau of Consumer Protection, Bureau of Economics and the Office of the General Counsel. The Chief Financial Officer (CFO) is responsible for convening the committee, ensuring that the agency complies with GPRA and other OMB requirements and briefing the Executive Director on the activities of the committee. The CFO has delegated the administrative responsibilities and day-to-day activity related to the GPRA Committee to the Financial Management Office's Special Projects Officer.

The GPRA Committee members are responsible for representing their bureau, receiving input from their bureau director, and briefing their director on the progress of developing the Strategic Plan. Their selection for the committee demonstrates their overall knowledge of GPRA requirements and related federal guidance, their knowledge of the programs (and responsibilities) and their knowledge of the agency.

The ultimate decision related to the content of the strategic plan, (the budget and the Performance and Accountability Report) rests with the Chairman.

The annual performance plan is submitted as part of the annual budget request. To prepare the budget, a data call is sent from the Chief Financial Officer (Budget Office) to the bureaus in June. The bureaus are asked to provide information related to their required performance budget and annual performance plan for a future year (e.g., June 2005's request was for FY2007 data). Through this data call, the Budget Office also requests that the annual performance plan information be provided directly to the Special Projects Officer and the Budget Office.

The Special Projects Officer reviews the annual performance plan for consistency with information shared at the preliminary GPRA meeting and, working with appropriate bureaus, ensures that the narrative supports the measures. Adjustments are made when necessary.

The Budget Office uses the annual performance plan and budget data to begin identifying the budget requirements for each agency objective based on review of bureau request(s) and discussions. After resolution of all issues with the bureaus, and prior to presenting the performance budget to the Chairman, the Executive Director receives and is briefed on the performance budget.

The Chairman is the first Commission reviewer. During this review process, any questions related to the budget are initially directed to the Executive Director. The Executive Director may respond immediately to the question, request additional information from the Chief Financial Officer or request additional information from the appropriate bureau.

After review and acceptance of this initial draft by the Chairman, the document is provided to the other Commission members for review and comment. The comment period for the Commissioners is two weeks, during which they are briefed on the document by the Chief Financial Officer (Budget Office) and the Executive Director.

A Commission meeting (Chairman and Commissioners) is used to vet and accept the performance budget. At this meeting the bureau directors are in attendance to review prior year accomplishments and discuss the performance budget. The CFO and the Executive Director attend this meeting and may provide additional information prior to the Commission vote.

The CFO incorporates the Commission's revisions in the document and recirculates it to the Commission for final approval. The Commission vote is recorded by the Office of the Secretary and the document is submitted by the CFO to the Office of Management and Budget.

3. OBJECTIVE AND SCOPE

The primary objective of the review was to determine whether FTC is fulfilling the requirements of GPRA and other associated guidance. To gather this information, the following subobjectives were addressed:

- 1) Determine, based on interviews with FTC managers and staff, the value and relationship of current performance information to the agency's mission.
- 2) Validate that the performance data currently reported by FTC properly focuses on the priorities of the agency and its senior executives and managers. Also, ensure that the agency's current program performance measures accurately align with the mission, strategic goals, budget, and identified goals of FTC.
- 3) Determine the appropriate performance reporting mix.
- 4) Evaluate the "feedback" loop in place and the extent to which program management/operations are modified to enhance performance.
- 5) Identify, based on review of other similar agencies' performance data, best practices and their effectiveness.

The scope of work included a comprehensive review of FTC's GPRA required documentation, the development of a comprehensive questionnaire which focused on GPRA and other guidance documents (OMB A-11, OMB A-136, and SFFAS No. 4), review of similar agencies' documentation (to determine best practices) and staff interviews (to determine staff's compliance with and understanding of GPRA related requirements).

The current Strategic Plan (and previous plans) and the Performance and Accountability Report were obtained from FTC's website. The FY2007 Budget was not available on the FTC's website at the time of our fieldwork, but was provided to the OIG for this review at our request. Personal interviews were conducted with representatives from the Bureau of Competition, Bureau of Consumer Protection, Bureau of Economics, Office of the General Counsel, Office of the Secretary and the Financial Management Office. Additionally, we reviewed performance documentation (available on the website) from similar organizations such as the Department of Justice, Anti-Trust Division; Federal Communication Commission; Consumer Product Safety Commission; and the Securities and Exchange Commission.

4. FINDINGS

A. COMPLIANCE WITH LAWS AND REGULATIONS

Overview

The OIG reviewed GPRA, OMB A-11, OMB A-136 and SFFAS No.4 to determine FTC's compliance with Laws and Regulations. These documents provide the basis, the detailed requirements, and the specific information necessary for an agency to prepare a strategic plan, performance budget, and a performance and accountability report that meet current reporting requirements. These documents served as the basis for a Performance Activity Questionnaire used by the OIG in discussions with performance management staff to document GPRA roles and responsibilities at the FTC, and staff views on report content and utility. The OIG also reviewed the Association of Government Accountants, *Certificate of Excellence in Accountability Reporting Program Guidelines* (CEAR Guidelines) which details performance and accountability report requirements and best practices used across the government.

The results of our compliance review are structured to show (i) the **Document** reviewed, (ii) Regulation or guidance **Requirements**, (iii) **Demonstrated Agency Actions**; (iv) **Recommendations** for FTC to address weaknesses, and (v) **Best Practices** used at other agencies that may enhance the process at the FTC. These are suggestions only.

(1) Document – Agency Mission and Vision Statement

Requirements:

Mission and Vision should cover the major functions and operations of the agency (GPRA, Section 306)

Demonstrated Agency Actions:

The agency's program and mission support personnel agree that both the mission and vision statements are applicable and represent the agency's work.

Recommendation:

None

Best Practices:

None recommended

(2) Document – Strategic Plan FY2003-2008 & Previous Plans

Requirements:

- Prepare plan timely (to include update within three years of initial issuance) and ensure availability (OMB A-11, Section 210)
- Address major functions (OMB A-11, Section 210)
- Communicate general goals and objectives, including outcome-related goals and objectives to include how they are to be achieved (GPRA, Section 306)
- Develop an outline for communicating goals and strategies and assigning accountability (OMB A-11, Section 210.2)
- Describe program evaluations/PART (GPRA, Section 306)
- Consult with appropriate stakeholders (GPRA, Section 306)
- Prepare plan internally. (GPRA, Section 306 and OMB A-11, Section 210)

Demonstrated Agency Actions:

FTC's program and mission support personnel ensure timely preparation of its strategic plan. The document addresses the agency's major functions and provides the agency's goals and objectives. The performance measures were included in the strategic plan. (GPRA specifies that these only be included in the annual performance plan.)

The OIG could not readily identify a GPRA "communication plan." This plan discusses how the strategic plan's goals and strategies will be communicated or shared with agency personnel and how accountability for goal achievement will be determined. These elements are essential to ensure that FTC staff is aware of and effectively support the goals of the agency when conducting agency business or using resources. It also fosters "buy-in" by all agency staff. The Strategic Plan in effect documents what the "front-line" employees routinely do to fulfill the mission and vision of the agency. The GPRA staff needs to discuss how best to communicate the document and hold managers accountable for its achievement.

While not a formal plan, the special projects officer pointed to a new SES compensation system proposed by OPM as containing a high-level communication plan. According to narrative contained in the agency's FY 2007 budget request, as the agency becomes more experienced with the new SES framework to compensate high-performing executives, it will continue to revise its performance management program to align better its executive accomplishments with agency mission objectives, to establish accountability and to connect compensation more clearly with accomplishment.

The OIG also noted that the strategic plan is publicly available on the FTC's web page. If this is another strategy to communicate the plan to staff, it should be discussed in the document.

Also, the OIG found that the agency was not routinely performing evaluations of performance goals. As a result, the agency is not adjusting or modifying its performance plan to guide the agency into activities that will better address the stated goals and objectives of the FTC. In effect, the agency is reporting its performance measures, comparing the results with targeted levels, then claiming success (or failure) if the target is met (or missed). It is equally important to understand why a particular target was important to begin with and why the target was met or missed. Should there be an adjustment in agency enforcement strategy? Is the target appropriate, i.e., does it support the objective or performance goals?

Recommendation:

1. Ensure that the "Evaluation" methods for objectives (which are included in the Strategic Plan) relate to performance goals, and are verified, used and monitored by the agency.

Best Practices:

- Although FTC has a GPRA Committee (to develop and maintain its strategic plan) it is not formally structured within the FTC or chartered as an on-going activity with specific roles/responsibilities or a routine meeting/review schedule. Further, calendar year 1996 guidance is currently on the agency's intranet regarding the development of FTC's strategic and performance plans. Enhanced and updated guidance should be developed, cleared, and used by the agency for the current exercise of updating FTC's strategic plan.
- Many agencies have used the President's Management Agenda (Strategic Management of Human Capital, Competitive Sourcing, Improved Financial Management, E-Government, and Budget and Performance Integration) as the basis for "Organizational Excellence" as a strategic goal, thus engaging and specifically holding accountable both program and mission support offices through objectives and measures.
- The FTC, unlike similar organizations (FCC and the SEC) has not undergone a Performance Assessment Rating Tool (PART) review. Should such reviews take place, the FTC will have to identify its use of certain internal evaluation tools which are mentioned in its strategic plan.

- The FTC should remove performance measures from the Strategic Plan. Information related to performance measures should be contained in the annual performance plan.

<p>(3) Document – Fiscal Year 2006 Budget Request (to include annual performance plan)</p>

Requirements:

- Summary statement from the agency head that shows the relationship of the policies, strategies and resources requested to the planning guidance; most important program performance indicators and performance goals (including positive/negative result; and relationship of the policies, strategies and resources requested to the implementation of the President’s Management Agenda (OMB A-11, Section 51)
- Performance goals that define the level of performance and ensure that they are quantifiable and measurable (GPRA, Section 4)
- Operational processes and other resources to meet goals (GPRA, Section 4)
- Performance measures that can be used in measuring and assessing the relevant output, service levels, and outcomes of each program activity (GPRA, Section 4)
- Actual performance data for the fiscal year covered by the report and three prior fiscal years (OMB A-11, Section 220)
- Updated performance information included in the following year’s performance budget (GPRA, Section 1116)
- Confirmation of the continuing use of program performance indicators (OMB A-11, Section 51)
- Means to be used to verify and validate measures (GPRA, Section 4)
- Strategies the agency uses to influence strategic outcomes and how they can be improved (OMB A-11, Section 51)
- Performance targets for current and budget years for programs and strategic goals, how they relate in a “pyramid” of outcomes and how the agency expects to achieve the targets (OMB A-11, Section 51)
- Full cost of a program and alignment with budget accounts and program activity (OMB A-11, Section 51)
- Integrated budget and performance information for outcomes and outputs to allow for OMB pass back (OMB A-11, Section 51)

Demonstrated Agency Actions:

- FTC’s current budget request (annual performance plan) has met many of the requirements identified above. The most significant omission concerns capturing full costs for programs. The OIG noted that the budget request did provide budget data related to each of the agency’s missions by program, however it did not relate these costs to performance.

Recommendation:

2. A summary statement by the Chairman should be provided in the budget that shows a relationship among the policies and strategies to implement the President's Management Agenda (PMA). Currently, the budget describes PMA initiatives but does not tie to resources requested.

Best Practices:

- In the Planned Activities Section of the budget request the agency states that "FTC will continue to devote resources to significant law enforcement and policy initiatives of both consumers and business alike." In the Performance Plan Section of the budget request FTC also discusses each goal, its intent, actions or process, strategies, implementation of the plan, and how it will be reviewed. These all appear "to influence" outcomes but the information does not appear to be "tied" together.
- The FTC must continue its effort to develop requirements for a new financial management system that will enable it to provide full costing of each activity whether it is program oriented or mission support.
- While the FTC has specific limitations in relation to cost accounting, it should look in the short term to provide information in its budget request that is in sufficient detail to allow OMB to pass back at both the budget and performance level. Currently, the budget request summary is broken down by mission and funding source. Additionally, the performance plan provides funding requirements related to a specific objective without further breakdown.

(4) Document – Performance and Accountability Report

Requirements:

- Performance measures should be provided along with performance achievements. (GPRA, Section 4)
- Explanations for goals not achieved, those discontinued, or those that do not have actual data should be provided. (OMB A-11, Section 230)
- Actual performance for at least four fiscal years displayed. (OMB A-11, Section 230)
- Assessment of the reliability and completeness of performance data (OMB A-22, Section 230)
- Assessment of performance goal achievement, evaluation of the performance plan for the current fiscal year relative to the performance achieved toward the performance goals, and an explanation why a goal was not met (GPRA, Section 4)
- Explanations for performance goals exceeding targets by a significant extent (AGA, CEAR Guidelines)
- Inclusion of updated performance data in the subsequent year's Performance and Accountability Report (General).
- Assessment of the reliability and completeness of the performance data included in the report (OMB A-11, Section 230)

- Explanation of the relationship between the Performance and Accountability Report and the agency's Strategic Plan and Performance Budget in the MD&A.(AGA, CEAR Guidelines)
- Discussion of the President's Management Agenda and the agency's efforts (General)

Demonstrated Agency Actions:

The Special Projects Officer is the FTC focal point for receiving all information related to its performance and accountability report. This individual has had several years of experience and is familiar with requirements and the Association of Government Accountants Certificate of Excellence in Accountability Reporting Guidelines. The Special Projects Officer is held accountable to correctly prepare the document, ensure its accuracy, process it for clearance and ensure web posting.

The OIG noted in its review of the FY 2004 PAR that two new performance measures (2.3.2 and 2.3.3) did not identify a target or establish a baseline for the first year. Without such data, meaningful and revealing comparisons cannot be made.

Recommendation:

3. FTC should establish a performance baseline (as it did in prior years) when a measure is new.

Best Practices:

- Agency's progress on implementing the President's Management Agenda should be included in the MD&A.

<p>(5) Document – OMB Circular A-136, Financial Reporting Requirements (OMB A-136)</p>

Requirements:

- Overview (summary) of the agency's financial and program performance in the MD&A Section of the Performance and Accountability Report (OMB A-136, Section 1.11)
- Agency head's message highlighting the mission goals, accomplishments and reliability of the financial and performance data (OMB A-136, Section 2.2A)
- Material internal control weaknesses and actions to address them (OMB A-136, Section 2.2A)
- Revenue and cost information classified by suborganization or responsibility segment and, to the extent practicable, within each classification by major program and aligned directly with the major goals and outputs described in the entity's strategic and performance plan (OMB A-136, Section 4.1)
- Breakdown of activity costs (General)

Demonstrated Agency Actions:

In FY2005, the Financial Management Office began its implementation of OMB A-136. The FY 2005 financial statement audit found no material instances of noncompliance with the implementation.

The FTC is currently limited on the cost data that can be provided. As examples, FTC is performing ad-hoc procedures by allocating costs on the basis of FTE rather than on true cost accounting principles. In August, 2004 the FTC developed the Financial Management Office Five-Year Systems Strategic Plan.

Recommendations:

None

Best Practices:

- Chairman's message should accent positive and negative, e.g., address any performance measures that have fallen short such as Hart-Scott-Rodino requests resulting in enforcement actions (2.1.1).
- The FMO Five Year Plan should be revisited to ensure that it is updated/revised based on the agency's current status regarding developing system specifications and its interim timeline for bringing a new integrated financial system on-line. This effort should also include a review and incorporation of financial requirements specified in OMB A-136. The proper design of the new system is also critical in meeting the President's Management Agenda initiatives, in particular, to improve financial performance and budget and performance integration.

<p>(6) Document – FASAB, Statements of Federal Accounting Standards (SFFAS) No. 4, Managerial Cost Accounting Standards and Concepts</p>

Requirements:

- Assess operating performance (through managerial cost accounting) by helping users determine costs of specific programs and activities, the efforts and accomplishments associated with federal programs and their changes over time and in relation to costs (SFFAS No. 4, 14)
- Develop an approach to managerial cost accounting within the Agency (SFFAS No. 4, 72)
- Identify current source(s) of financial and programmatic data for its Statement of Net Cost (SFFAS, No. 4, Section 58)
- Measure and report actual performance against established goals (SFFAS No. 4, 58)
- Establish strategic goals, measure service efforts and accomplishments, and relate effort to accomplishments using cost information (SFFAS No. 4, 58)
- Accumulate and report cost activity on a routine basis (SFFAS No. 4, 68)
- Establish/manage responsibility centers (SFFAS No. 4, 78-80)

- Measure and report full costs of outputs in general purpose reports and by responsibility center (SFFAS No. 4, 89 and 117)
- Consider cost when setting and reviewing performance results (General)
- Accounting system should provide the mechanism to further assign costs to inputs and outputs (General)

Demonstrated:

The FMO accumulates costs by organization codes, program codes and budget codes. However, this data is infrequently used to prepare the statement of net costs in the financial statements. Most costs are allocated on a Full-Time Equivalent (FTE) basis, as opposed to utilizing activity based costing. SFFAS No. 4 now requires agencies to present financial results in more detail, and link costs to performance measures and report against goals, as previously stated.

FMO told the OIG that it is aware of the requirement to accumulate cost data for performance measures, and noted that all of the government-approved systems include such features. FMO informed the OIG that it will build SFFAS No. 4 requirements into its plans for future system capabilities.

Recommendation:

None

Best Practices:

- The agency should ensure that its financial management and subsidiary mixed use systems meet FASAB requirements and appropriate data interface capabilities are established between systems to ensure the financial management and performance tracking systems accurately report performance and related cost information.

B. REVIEW OF PERFORMANCE MEASUREMENTS

Process

The OIG performed a review of the agency's performance measures by examining data available to the public (the Performance and Accountability Report) and agency held data (Annual Performance Plan), conducting interviews with agency program and mission staff, and reviewing data/reports provided by staff responsible for reporting this information to management and ultimately to the public. Neither the databases nor systems were specifically reviewed; rather, the staff provided information related to how the data was obtained (particular databases) or derived.

In the FY 2005 – FY 2006 Performance Plan, the agency identifies 14 performance measures, eight (8) measures are related to the Bureau of Consumer Protection (BCP) and six (6) are associated with the Bureau of Competition (BC). As previously mentioned, there are no measures that are related to the agency as a whole. The current measures focus on the agency's two strategic goals, Consumer Protection Mission: Goal 1: *prevent fraud, deception and unfair business practices in the marketplace*, and Maintaining Competition Mission: Goal 2: *prevent anticompetitive mergers and other anticompetitive business practices in the marketplace*. There are three objectives associated with each of these goals – identify, stop and prevent illegal practices. Each program bureau has structured its measures to align with these objectives.

Generally, the FTC is conveying what it wants to accomplish by achieving its two goals (maintain competition and protect consumers). Similarly the three objectives under each goal (identify, stop and prevent anticompetitive or anti consumer behavior) are clear and tie back to the stated goals. However the agency stops short of demonstrating how performance measures tie to the associated objective.

BCP uses the Consumer Information System, Consumer Sentinel, annual fraudulent and deceptive sales estimation processes, and consumer and business education publication volume tracking to gather information for its 8 measures. All of these tools, except for the estimation processes, have the volume count resident in the system and enable the user to routinely provide the data necessary by quarter and annually. BCP derives an estimate of annual fraudulent and deceptive sales by requiring staff attorneys to provide annual estimates of consumer savings on their cases. The dollar savings are reviewed by the attorneys' manager and the savings estimation methodology is verified by the Bureau of Economics. All data is provided to one focal point within BCP, reviewed, consolidated, and provided to the Bureau Director for review and approval. Information is then sent to the Special Projects Officer and then to senior executives.

Because of BCP's reliance on volume counts, e.g., number of complaints, number of data searches, education documents published, etc., it is difficult to discern how the measures support the goals/objectives of the agency. As an example, it may not be obvious to all who read the performance report how the number of complaints (*annual number of consumer complaints and inquiries entered into the database 1.1.1*) helps the agency to identify fraud. The agency should explain what is being done with these complaints, the importance of the number received and the contribution made to the goal of identifying fraud and how the information is used to assist/support the agency's goal and objectives. The agency should identify the predominant complaints, describe how the complaints are analyzed, and how the data collected is being used.

In a similar fashion, the measure regarding data searches (*the number of data searches conducted by FTC and law enforcement personnel on the FTC's consumer Sentinel database 1.2.3*) means little by itself. What is important is the contribution the search makes to the objective of stopping fraud. How do significant variances from year to year affect fraud prevention? What benefit do consumers derive from such searches? How is the information used by law enforcement?

BCP's dollar savings for consumers (*dollar savings for consumers from FTC actions that stop fraud and deception 1.2.1*) provides some outcome information - where the objective is to stop fraud. The agency has identified dollar savings to the consumer resulting from fraudulent businesses shut down by FTC actions. Additional outcome measures could be derived to identify specific/potential markets more susceptible to fraudulent and deceptive sales and to describe what both measures (e.g. fraud and deceptive sales) mean in relation to the goal/objective. If deceptive sales are under-estimated, will there be any impact on cases pursued in the following year? In other words, what internal use is made of the information collected? Are markets with large dollar savings targeted for increased enforcement resources?

BC gathers information for its six (6) measures by obtaining information from Commission memos, Office of the Secretary's database, reports generated and actions taken (related to mergers), staff data on actions taken, press releases, consent agreements, memos going to the Commission (through the Bureau Director's office), the Commission Action Report, and Net Tracker. All measures/data are compiled and reviewed by a single focal point within BC, provided to the Assistant Director for Operations, and then to the Bureau Director for review and approval. Before this information is sent to the Special Projects Officer and senior executives, the dollar volume estimates for both merger and non-merger enforcement actions are independently verified by the Bureau of Economics.

This same focal point within BC has also begun converting manual tables to Access database (to allow further sorting/reporting) to generate GPRA statistics and general enforcement statistics.

BC's measures generally tie more closely to agency goal/objectives by identifying what the bureau is doing to identify, stop, and prevent illegal practices. However, some of the measures are primarily outputs (e.g., *measure and establish appropriate target for the number of hits on the FTC antitrust Web site relevant to businesses and legal communities, policy makers and the general public 2.3.2 and 2.3.3*) wherein the bureau provides counts of data/actions but it does not tie specifically to the intended program result. For this particular measure BC has done preliminary analysis on the pages that consumers visit, but it also should look at the reason, benefit, and impact of this activity on its goal to support the program.

BC's measure related to positive outcome of cases (*percentage of positive outcomes when the FTC challenges anticompetitive mergers and practices 2.1.1*) is a good indicator of how well the agency is stopping anticompetitive mergers. But the program should address the impact to consumers of cases ending positively, how these outcomes can be measured, and the impact when cases end without a positive outcome. What changes would be required if the measure fell below a certain level?

In a similar manner the measures related to dollar volume (*dollar volume of commerce in markets in which the FTC took successful action to protect competition from anticompetitive mergers 2.2.3, and dollar volume in markets in which the FTC took successful action to protect competition from anticompetitive conduct 2.2.4*) as an output measure of the scope of FTC's antitrust enforcement activities. But the agency should also look at how this information is used to enhance consumer welfare and describe how such outcomes maintain competition in the marketplace. Does more "dollar volume" equate to enhanced competition?

Other BC measures such as investigations closed, positive outcome and volume of commerce show a relationship to the program; however, they should also be related to the intended results of the program and show a specific affect.

Note: In Section 4.C., Comparison to Other Agencies, there is a further discussion on performance measures.

Demonstrated Agency Actions:

Within BC and BCP there were no noted discrepancies in reporting. Information related to each measure is provided to the bureau director and other senior managers for review and feedback, as appropriate.

Currently, many performance measures are data or inventory counts that stop short of (i) considering the intended program results and (ii) identifying performance measures that effectively demonstrate achievement goals: specifically, the agency should be asking whether the measure provides evidence that the program is effectively identifying, stopping or preventing fraud or misleading behavior an/or how well is the agency enhancing competition.

Recommendations:

4. Evaluate the measures needed/or those that must be revamped to provide a balance of output, outcome, and effectiveness that properly support goals/objectives.
5. As a way to tie performance measures back to goals and objectives, the agency should include its "significant events" identified in the budget overview statements in the performance measurement section of the performance report. These accomplishments help to explain how the measure relates to achievement of the objectives.

Best Practices:

- Share information among the analysts of measurement data. Bureaus may be able to better determine ways to obtain, analyze and structure data to provide more useful measures.
- Obtain training related to developing performance measures, categories and aspects of measures, and the methods to determine a comprehensive family of performance

measures. The U.S. Department of Agriculture, Graduate School provides a three-day course: Auditing the Reliability and Relevance of Performance Measures, which provides this information and also focuses on the auditing standards of performance measures.

- Determine the level of client (consumer/business) satisfaction, areas of interest, potential “hot buttons,” etc. Several agencies do surveys on their websites to identify clients’ needs, how well they are being served, what information they are primarily looking for from the agency, etc. This is used as a tool to determine what is important (and possibly measurable) to their clients and how to focus resources.

C. COMPARISON TO OTHER AGENCIES

The OIG analyzed four other agency’s strategic plans, performance budgets, and performance and accountability reports to identify elements, processes and methods that could be adopted by FTC to improve its planning, performance, and reporting documents. The agencies reviewed were the Federal Communications Commission (FCC), Securities and Exchange Commission (SEC), Consumer Product Safety Commission (CPSC) and the Department of Justice, Antitrust Division.

The Department of Justice, Antitrust Division does not have its own separate strategic or performance plan. They are part of the overall Department of Justice strategic and annual performance plan. As a result, they were not considered a good comparison to FTC.

Analysis of FCC-SEC-CPSC

In their strategic plans each agency identified its mission, goals, and objectives/outcomes. The objectives/outcomes for each of these agencies were linked to a strategic goal. In each case, the strategic plans identified how each goal was to be achieved and the timeframe to achieve the goal. The plan also identified how each of the objectives supported achievement of the goal, the strategies used to develop the objectives, and how progress was to be measured. Each agency included goals and objectives involving agency effectiveness and efficiency (President’s Management Agenda initiatives).

Detailed performance measures with targets were not included as part of the strategic plan, but rather, were identified in the annual performance plan which was included as part of the performance budget. The performance measures were linked to specific objectives/outcomes and identified targets to be reached to meet the strategic goal. Each performance measure identified the strategies, methods, and processes to be used to achieve the targets and how progress in meeting the targets would be measured. A relationship was identified with each measure to show how meeting the measure would achieve the strategic goal.

No one agency contained all the desired elements as understood by the OIG. The SEC has efficiency measures, but not outcome measures. One item is considered an “indicator” by the SEC, not a performance measure. The CPSC has no outcome measures, but its measures do tie back to the objective. The FCC appears to have outcome

measures, but none of these measures has specific performance targets (e.g. qualitative terms like increase or decrease are used).

In each of these plans, the strategic goals were of sufficient detail to allow measurement. Goals were at a high level but contained within a small enough scope to allow specific definition and achievability. The systems and methods to be used to measure the achievement of the goals were identified in the performance plan.

The Performance and Accountability Report (PAR) for each agency identified whether each performance measure was achieved and, if it was not, the causes. Changes to measures (added, dropped, or modified) and costs to achieve the performance measures were also identified in the PAR.

Analysis of FTC

In reviewing the fiscal year 2003-2008 Strategic Plan, the OIG noted that the goals are broad, thus enabling the agency to establish major program initiatives. As an example, Goal 1 is to “Protect Consumers, Prevent fraud, deception, and unfair business practices in the marketplace.” This goal well presents the agency’s intent. However, the supporting objectives are policy statements rather than specific identified efforts in support of the goal.

For example, Objective 1.1 is to “Identify fraud, deception, and unfair practices that cause the greatest consumer injury.” A better objective would be to focus on how the goal is to be attained. This objective could possibly be restated to “Identify the major practices that result in consumer injury and determine the best practices to mitigate the harm to consumers.” In a similar fashion Objective 1.2, which is to “Stop fraud, deception, and unfair practices through law enforcement” could better reflect how the agency will stop fraud if the objective were “through increased law enforcement efforts and information sharing, decrease consumer fraud, deception, and unfair practices.”

Each example ensures that the agency is fulfilling its program mission by focusing on specific actions (or objectives) that are to be taken.

In reviewing the annual performance plan (fiscal year 2006), the OIG noted that the measures, as discussed earlier, focus on outputs. As an example, “Increase the number of consumer complaints and inquiries in the FTC’s comprehensive information system by at least 750,000.” Nowhere is it explained how an increase in complaints demonstrates positive actions by FTC or, conversely, shows that the agency is not performing well. Additionally, it is not clear, how this measure supports the objective to identify fraud, deception, and unfair practices that cause the greatest consumer injury and the goal of protecting consumers.

Similarly, the performance plan cites another performance measure “As part of the increase in total consumer complaints and inquiries, enter at least 300,000 consumer complaints and inquiries relating to identity theft...” Although part of the measure details that the data “enables the FTC to rapidly detect and respond to fraud...” it does not provide a measurement of how effectively that is accomplished.

A better performance measure may be to “Identify top XX identity theft schemes currently being used and educate the public.” Through this measure FTC could support its program efforts by providing focused information to the public on current identity theft schemes and also use this as a basis to initiate (plans for) education programs (commercials, emails, leaflets, etc.)

It is important to note that quantitative measures are not necessarily merely output measures. It is only a problem when the performance measure is not tied to the objective. For example, what is the FTC doing with all the information that it is collecting; who gets it and how does this reduce fraud?

In Appendix A, the OIG points to the SEC and the FCC as agencies that have quantitative measures that do tie back to the respective objective. The reader is able to see how the accomplishment of the measure will help the agency to meet the objective and the program goal.

APPENDIX A - OTHER AGENCIES' PAR EXERCPTS

The FTC, FCC, SEC, and CPSC are independent agencies with enforcement functions to protect the public and regulate businesses. For FY 2004, the most recent reporting period available, financial information for each agency consisted of:

	<u>FTC</u>	<u>FCC</u>	<u>SEC</u>	<u>CPSC</u>
Budget Authority	\$186*	\$17,069*	\$812*	\$63*
FTE	1,074	2,015	3,550	461

* *In millions*

The FCC is responsible for regulating interstate and international communications by radio, television, wire, satellite, and cable. The SEC is responsible for enforcing securities laws to ensure that: (i) companies are disclosing accurate information about their business, and (ii) brokers, dealers, and exchanges treat investors fairly. The CPSC is responsible for protecting the public from unreasonable risks of injury and death from consumer products.

Examples

FCC

Goal – Competition

Objective 1: The Commission shall foster sustainable competition across the entire communications sector.

Objective 2: The Commission shall promote and advance universal service domestically, universal access internationally, and access to people with disabilities worldwide.

Performance Measures

- 1) Increasing percentage of households with competing providers for multichannel video programming and information services.
- 2) Increasing number of consumers and businesses that have a choice among wireless and wireline service providers.
- 3) Lower relative price for wireless and wireline services.
- 4) Decreasing price for international calls.

SEC

Goal – Encourage and Promote Informed Investment Decisionmaking

Outcome 3.1: Investors have accurate, adequate, and timely public access to disclosure materials that are useful, and can be easily understood and analyzed across companies, industries, or funds.

Outcome 3.2: Investors have a better understanding of the operations of the nation's securities markets.

Performance Measures

- 1) Number of corporate disclosure filings "significantly" improved by staff comments and number of "significant" actions taken by disclosure review staff to protect investment company shareholders.
- 2) Percentage of investment company reviews completed within timeliness goals.
- 3) Average time to issue initial comments on Securities Act filings.
- 4) Percentage of forms and submissions filed electronically and in a structured format.
- 5) Number and percentage of investor complaints, questions, and requests completed by the Office of Investor Education and Assistance within seven calendar days.

CPSC

Goal – Reduce the rate of death from fire-related causes by 20 percent from 1998 to 2013

Strategy 1: Increase wider availability of safer products.

Strategy 2: Increase and improve early warning systems.

Strategy 3: Improve fire control and suppression standards.

Strategy 4: Increased public information.

Strategy 5: More effective building codes.

Performance Measures

- 1) Prepare candidates for rulemaking.
- 2) Present recommendations to voluntary standards or code organizations.
- 3) Complete data analysis and technical review activities.
- 4) Monitor or participate in voluntary standards and code revisions.
- 5) Pursue for recall or other corrective action.
- 6) Conduct port-of-entry surveillance.
- 7) Conduct public information efforts.
- 8) Issue press releases and Web recall alerts.
- 9) Produce video news releases.
- 10) Respond to requests for publications.

These measures, although at first glance appeared to us to be step-by-step processes, do effectively support the CPSC's overall goal to reduce the rate of death from fire. For example, it is easy to see that achieving each individual measure moves the agency toward its goal.

FTC

Goal 1: Protect Consumers

Objective 1: Identify fraud, deception, and unfair practices that cause the greatest consumer injury.

Objective 2: Stop fraud, deception, and unfair practices through law enforcement.

Objective 3: Prevent consumer injury through education.

Performance Measures

- 1.1.1 Annual number of consumer complaints and inquiries entered into database.
- 1.1.2 Annual number of consumer complaints and inquiries related to identity theft entered into database.
- 1.2.1 Dollar savings for consumers from FTC actions which stop fraud.
- 1.2.2 Number of data searches conducted by FTC and law enforcement personnel of the FTC's Consumer Sentinel database.
- 1.2.3. Number of data searches by law enforcement personnel of the FTC's identity theft database.
- 1.3.1. Total number of education publications distributed to or accessed electronically by consumers.
- 1.3.2. Number of education publications related to identity theft distributed to or accessed electronically by consumers.
- 1.3.3 Number of Spanish-language education publications distributed to or accessed by consumers.

APPENDIX B - GLOSSARY OF TERMS

Efficiency Measures – While outcome measures provide valuable insight into program achievement, more of an outcome can be achieved with the same resources if an effective program increases its efficiency. The President's Management Agenda encourages agencies to develop efficiency measures. Sound efficiency measures capture skillfulness in executing programs, implementing activities, and achieving results, while avoiding wasted resources, effort, time and /or money.

Net Tracker - An FTC system that monitors the agency's external website. This system generates a series of reports to track the number of visitors to the website, the pages accessed and the duration of the visit. Through the use of this system FTC can determine specific usage of website information by the public.

Outcome Measures – Outcomes describe the intended result of carrying out a program or activity. They define an event or condition that is external to the program or activity and that is of direct importance to the intended beneficiaries and/or the public. For a tornado warning system, outcomes could be the number of lives saved and property damage averted. While performance measures must distinguish between outcomes and outputs, there must be a reasonable connection between them, with outputs supporting (i.e., leading to) outcomes in a logical fashion.

Output Measures – Outputs describe the level of activity that will be provided over a period of time, including a description of the characteristics (e.g., timeliness) established as standards for the activity. Outputs refer to the internal activities of a program (i.e., the products and services delivered). For example, an output could be the percentage of warnings that occur more than 20 minutes before a tornado forms.

Performance Budget – A budget presentation that clearly links performance goals with costs for achieving target levels of performance. In general, a performance budget links strategic goals with related long-term and annual performance goals (outcomes) with the costs of specific activities to influence these outcomes about which budget decisions are made. As required by GPRA, the annual performance plan is a part of the budget submission.

Performance and Accountability Report – Required by GPRA, to provide information on an agency's actual performance and progress in achieving the goals in the strategic plan and performance budget.

Performance Goal – Sets a target level of performance over time expressed as a tangible, measurable objective against which actual achievement can be compared. A performance goal is comprised of a performance measure with targets and timeframes.

Performance Measures – Indicators, statistics or metrics used to gauge program performance.

Strategic Goal or Strategic Objective – Statement of aim or purpose included in a strategic plan. In a performance budget/performance plan, strategic goals should be used

to group multiple program outcome goals. Each program outcome goal should relate to and in the aggregate be sufficient to influence the strategic goals or objectives and their performance measures.

Strategic Plan – Required by GPRA and includes a mission statement, strategic goal(s), description of the means and strategies that will be used to achieve the goals, description of the relationship between annual program performance to the agency's strategic goal framework, identification of key facts that could affect achievement of goals, a description of program evaluations used in preparing the plan and schedule for future evaluations.

APPENDIX C - RECOMMENDATIONS

Strategic Plan

1. Ensure that the "Evaluation" methods for objectives (which are included in the Strategic Plan) are verified, used and monitored by the agency.

FTC's Budget Request or Performance Budget (to include annual performance plan)

2. A summary statement by the Chairman should be provided in the budget that shows the relationship among the policies, strategies and resources requested to implement the President's Management Agenda (PMA). Currently, the budget describes PMA initiatives but does not tie to resources requested.

Performance and Accountability Report (PAR)

3. FTC should ensure that target data is given for the first year a measure is reported or an explanation provided. For performance measure 2.3.2 and 2.3.3 no explanation was provided in FY2004.

OMB A-136, Financial Reporting Requirements

None

SFFAS, No. 4

None

Performance Measurements

4. FTC should determine the measures needed/or those that must be revamped to provide a balance of output, outcome, and effectiveness that properly support goals/objectives.
5. As a way to tie performance measures back to goals and objectives, the agency should include its "significant events" identified in the budget overview statements in the performance measurement section of the performance report. These accomplishments help to explain how the measure relates to achievement of the objectives.