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FEDERAL TRADE COMMISSION

OFFICE OF INSPECTOR GENERAL

Financial Statement Audit for Fiscal Year 2006
Follow Up of Prior Year Findings

Management Letter

United States of America
FEDERAL TRADE COMMISSION
WASHINGTON, D.C. 20580

Office of Inspector General

December 06, 2006

MEMORANDUM

TO: Deborah Platt Majoras
Chairman

FROM: Howard L. Sribnick
Inspector General

SUBJECT: Transmittal of the OIG FY 2006 Management Letter

When performing an audit of an agency's major financial systems and accounting processes, auditors often detect deficiencies in internal controls that do not rise to a level of seriousness to be reported in the auditor's opinion. These findings are communicated to the auditee in a management letter. Attached is a copy of the FY 2006 Financial Statement Management Letter that reports on such findings.

During the annual review, findings within the same general area as earlier findings are likely to occur. Consequently, the Management Letter begins with reporting on the status of prior year findings. This is not necessarily an indication that management is not addressing these issues. Rather, it reflects that certain areas are vulnerable to accounting errors or system breakdowns and need constant oversight.

This year's management letter contains the status of six prior-year findings as well as seven new findings.

The OIG will continue to review areas vulnerable to accounting error and report any findings in next year's management letter.

I am available to discuss the letter at your convenience.

Federal Trade Commission
Financial Statement Audit for Fiscal Year 2006
Management Letter

Follow-up of Prior Year Findings

1. **FY 2003 Finding: Improvement Needed in Quality Assurance Review of Financial Statements**

The Assistant Chief Financial Officer for Finance and her staff are integrally involved in the financial statement compilation. With the limited amount of time to produce financial statements, the resources used to compile the statements limit the resources available for a quality assurance (QA) review. Further, the over-familiarity with the details by staff compiling the statements and notes is counterproductive when these individuals are involved in the QA review process.

During its review of the FY 2003 financial statement package (Management's Discussion and Analysis, statements and notes), the OIG identified several errors that are common in such large and complex products. These errors included misspelled words, misplaced information in the notes, and formatting errors. Currently, the Financial Management Office (FMO) has not dedicated any personnel to perform the QA review of the financial statements and notes other than those involved with compiling them.

During the exit conference, the Chief Financial Officer (CFO) told the OIG that he agreed with the finding and had designated a staff person to assist in the QA review as part of the FY 2003 financial statement quality control. However, that individual retired and no other person was assigned. The CFO plans to assign this function to a new hire for the FY 2004 statements.

FY 2003 Recommendation: The OIG recommended that the quality control review include tests for mathematical accuracy and consistency within the statements and among the statements, notes and supporting tables. To assist in this process, the Assistant CFO for Finance should develop a guide outlining procedural steps that the QA reviewers can follow.

FY 2004 Finding and Follow-up: The Assistant CFO for Finance told the OIG that errors and omissions often occurred because she was too involved in the compilation and review process. In effect, she had been tasked with preparing the statements, editing the notes and performing quality assurance steps on the finished product. In FY 2004, the financial statement compilation and review process was reassigned to the FMO's senior accountant. Two staff accountants assist the senior accountant in preparing schedules and proofing the statements for grammar and mathematical errors. The Assistant CFO for Finance then performs a quality assurance review of the financial statements.

Although the QA process was revamped, the OIG still found several errors in the financial statements. For example, the statement of financing did not conform to OMB's form and content requirements for government financial statements, select footnotes did not tie back to the financial statements and some prior year financial statement numbers were inaccurate.

FY 2004 Recommendation: The OIG recommended that the Assistant CFO for Finance develop a checklist of items containing common financial statement errors as a guide for the quality assurance review of the financial statements.

FY 2005 Finding and Follow-up: In her August 18, 2005, memorandum to the agency's audit follow-up official, the Assistant CFO for Finance stated that she developed a guide for the review of the statements and uses the Government Accountability Office's financial reporting checklist to reduce errors on the statements.

The OIG noted improvements by FMO in the preparation of the financial statements for FY 2005. However, the OIG still identified some errors in the statements. Most notably, we found footnotes and exhibits that did not tie to the face of the statements.

FY 2006 Finding and Follow-up: In 2006, the Office of Management and Budget (OMB) revised OMB Circular A-136, Financial Reporting Requirements, which required changes in how federal financial statements should be presented. The FMO expended a significant amount of time ensuring that the financial statements complied with the revised OMB Circular.

During our review, the OIG noted several errors in their financial statements. Once again, these errors included footnotes and exhibits that did not tie to the face of the financial statements, prior year numbers that were incorrect, and footnotes that were incorrect.

The CFO has stated that he will improve the quality review process. We will continue to monitor FMO's quality assurance efforts in FY 2007 and determine if the improvements are effective.

2. FY 2004 Finding: Parking Benefits Are Not Accurately Reported on W-2's

For calendar years 2003 and 2004, the OIG identified errors in the computation and reporting of the parking benefit. With less then 10 employees in any one year who request a reserved spot, the OIG believes that basic control procedures would address the noted deficiencies.

Parking provided to an employee at or near the employer's place of business is considered a qualified transportation fringe benefit. Internal Revenue Service (IRS) regulations permit employees provided with this benefit to exclude it from their income, up to a certain monthly limit[1]. If the parking benefit value exceeds this limit, the excess must be included in the employee's income and reported on his/her IRS form W-2. The FTC values non-reserved spaces at the IRS benefit limit, resulting in no tax consequences for those employees parking in non-reserved spaces. However, reserved spots do carry tax consequences as explained below.

The FTC's Administrative Services Office (ASO) manages both the reserved and non-reserved spaces at its headquarters garage. For reserved spaces, ASO determines the value of the parking benefit by averaging monthly fees at similar nearby parking facilities. In calendar years 2004 and 2005, the average value in the area around the FTC headquarters building for reserved

[1] The IRS limit was $195 in 2004 and $200 in 2005

parking spots was $388 and $417 per month, respectively. The names of employees receiving reserved parking benefits are forwarded to the Human Resources Management Office (HRMO), along with the pay period amount to be included as income. HRMO, in turn, submits the names of the identified employees along with their social security numbers, organization codes and per-pay period amounts to be reported as income to the National Business Center.

FY 2004 Recommendation: The OIG recommended that HRMO establish a quality control process whereby:

1. the names of benefit recipients are verified with ASO quarterly, and
2. calculations establishing tax liabilities are checked by an individual other than the person performing the calculation to ensure that computation errors are identified and corrected before W-2's are prepared.

FY 2005 Finding and Follow-up: On June 21, 2005, management informed the OIG that the FY 2004 recommendation had been implemented. HRMO management provided the OIG with a set of procedures for the identification of beneficiaries, calculation of benefit totals and quality assurance checks.

During the FY 2005 audit, the OIG reviewed parking for calendar year 2004 and for the first 17 pay periods of calendar year 2005. Notwithstanding the new procedures, the OIG found that two employees receiving reserved parking benefits for 2004 and one employee for 2005 had no benefit income reported on their W-2's or on their 2005 earnings report. The OIG concluded that the new procedures were not fully implemented.

In her December 16, 2005, response to the OIG, the Director of HRMO, stated that she was revising the procedures, especially those covering the quality assurance review. The OIG believes that these procedures will identify discrepancies in time to make corrections before IRS Form W-2s are printed. The OIG will continue to monitor the reserved parking benefit program during the FY 2006 audit.

FY 2006 Findings and Follow-up: In her September 8, 2006, response to the OIG, the Director of HRMO stated that beginning in December 2005 her department established a quarterly review of the employee parking benefits. This review is performed by a benefit specialist and then reviewed by the Deputy Director of HRMO.

During the current year audit, the OIG again found errors in the calculation of the 2006 taxable reserved parking benefit. The OIG found that a miscalculation was made resulting in two employees being assessed an overstated taxable benefit. These errors were brought to the attention of the Deputy Director of HRMO and were immediately corrected.

FY 2006 Recommendation 1

The OIG recommends that the FMO review the quarterly calculations of reserved parking to verify that calculations are being done correctly.

3. FY 2005 Finding: Imputed Financing at Fiscal Year End is Understated

As required by Statement of Federal Financial Standards No. 5, *Liabilities of the Federal Government,* the Agency recognizes actual costs of future benefits, which includes the Federal Employees Health Benefit Program (FEHBP), the Federal Employees Group Life Insurance Program (FEGLIP) and pension benefits. The total costs of these future benefits are determined every year by the Office of Personnel Management (OPM) through an actuarial cost method. After OPM calculates the future costs of these benefits, it distributes a benefit administration letter providing the agency with cost factors to determine the total cost of the FEHBP, FEGLIP, and pension plans. The agency then recognizes an imputed revenue and imputed expense for all costs that exceed the agency and employees' share of the payments.

In FY 2005, the OIG noted that the FMO was incorrectly calculating the imputed financing amount for the agency's pension plans. Imputed costs for pension plans are determined by multiplying the basic pay of employees in the pension plan by the cost factor less any employer or employee contributions. When performing this calculation, FMO used the incorrect employee basic pay data, resulting in the agency understating its imputed costs and revenue for benefit programs by $517,000 for the year ending September 30, 2005.

FY 2005 Recommendation: The OIG recommends that FMO make corrections to its determination of basic pay in calculating imputed financing to accurately reflect imputed financing.

FY 2006 Follow-up: The OIG tested the calculation of imputed financing for fiscal year 2006 and noted that FMO has corrected their calculation of basic pay.

The OIG considers this comment closed.

4. FY 2005 Finding: Many FTC Employees are Not Seeking Sales Tax Exemptions While on Official Government Travel.

Most FTC employees are required to travel as part of their official government duties. Official travel rules and regulations for federal civilian employees and others authorized to travel at the government's expense are found in the Federal Travel Regulations (FTR). In addition to the FTR, the agency also established its own policies and procedures that all FTC employees must follow when they are on official travel. These rules are summarized in the agency's Travel Guide located on the FTC Intranet.

A significant part of employee travel costs is lodging expense. Included in the cost of the room is state (and sometimes) local sales tax. Many jurisdictions around the country grant federal employees tax exempt status when they are on official government travel, but the exemption must be requested at check-in. Sales taxes can range from five percent to 15 percent depending on the jurisdiction. Most jurisdictions listed on the GSA's travel page tax hotel rooms at between 10 percent and 13 percent. Chapter five of FTC's travel guide recommends that agency travelers obtain tax-exempt forms from FMO before traveling. Since hotel accommodations are reserved

by the employee traveling, it is that employee's responsibility to inquire about the local jurisdiction rules for tax-exempt status.[2]

The OIG reviewed 11 travel vouchers for trips occurring in FY 2005. In this sample, the OIG noted that only one traveler received the sales tax exemption[3]. On the remaining ten vouchers, the agency paid approximately $1,800 in sales taxes to jurisdictions offering a sales tax exemption to federal employees.

The OIG believes that there are two reasons for noncompliance with the agency's stated policy. First, employees may be unaware of their tax-exempt status when traveling. Second, employees are not penalized financially as the taxed amount is simply included on the employee's travel voucher and reimbursed by the agency. As this benefit accrues to the FTC and not to the employee, FMO should more aggressively publicize this agency policy and update the information in the travel guide regarding this policy. The OIG noted that the link provided by FMO to travelers to obtain information on tax-exempt localities is down, making it difficult if not impossible for travelers to identify tax-exempt locations.

Developing an exact cost savings estimate is difficult because the agency does not track travel components (hotel, meals, airfare, mileage, etc.) separately. Further, room taxes vary by locality as identified above. However, when the OIG looked at 11 vouchers, we identified $1,800 in funds that the agency staff could have saved simply by requesting a sales tax exemption. Based on this narrow sample, we believe the possible savings are significant. The OIG conservatively estimates that the agency could save at least $25,000 annually by requiring staff to claim the hotel room exemption[4].

FY 2005 Recommendation: The OIG recommended that:

- FMO update the travel guide and, at least twice a year publicizes the tax-exempt benefit to all agency staff via the FTCDaily. All employees traveling on official business should be reminded that they are to obtain sales tax exemptions when applicable.
- The agency's travel service provider is instructed to request the tax-exempt status from applicable locations when it makes hotel reservations.
- FMO should work with ITM to bring the travel link back on line.

FY 2006 Follow-up: In her April 13, 2006, memorandum to the agency's audit follow-up official, the Assistant CFO for Finance stated that the travel office has included in the FTCDaily a semi-annual reminder that travelers should apply for tax-exempt forms for hotel taxes in applicable situations. In addition, the travel link on the FTC travel management page has been updated. The memo also states that it would be impractical to require the travel service provider to request tax-exempt forms for all locations when it makes hotel reservations. The travel

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[2] In select cases, the agency's travel service contractor will make reservations at the traveler's request.

[3] The 411 vouchers reviewed belonged to nine employees. Two employees filed two vouchers each.

[4] In FY 2005, the FTC spent $1,447,000 on travel. The OIG assumed that hotel costs represent 35 percent of total travel or $506,000. Average room tax is assumed 10 percent. Multiplying the average rate (10%) by the room cost estimate ($506,000), the total estimated room tax is approximately $50,000. Taking into account that some travelers do obtain the room tax exemption and that some states do not offer the exemption, the OIG estimates that $25,000 represents funds the agency could have put to better use.

provider uses an on-line global distribution system and information on tax-exempt status of states and counties are not provided on this system. Therefore, it would be a burden for the travel provider to obtain information for all states and counties and would require a modification of the contract. The traveler still has to present the tax-exempt form upon checking into the hotel. Therefore, the true responsibility of providing the tax-exempt form rests on the traveler.

After reviewing the FTCDaily and the tax link on the travel management page, the OIG agrees that the recommendations have been implemented. The OIG agrees with FMO that the costs to have the travel provider monitor tax-exempt forms would outweigh the benefit received by the agency.

Our 2006 review showed that employees are requesting tax-exempt forms for hotel charges.

The OIG considers this comment closed.

5. FY 2005 Finding: RAO's Year-End Budget Review of all Redress Cases was Incomplete

The Redress Administration Office (RAO) is located in the Bureau of Consumer Protection's (BCP) Division of Planning and Information. The RAO is responsible for the oversight and tracking of all judgments, collections and claims disbursements in BCP, including consumer redress and civil penalties. The RAO maintains a database on all BCP court and administrative cases. The BCP database contains court and financial information, as well as case-specific information. BCP also maintains an Accomplishments Report to track complaints filed and orders obtained in court. The database and the Accomplishments Report are the source documents for the judgment totals BCP provides to FMO quarterly and at year-end for inclusion on the financial statements.

RAO relies on five different information sources to ensure the accuracy and completeness of the database and the Accomplishments Report:

1. Office of the Secretary Reports. These reports document all Commission votes. Settlement judgments, including the judgment amount, must be voted on by the Commission.
2. Copies of judgments provided by BCP case managers,
3. BCP case manager questionnaires: The redress database is updated semi-annually through questionnaires sent to case managers. The Accomplishments Report is sent quarterly to BCP and regional managers for updates.
4. Public Access to Court Electronic Records (PACER).[5] RAO uses the service to scan for all judgments involving the agency; and
5. Review of cash receipts by the agency.

When FMO compared its FY 2005 cash receipt records for FTC cases with RAO's list of FY 2005 judgment activity, FMO noted a discrepancy. Specifically, FMO records indicated that the agency received a payment against a FY 2005 judgment that was not identified on RAO's report.

[5] PACER is run by the Judicial Conference of the United States. It is an electronic public access service that allows users to obtain case and docket information from Federal Appellate, District and Bankruptcy courts, and from the U.S. part/Case Index.

As this report is the primary source document for BCP activity detailed on the audited financial statements, FMO immediately questioned the accuracy of the various totals. The OIG agreed with this concern and brought this to the attention of RAO officials. RAO reviewed its files and agreed that this case had been inadvertently omitted. In addition, RAO identified three additional redress cases they had also omitted. These four redress cases represented approximately $19.5 million in additional redress orders.

These omissions led the OIG to review controls in place to identify the universe of reported cases. This is especially important as these same systems are relied upon to report performance information to Congress, the Office and Management and Budget, and the agency's stakeholders.

RAO believes that the processes that are established to record all judgment totals are adequate, although both the RAO and the OIG continue to be concerned that these processes rely heavily on manual inputting of data. When asked to explain why the four cases were omitted, RAO responded that it was likely due to human error. Because no one agency database captures all cases, RAO must rely on multiple, redundant databases to identify the universe of cases each fiscal year. This is time consuming, labor intensive and imperfect. To address this weakness, RAO is developing an automated database to track all redress cases. This new system will amalgamate computer data from all offices within the FTC and existing reports submitted by redress contractors. According to RAO officials, the new system will include triggers signifying that RAO needs specific information (i.e. annual fraudulent sales for GPRA reports). Staff expects that the new database will reduce reliance on manual input and will achieve more accurate and timely results.

The RAO believes that the existing procedures, coupled with the implementation of the new automated database, will allow for a more accurate report of the universe of cases. OIG will follow up on this process again during the FY 2006 audit.

FY 2006 Follow-up: The OIG reviewed redress cases during the year and did not find any redress cases were missed. RAO remains in the process of developing the redress database and the OIG will continue monitor the progress of this system to strengthen controls in this area.

6. FY 2005 Finding: Real Estate Taxes in Chicago are Overstated

As part of the OIG's review of rent paid by the agency to the General Services Administration (GSA), the OIG reviewed monthly rent charges and investigated unusual fluctuations. In all cases, the agency pays rent to GSA, regardless of whether the property is government or privately owned. The monthly billing from GSA is charged directly against FTC's Treasury account through the Intra-governmental Payment and Collection (IPAC) system. GSA provides an invoice detailing its IPAC charges to the Administrative Services Office (ASO).

The FTC received two charges on its rent bill for 2005 totaling $64,000 and $42,000 for real estate taxes on its Chicago regional office. These real estate tax charges represented FTC's allocation of real estate taxes for FY 2003 and 2002, respectively. OIG's reviewed past rent charges, which indicated that these amounts were high. When ASO questioned GSA, it was told by GSA that this was the amount paid to the property owner.

The OIG followed up with GSA and discovered that GSA was billing the agency for space that the FTC did not occupy. This error first occurred in FY 2001 when all federal agencies except FTC moved out of the building in Chicago that GSA was leasing. GSA did not change the total square footage allocation occupied by federal agencies. Instead, it assigned all this space to the FTC, resulting GSA overpaying the property owner and overcharging the FTC for approximately $82,000 in real estate taxes for fiscal years 2001 - 2003. GSA told the OIG that, due to the passage of time, it would not be able to reimburse the agency for $23,000 that the FTC overpaid in FY 01, but would reimburse the agency for $59,000 that was overpaid in FY 02 and FY 03.

The OIG believes that more aggressive monitoring and follow-up of the rent bill by ASO could have identified this overcharge sooner. The OIG believes that $82,000 represents funds put to better use by the agency.

FY 2005 Recommendation: The OIG recommends that ASO obtain supporting documentation for all adjustments made by GSA that are in excess of $10,000. This supporting documentation should include the basis of the calculation and the computation.

FY 2006 Follow-up: The OIG reviewed the FY 2006 rent analysis prepared by ASO. All adjustments over $10,000 were properly explained and had proper documentation. In addition, the OIG noted that in 2006, the agency received a credit of approximately $59,000 for overpayment of real estate taxes on the Chicago regional office.

The OIG considers this comment closed.

Current Year Findings

7. FY 2006 Finding: Accounts Payable is Misstated

During the year, accounts payable is recorded based on receipt of an invoice, a completed receiving report, or confirmation from a COTR. Annually, FMO sends out a request for confirmation of unfilled orders and expenditures for all undelivered orders greater then $50,000 to determine if any additional accrual or expenditures need to be recorded.

To determine the validity of accounts payable, the OIG reviewed undelivered orders and the detailed subsidiary of accounts payable. During the OIG's review of undelivered orders, the OIG discovered an additional accrual of approximately $426,000. This accrual was not recorded because the COTR failed to respond to FMO's request for confirmation of unfilled customer orders and expenditures. In addition, during the OIG review of the accounts payable subsidiary ledger, the OIG noted two accruals that were overstated by approximately $1.1 million. This overstatement was due to an error by a staff accountant recording the accruals in the accounting software. FMO did not review the accruals inputted into the system to verify their accuracy.

After the OIG discussed the overstatements with FMO, adjustments were made to the financial statements.

FY 2006 Recommendation 2

OIG recommends that:

1. FMO establish follow-up procedures to ensure that COTR confirmations are received in a timely manner,
2. Training should be provided to COTR's to ensure that they understand what is required by the confirmation of unfilled customer orders and expenditures,
3. FMO should establish a review process of accruals posted to the general ledger.

8. FY 2006 Finding: Undelivered Orders are Overstated

Obligations represent the amount of orders placed, contracts awarded, services received, and similar transactions during a given period that will require payment during the same or future period. Undelivered orders are obligations that are awaiting the receipt of the goods or services ordered before funds are paid. During the normal course of business, officials may cancel an obligation (i.e. undelivered order) that is no longer needed. An example of a service frequently canceled after an obligation has been established is travel. Once canceled, the funds may be used for other purposes, subject to appropriation and reprogramming limitations.

Periodically, and at the end of each fiscal year, federal agencies are required to reconcile their obligation controlling accounts to the total amount posted to supporting records. In addition, program and support offices are to review obligations to determine whether the amounts obligated on the books are, in fact, valid commitments of funds.

In the absence of adequate system controls to perform deobligation of invalid or unneeded orders, obligations will both accumulate and remain open for long periods. Because funds for these obligations originated from a "no-year" appropriation, these funds are needlessly encumbered when they could be deoligated for re-programming and re-apportionment.

The FY 2006 financial statement audit identified undelivered order balances totaling $487,130 for orders between FY 2001 and FY 2005 that should have been deobligated by September 30, 2006. Upon discovery, the Financial Management Office made the appropriate adjustments to the financial statements.

No detail review was performed on outstanding undelivered orders balances identified within FY 2001 ($231,570) and FY 2002 ($338,783). Due to the length of time that these remaining undelivered orders have been open, it is doubtful that they still represent legitimate obligations awaiting delivery of goods or services.

FY 2006 Recommendation 3

OIG recommends that the FMO provide a list of open obligations for FY 2001 through FY 2006 to the COTRs to review for deobligations. Periodic reviews of open obligations should continue to be performed using the same approach.

9. FY 2006 Finding: Performance Measures not Inclusive

Pursuant to the Government Performance and Results Act ~~(GPRA)~~ of 1993, the OIG conducts a review of the agency's performance activity. The objective of the review is to determine whether there are systems in place to accumulate performance related information and that the data included in the ageny's Performance and Accountability Report ~~(PAR)~~ is accurate.

During the OIG's review of the performance measures, we noted that one of the performance measures prepared by the Bureau of Competition, "2.3.3 Prevent consumer injury through education by tracking the number of hits on the FTC antitrust web page," was inaccurate. The fiscal year 2006 target for this measure was 10 million hits. The agency accumulated this data for the period of October 2005 through February 2006 and it amounted to approximately 10.6 million hits. This five-month period was then recorded as the yearly sum of hits on the FTC antitrust website for measurement of whether the agency met their goal of 10 million hits. However, this calculation does not take into account hits on the FTC's antitrust website for the months of March 2006 through September 2006. FMO stated that during the five month period there was an unusual amount of activity on the agency's antitrust website due to the agency's activities in the real estate and petroleum area and therefore believed that 10.6 million hits on the antitrust website was a more accurate figure. However, the performance measure in the PAR did not provide an explanation on why the agency elected to use a five-month period.

FY 2006 Recommendation 4

The OIG recommends that when performance measures are shown they should be representative of a 12 full month period. When 12 months of data is not maintained, a rational method should be used to extrapolate the data to a 12-month period.

FY 2006 Recommendation 5

The OIG recommends that when activity for a performance measure increases dramatically that an explanation of what occurred should be included.

10. FY 2006 Finding: Reporting Requirements of Strategic Sourcing Have Not Been Met

OMB issued a memorandum on May 20, 2005, defining how agencies should implement strategic sourcing. Strategic sourcing is the collaborative and structured process of critically analyzing an organization's spending and using this information to make business decisions about acquiring commodities and services more effectively and efficiently. This process helps agencies optimize performance, minimize price, increase achievement of socio-economic acquisition goals, evaluate total life cycle management costs, improve vendor access to business opportunities, and otherwise increase the value of each dollar spent. Each agency's Chief Acquisition Officer (CAO), CFO, and Chief Information Officer (CIO) are responsible for development and implementation of the agency's strategic sourcing effort.

As part of the strategic sourcing initiative, the CAO has established a program for strategic sourcing. This program includes use of the Economy Act to purchase office supplies and Government Wide Acquisition Contract to purchase hardware and software products and IT services.

Beginning in January 2006, OMB required the CAO to report annually to the Office of Federal Procurement Policy (OFPP), regarding at a minimum, reductions in the prices of goods and services, reductions in the cost of doing business, improvements in performance, and changes in achievement of socio-economic acquisition goals at the prime contract and, if possible the subcontract level. When the OIG asked for a copy of this annual report, the CAO stated that no report was filed with OFPP.

FY 2006 Recommendation 6

The OIG recommends that beginning with FY 2006, that CAO file annual reports with the OFPP to comply with OMB's strategic sourcing initiative.

FY 2006 Finding: RAO's Year-End Budget Review of all Redress Cases Understates the Ordered Amount

Through the OIG review of RAO's FY 2006 Accomplishment report, we determined that several cases were listed with a judgment amount as "to be determined". Most of these cases were considered "to be determined" because the defendant must liquidate assets and pay the agency the proceeds from the sale. In many instances, the agency receives millions of dollars upon liquidation of these assets.

However, RAO's accomplishment report does not reflect the value of assets, such as homes, automobiles, boats, airplanes, etc, prior to being sold. These cases are reported as "to be determined". These assets have an appraised value for tax purposes that RAO can use to provide

an estimate of the potential amount that can be recovered when sold. By not reporting the appraised value, RAO reports do not show millions of dollars of accomplishment achieved by the agency.

FY 2006 Recommendation 7

The OIG recommends that RAO modify its accomplishment reports to include the appraised value instead of "to be determined" to properly reflect the accomplishments of the agency. The basis for estimates of the appraised values should be reported in the footnotes of the report. This would provide a basis for FMO to record the expected judgment to be collected.