AR 01-050A

FEDERAL TRADE COMMISSION
Audited Financial Statements for Fiscal Year 2000

OFFICE OF INSPECTOR GENERAL

MANAGEMENT LETTER

Federal Trade Commission
Financial Statement Audit for Fiscal Year 2000

Management Letter

<u>Current Year Findings</u>

1. **FY 2000 Finding – Rent Expense for Fiscal Year 2000 Included Overpayments Totaling $189.202.**

As part of the OIG's review of rent paid to GSA for Washington D.C. and field locations, 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 rent billing from GSA is charged directly against FTC's Treasury account through the On-line Payment and Collection System (OPAC). GSA provides a bill detailing the charges to FTC's Administrative Services Office (ASO). Based on our discussions with ASO managers and the examination of leases and GSA billing documentation, the OIG found that the agency overpaid rent at three locations during FY 2000. These overpayments totaled $189,202. Details of the overpayments which occurred between October 1999 and April 2000 are presented below:

a.) The April 2000 rent bill for statement for the 601 Pennsylvania Avenue NW location (e.g., the "601 Building") entitled *GSA Public Buildings Service Bill for Space and Services* included three charges of $38,665 each, totaling $115,995, described as "Rebill-Other." As part of the overall April rent bill from GSA, these amounts were charged directly against FTC through the OPAC system. Based on staff discussions and review of the documentation, the OIG has determined that these charges were incorrect and should not have been paid.

b.) The October 1999 rent bill entitled, *GSA Public Buildings Service Bill for Space and Services,* included incorrect charges for 205 Portland Street and 55 Summer Street in Boston, MA. While ASO officials notified GSA in writing on April 15, 1999 that the FTC would be vacating these locations by August 15, 1999, the GSA continued to bill the FTC via OPAC through January 2000 and February 2000, respectively. These incorrect charges resulted in overpayments of $62,272 for the Portland Street space, and $10,935 for the Summer Street space.

Regarding the overpayment of rent for the "601 Building," ASO officials told the OIG that they contacted GSA's representative for FTC leases in Washington D.C., via an official e-mail, on March 16, 2001, and was subsequently informed three days later that GSA was researching the charges. ASO sent a follow up e-mail on April 4, 2001. ASO informed the OIG that it expects to get a credit OPAC in the amount of $115,995.

Regarding rent overpayment in Boston, ASO officials told us that they have been in contact with GSA's representative for FTC leases over the past year, and most recently via e-mail on March 19, 2001, without response. ASO said it will contact supervisory personnel at GSA in an effort to retract the overpayments.

Recommendation

The OIG recommends that:

a.) *ASO more thoroughly review all monthly rent bills to verify that the proper rent is being charged. Preparing a schedule of anticipated monthly billings at the beginning of the fiscal year based upon the lease or occupancy agreement terms could assist in monitoring payment billings. Any discrepancies found should be resolved in a timely manner.*

b.) *ASO pursues the recovery of its rent overpayments.*

2. FY 2000 Finding - Credit Card Transaction Recording Process Would Be More Efficient Using Citibank Direct.

During the testing of the payment process related to Citibank credit card charges, the OIG noted that personnel at the National Business Center (NBC) are spending approximately 32 hours per month or an annual cost of $9,500 to record coding changes to credit card transactions. Currently, the Citibank monthly bill electronically records its transactions into FTC's payment system. These transactions are accompanied by default codes for data fields such as organization code, program code and budget object class. When changes to any of these codes are desired, e.g., to more specifically classify an item purchased or to make corrections to default codes, the individual cardholder must make manual changes on the individual statements and forward them to NBC. NBC staff then calls up on-line the transaction that was already posted and re-inputs the transaction to reflect these changes.

The OIG believes that the time spent on this process can be avoided if FTC used the Citibank Direct program. Similar to the current process, the Citibank Direct program has default codes tied to the individual cardholder, but it also contains budget object codes that are generated automatically based upon the type of purchase (rather than just one default budget object class code). More importantly, it allows the cardholder to make changes to the codes on-line *prior* to final payment, thus eliminating the necessity for NBC staff to make such changes.

The CFO office informed the OIG that it is aware of the program and, as such, will continue to work closely with Citibank to implement a more efficient system that meets FTC's unique matter reporting objectives.

Recommendation

The OIG recommends that the Financial Management Office continue to evaluate the cost-benefit of implementing Citibank Direct to assist in the processing of Citibank credit card transactions.

3. FY 2000 Finding - Accounts Payable Accrual at Fiscal Year End is Understated.

The OIG examined disbursements made from October 1, 2000 through December 20, 2000 to determine if disbursements related to goods or services received in FY 2000 were properly included in accounts payable at September 30, 2000.

During the year, accounts payable are recorded and processed for payment when NBC receives both an invoice from the vendor and a receiving report from the contracting officer's technical representative (COTR), who certifies the acceptance of the goods/services.

In an attempt to capture these expenses for financial reporting purposes at year-end, FMO records an accrued liability based on receiving reports submitted to NBC. However, the OIG determined that this practice understates payables as many receiving reports are submitted months after the close of the fiscal year for goods or services received during the fiscal year. (A more detailed discussion of the late submission of receiving reports is contained in Finding 11 of this report.) When valid invoices are not used to develop the accrual because receiving reports are not submitted in a timely manner, agency liabilities and expenses will be understated on the financial statements.

Accounting adjustments identified by the OIG related to this finding total $937,427. Specifically:

- **$613,842** of expenses related to non-capital assets were not included in accounts payable at 09/30/00, but instead would have been improperly recorded in FY 2001.

- A **$323,585** capital asset that was invoiced by 09/30/00, but the corresponding receiving report was submitted after the fiscal year end, meaning the asset would not have appeared on the balance sheet. The OIG obtained the missing receiving report and noted that the COTR certified that the goods were received prior to 09/30/00.

Accounts payable accruals (at year end) are frequently only best estimates of the agency's liabilities. Hence, the OIG believes that basing payable accruals on invoices, when receiving reports have not been submitted timely, would provide a better estimate of actual payables than relying on receiving reports alone.

Recommendation

The OIG recommends that FMO *record the accrual for accounts payable at year-end based on* *__either__* *the receipt of an invoice from a vendor or the submission of a receiving report acknowledging the acceptance of goods/services from the COTR.*

4. FY 2000 Finding - FTC's Capitalization Policy Is Not Routinely Followed.

FTC's capitalization policy states that all property, plant and equipment acquired with a unit value of $100,000 or greater and a useful life over two years are to be capitalized. Items purchased that do not meet this criteria are expensed. Depreciation of capitalized assets is calculated on a straight-line basis over the estimated useful lives of the assets.

The OIG reviewed expenditures related to budget object classes 251x and 31xx and found $800,886 of expenditures that should have been capitalized, but were expensed in the current year. Expenditures not capitalized included leasehold improvements and software.

Recommendation

The OIG recommends that the FMO inform requisitioning officials and administrative officers of FTC's capitalization policy so that requisitions for capital assets are properly coded.

5. FY 2000 Finding - Verification Procedures Needed to Ensure the Accuracy of Manually Compiled Performance Data.

In its review of performance measures, the OIG noted that some measures necessarily rely on manual compilation processes, as opposed to automated extraction from a system database. With manual processes, it is imperative that some data verification controls be in place.

In the FY 2000 performance plan, both missions (maintaining competition and consumer protection) used manual compilation methods to report on their respective "consumer savings" performance measure.[1] Initial estimates prepared by each mission included compilation errors. Third parties (the OIG and the Bureau of Economics) brought the errors to the attention of mission staff. Errors can occur that would drive these estimates up or down, and be of a magnitude that would easily distort mission performance. In the maintaining competition mission, the error had a non-material effect on overall consumer savings. However, in the consumer protection mission, the error inflated consumer savings by approximately 25 percent.

These errors point out the importance of implementing a review procedure to insure the accuracy of consumer savings computations. Both missions told the OIG that review procedures would be added.

Both missions (bureaus) rely on attorney staff to provide consumer savings estimates. In BCP, attorneys semiannually complete a questionnaire which updates case-related data for the bureau's case database. There are approximately 190 data fields, including case name, judgment amount, collections, redress and disgorgements. As part of this process, attorneys provide estimates of consumer savings based on past fraudulent sales of the business in question. These sales estimates are based on available business records.

The OIG did not compare sales records with consumer savings to assess the accuracy of the consumer savings estimate. BCP's GPRA sales figures are by necessity estimates, and are accurate only as of the date that they are compiled because they change as additional information becomes available. As the OIG noted, the estimate of consumer savings in the CP mission changed significantly over a rather short period of time -- between September 30, 2000 and early March, 2001 -- resulting in two different numbers being reported outside the agency for the same performance measure. An estimate of $401 million in savings was compiled near the end of the fiscal year by asking attorneys for estimates of fraudulent sales in scams that were shut down by the bureau. This number was provided to management for inclusion in the *Management Discussion and Analysis* section of the FY 2000 audited financial statements. However, for the Performance Report for FY 2000, the bureau had revised the $401 million down to $265 million as a result of computations based on new information.[2]

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[1] Consumer savings are the amount of money consumers save as a result of FTC actions in the marketplace, either to prevent anti-competitive mergers (MC) or to close fraudulent businesses (CP).

[2] $100 million of this difference between the original and revised estimates was the result of the compilation error described above. Approximately $36 million of the difference is the result of updates.

While the OIG understands that revisions are inevitable as estimates change when updated information becomes available, it is best to establish a single collection date for both financial statement and performance plan presentation. The reporting period for both reports (Performance Report and Financial Statements) is (as of) September 30. Further, estimates will always be subject to revision as new data is obtained. Therefore, the OIG believes that a cutoff date for providing estimates would promote consistency without sacrificing the integrity of the performance measure.

Recommendation

The OIG recommends that:

a.) Verification controls, such as checking the mathematical accuracy and correct reporting of the submitted data, be implemented.

Auditor Note: As stated in the finding, bureau staff has already informed the OIG that verification procedures will be implemented. To close this finding, the OIG requests, in writing, the steps that will be performed to verify data.

b.) *BCP and BC establish January 15 (following the fiscal year in which performance is being measured) as the final collection date (e.g., closing date) for data submitted for both financial statement and performance plan presentations.*

6. FY 2000 Finding - Contract Services Are Being Performed Prior to Contract Award Date.

In the examination of a sample of payment vouchers, the OIG noted one example where contractual services began two weeks prior to the contract award date. The services were provided during the period of January 15 - February 1, 2000, while the contract was awarded on February 1, 2000. In discussions with an NBC supervisor in Denver, we learned that similar occurrences had been noted by her staff.

Current NBC payment procedures include "verify(ing) that the goods and services were completed within the award date and expiration date."

Recommendation

For instances where services are provided prior to a fully executed purchase order or contract, the OIG recommends that NBC direct the COTR to provide a change order for purchase orders or a modification for contracts prior to payment being made.

Disposition of Prior Year Findings

1. **FY 1999 Finding - Redress Collections Held in Contractor and FTC Accounts are not Being Disbursed Timely.**

As part of the audit procedures performed by the OIG in the 1999 annual audit, we analyzed cash on hand at the contractors and in the FTC/Treasury suspense account to determine whether funds flowed through these accounts to consumers or to the U.S. Treasury (disgorged) timely.

Based on our review, we found that cash on hand with the agency's three redress contractors increased from $18.3 million on 09/30/98 to $29.9 million on 09/30/99. The OIG analysis identified 30 FTC cases with funds on deposit with two FTC redress contractors totaling $9.979 million that were at least two years old on September 30, 1999. Discussions with select case managers on six of the largest cases totaling $7.5 million of the $9.979 million revealed that funds have been on deposit awaiting final disposition for between 24 and 106 months, with a median of 43 months.

Our reconciliation and aging analysis of the FTC Suspense Account at Treasury (Account No. 6875) found that of the $5.3 million in this account on September 30, 1999, $1.958 million from 33 cases was between 24 and 127 months old and awaiting final disposition. The OIG selected five of the largest cases with a median age of 55 months, totaling $1.1 million for detailed review.

To address the disposition of existing funds on account and prevent funds from accumulating for long periods in the future, the OIG recommended that the Bureau of Consumer Protection:

a.) review all cases that have funds in the FTC suspense account to determine if a redress distribution is appropriate. In those cases where redress is considered appropriate, the funds for these cases should be immediately transferred to contractor accounts so interest can be earned on balances pending the distribution. If a distribution is not deemed practical, the funds should be disgorged to the U.S. Treasury.

b.) centralize in the RAO the authority to monitor and set deadlines for staff to dispose of redress funds. Reasons given for redress distribution delay, whether by staff, contractors or receivers, need to be documented and routinely reported to senior management.

Status at September 30, 2000:

For the six cases with contractors identified above totaling $7.5 million, the OIG found that four of the six totaling $4.7 million still had balances on 12/31/00 that exceeded their 9/30/99 balance. Funds on account for the remaining two cases decreased: on one of these, the entire balance was transferred to the court-appointed receiver, while the other was in the redress distribution phase. A summary of these six cases follows.

Case	Cash Balance 9/30/99	Cash Balance 12/31/00	Status
1	$ 820,000	$ 863,000	Contractor to mail redress checks ($814,000) in February 2001. The balance will be used to pay contractor fees.
2	$ 1,642,000	$ 1,745,000	At Commission direction, FTC General Counsel's office is drafting language to use funds for consumer education in lieu of redress.
3	$ 1,926,000	$ 0	All funds collected by FTC sent to receiver. Receiver will distribute to consumers in February 2001.
4	$ 710,000	$ 747,000	Claimants initially redressed in 1991. U.S. Attorney unable to collect additional funds from defendants. Contractor preparing final distribution.
5	$ 935,000	$ 984,000	Awaiting bankruptcy court approval of bankruptcy trustee's final report due March 2001.
6	$ 1,459,000	$ 341,000	Claimants redressed in August 2000. Second distribution with remaining funds to take place in Spring 2001.
	$ 7,492,000	$ 4,680,000	

Of the remaining 24 cases reviewed by the OIG (30 - 6), 11 cases were closed, nine cases with $2.8 million on account remained open on 12/31/00, and four cases were open but contained small cash balances. For the nine cases still open totaling $2.8 million, the agency is preparing to disgorge the remaining funds (redress has occurred) on five cases; is developing a distribution plan and/or is distributing funds on three cases, and is currently investigating a defendant associated with the final case. The outcome of this investigation will dictate the disposition of the funds on deposit.

The OIG found that BCP has made substantial progress in closing cash accounts with Treasury. Of the five cases identified for detailed review, as of 1/31/01, all five have been either disgorged (3 cases), sent to consumers as redress (1 case), or transferred to a contractor for eventual distribution (1 case). In total, of the 33 cases with $1.958 million on account, seven cases totaling $131,745 remain open. Of this amount, $71,150 on one case must be disgorged by the district court. The remaining balance ($60,595) includes periodic payments by defendants which are disgorged soon after receipt.

BCP has closed its aged accounts held in the U.S. Treasury, and continues to make some progress distributing funds held at its redress contractors. However, disbursing contractor-held funds has been slow. In its December 12, 2000 response to the OIG regarding procedures to ensure the timely disposition of redress funds, BCP management stated that it will expand the responsibilities of the RAO to monitor and set deadlines in redress cases. The response also stated that:

> *RAO is currently documenting on a routine basis the reasons given for redress delay and has developed an exception report for distribution to senior management. Fields were added to the Redress Database to facilitate the generation of this report.*[3]

Further, in correspondence from the BCP Director to FTC Commissioner Swindle dated February 9, 2001, Jodie Bernstein wrote the following regarding the timeliness of redress distributions:

> *I am implementing new procedures to ensure that redress distributions are made more quickly. My goal is to close as many redress cases as possible within 18 months after a final judgment has been entered... In this new process, the RAO will take on a more active role in managing the timeframe of redress distributions, in particular, those open for long periods of time... The RAO will also monitor cases throughout the distribution process to ensure consumers are redressed in a timely manner.*[4]

The OIG will continue to monitor the disposition of FTC redress cases, especially those managed by redress contractors, to assess the success of the bureau's new procedures.

2. FY 1999 Finding - Redress Distribution Vulnerabilities Weaken the Agency's Oversight Over Disbursement of Funds to Claimants.

As a follow up to the fiscal year 1998 and 1999financial statement audits, the OIG decided to perform a more indepth review of select aspects of the claimant identification and redress distribution process performed by agency contractors, receivers, and "responsible party" defendants. The objectives of this financial-related audit were threefold: (i) document the data collection and/or construction methods used to develop claimant data from fraudulent companies; (ii) identify what, if any, vulnerabilities might exist pertaining to these methods

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[3] Memorandum dated 12/12/00 from Darlene Cossette and Jeanne Crouse to Henry Hoffman regarding BCP response to OIG audit report AR 00 - 047.

[4] Memorandum dated February 9, 2001, from the Director, Bureau of Consumer Protection to Commissioner Swindle regarding Office of Inspector General Audit Report: Aging Analysis of Redress Funds Held on Account (AR 00-047, July 31, 2000), p. 3.

that could lead to the payment of either erroneous or fraudulent claims. Critical elements of this process are the identification of the individual(s) responsible for list preparation and control of the list once developed; and (iii) audit a sample of distributions determined to be high risk to ascertain whether all redress funds were properly accounted for and that redress checks were issued to only rightful claimants.

As a result of this audit, the OIG recommended that RAO instruct the claims administration contractors to accept only attorney lists from the RAO, thus ensuring that the unit will have an original copy of all lists for oversight purposes.

Status at September 30, 2000:

The Redress Administration Office has established new procedures requiring all claimant lists to originate from the RAO when going to a redress administration contractor. The agency's two redress contractors, when contacted by the OIG, acknowledged that they are not permitted to accept claimant lists from staff attorneys unless approved by the RAO. Similarly, staff attorneys surveyed by the OIG confirmed that they have been instructed to forward all claimant lists to the redress contractors through the RAO.

The OIG considers this finding closed.

3. FY 1999 Finding - Procedures to Comply with the Debt Collection Improvement Act of 1996 Should be Improved.

The Debt Collection Improvement Act of 1996 (DCIA) provides that non-tax debt or claims owed that have been delinquent for a period of 180 days shall be transferred to the U. S. Treasury (Treasury) for collection processing. There are certain debts that are exempt e.g., debts that are in bankruptcy or receivership.

Responsibility for referring cases to Treasury is shared by the case managers and the Redress Administration Office (RAO). Oftentimes, the case manager, recognizing collection against a court-ordered judgment is unlikely, will contact the RAO and begin referral procedures. In other instances, RAO, using its *Accomplishment's Report*, a twice yearly summary of BCP case activity including judgments awarded and collected, will contact the case manager to inquire about the collection prospects of cases where amounts due are unpaid, and begin referral procedures.

To test the effectiveness of BCP's referral procedures, the OIG selected a sample of seven redress judgments issued in 1998 (2) and 1999 (5) with a total outstanding balance of $47.1 million to determine whether eligible cases were timely referred to Treasury. The OIG determined that only one of the seven cases met Treasury's referral criteria and was appropriately and timely referred to Treasury. The remaining six cases were either collected, scheduled for payment or ineligible for referral.

The OIG also noted from a review of the FTC records that a total of 13 redress judgments totaling $48.2 million were referred to Treasury during fiscal year 1999. Two of these 13 cases referred were 1999 judgments.

The OIG reviewed FTC's current procedures for Treasury referrals with RAO staff. Based on this discussion, the OIG determined that the control processes over referrals could be improved to ensure that all judgments are properly evaluated for referral eligibility and all referrals are submitted timely. RAO management has concurred with the OIG on the need for these steps and has agreed to implement them.

The OIG recommended that the RAO establish and maintain a Treasury referral tracking system to include:

- a.) A "tickler file" that would indicate which eligible judgments are coming due for referral to Treasury.
- b.) Judgments that are currently maintained at Treasury.
- c.) Judgments that have been returned from Treasury to be written off.
- d.) Collections received from Treasury.

The RAO staff assigned to monitor Treasury referrals could use the tickler file to prepare a list of pending Treasury referrals that would be distributed to the attorneys in charge of the pertinent cases. The attorneys should return the list with an approval to refer or reasons for not referring (e.g., bankruptcy was declared).

Status at September 30, 2000:

The OIG selected a sample of non-receivership cases for testing. The objective was to determine if a case: 1) was exempt from referral to Treasury, 2) was eligible for referral, and 3) if eligible for referral, whether the case had been referred timely. The OIG noted that all cases selected in the sample that were eligible for Treasury referral had been properly referred. The OIG also noted that there were written procedures in place to comply with the Debt Collection Act of 1996 for identifying and submitting cases eligible for referral.

The OIG considers the finding closed.

4. FY 1998 & 1999 Finding - Undelivered Orders Not Reviewed.

Overview of an Undelivered Order: Obligations represent the amounts of orders placed, contracts awarded, services received, and similar transactions during a given period that will require payments 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., an 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 amounts posted to supporting records. In addition, program and support offices are to review obligations to determine whether these amounts obligated on the books are, in fact, valid commitments of funds.

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

The fiscal year 1998 audit identified undelivered order balances totaling $ 139,713 for orders between *fiscal years 1993 and 1997* that should have been deobligated by September 30, 1998. For undelivered orders funded in *fiscal year 1998*, a review of 26 items totaling $2.1 million resulted in the identification of two orders totaling $ 26,807 that should have been deobligated at year-end. Although we identified other open items, these appeared to have valid reasons for remaining open at 09/30/98.

In the fiscal year 1999 audit, the OIG selected 29 undelivered orders that were obligated in fiscal year 1999 for testing, which represented 51% of the undelivered order dollars at 9/30/99 ($8.9 million). From this testing, the OIG determined that two undelivered orders totaling $139,154 should be deobligated.

The OIG also reviewed the status of the undelivered order sample of 26 items identified in the fiscal year 1998 audit. Of the original 26 open items identified totaling $2,051,228 at 9/30/98, nine (9) still had outstanding balances at 9/30/99, totaling $200,581. The OIG determined that five (5) orders totaling $142,845 of the 1998 balances should be deobligated.

No detailed review was performed on outstanding undelivered order balances identified with fiscal year 1997 ($153,504.61) and fiscal year 1996 ($95,442.17). However, due to the length of time that these remaining undelivered order balances have been open, it is doubtful that they still represent legitimate obligations awaiting the delivery of goods or services.

In fiscal year 1999, the OIG recommended that the Financial Management Office provide a list of open obligations for fiscal years 1996 through 1998 to the COTRs to review for de-obligation. Periodic reviews of open obligations should continue to be performed using the same approach.

Status at September 30, 2000:

The OIG tested a sample of FY 2000 undelivered orders that were outstanding at 9/30/00 to determine if any should be deobligated. The results indicated that there were no undelivered orders that should be deobligated. The OIG also examined a sample of FY 1999 undelivered orders that remained outstanding at 9/30/00. It was determined that all services on one contract were completed and paid for, yet a balance of $11,186.50 remained on the books that should have been deobligated.

During the year, the FMO sent a list of open obligations to all administrative officers with a cover letter instructing them to review the documents and modify or cancel accordingly. In addition, the Acquisitions Office contacted the COTRs directly in order to verify delivery and to close out contracts.

FTC has demonstrated that it continues to improve on its deobligation process. The OIG has noted that the FTC has had sufficient balances available from deobligations to fund any reprogramming requirements that the FTC has sent to Congress for approval.

The OIG considers this finding closed.

5. FY 1998 & 1999 Finding - Travel Orders Prepared Late.

An OIG sample of travel orders taken in the fiscal year 1998 audit found that twenty (20) percent of the orders reviewed (8 of 41) for non-emergency travel were being prepared after travel had occurred; i.e., these travel orders were entered into the FFS to create an obligation after the travel had taken place. FTC's Administrative Manual requires a *prior* written authorization for all travel except emergency travel, which should be approved within two working days.

The agency' performance in submitting timely travel orders improved in fiscal year 1999, but noncompliance was still noted. The OIG found that 3 of 30 travel orders (10 percent) tested indicated that a travel obligation was entered on the books after the travel had occurred. This late recording of the obligation prevents NBC staff from obligating funds in a timely manner, and establishes a risk, especially near the end of the fiscal year, that a trip may occur without adequate funds available to pay for it. It appears that as a matter of convenience, travelers, or their administrative support staff, are simply attaching the travel order to the completed voucher at the trip's completion.

Although the consequences of this problem appear primarily administrative (the potential for traveling without funds to pay for such trips, especially at year end), employees should also be aware that the government's liability may be limited regarding accident and injury claims by travelers without written travel orders. The General Accounting Office has, on occasion, issued decisions denying accident and injury claims in these circumstances.

In the fiscal year 1999 audit, the OIG recommended that management again remind staff of its responsibility regarding the submission of travel orders prior to the onset of travel, to include the potential liability the employee faces while traveling without an order. For habitual offenders (either individuals or organizations) the CFO should notify bureau/office heads of this occurrence.

Status at September 30, 2000:

In its examination of travel orders during the FY 2000 audit, the OIG found two of 30 travel orders that were authorized after travel was completed.

The FTC has demonstrated continued improvement in having travel authorized and approved prior to the commencement travel. Management should continue with periodic reminders to staff of its responsibility regarding the submission of travel orders prior to the onset of travel.

The OIG considers this finding closed.

6. FY 1998 & 1999 Finding - Submission and Payment of Travel Vouchers Not Timely.

As part of the fiscal year 1998 audit, the OIG selected a sample of 41 travel orders to determine the timeliness of voucher submission and payments. We reviewed the corresponding vouchers. Chapter 2 of the Administrative Manual states that travel vouchers are due within 10 working days after the completion of the trip (Para. 9C) and the finance unit will settle all travel vouchers within 10 business days of receipt. (Para. 9E)

The OIG found that 18 of the 41 vouchers (44 percent) were not submitted by the traveler within 10 working days after completion of the travel as required by FTC's Administrative Manual.

To address the findings, the OIG recommended that the Assistant CFO for Finance formalize procedures to identify late "submitters" and take steps to ensure that these individuals are made aware of the importance of timely travel voucher and order submission.

The fiscal year 1999 audit found some improvement in the timeliness of travel voucher submission by staff, yet a large percentage of vouchers tested still were not submitted in a timely fashion. Of the 30 transactions tested, 8 (27 percent) of the travel vouchers were not submitted within ten working days after completion of the trip; one was received 31 days after completion of the trip, while, on average, vouchers identified as late were submitted by the traveler 21 calendar days after the completion of travel.

To address this and the issue of late travel order submission by staff, management issued a memorandum, dated October 6, 1998, to all bureau and office directors, noting the OIG findings, and reminding FTC staff of their responsibilities in this area. As this approach did have some success in FY 1999, the OIG noted that another reminder would be warranted.

Status at September 30, 2000:

In its examination of travel vouchers, the OIG found five of 30 travel vouchers (17 percent) were submitted more than 10 working days after travel had ended.

The FTC has demonstrated continued improvement in the timely submission of travel vouchers. Management should continue with periodic reminders to staff of its responsibility for submitting travel vouchers within the 10 business day policy.

The OIG considers this finding closed.

7. FY 1999 Finding - Accounts Receivable and Civil Penalties were Overstated in the Financial Statements.

The Department of Justice (DOJ) plays an important role in the collection of the FTC's civil penalty judgments, although the treatment of the civil penalty on the agency's books varies depending on the bureau involved (BC or BCP) and whether DOJ accepts or declines to file the case in court. Both bureaus are required to provide DOJ with the opportunity to file the case in court (DOJ has 45 days to respond), and both bureaus can file the case if DOJ turns down the request, pending appointment of an FTC staff person as a deputized Assistant United States Attorney.

For the Bureau of Consumer Protection, cases are generally filed by the DOJ attorneys. The DOJ then collects the civil penalty and deposits it in the FTC's account with the U.S. Treasury less a three (3) percent litigation fee. The transaction is recorded as a receivable and a collection in the FTC financial records.

The Bureau of Competition, on the other hand, files many cases itself with special deputized authority from DOJ. For cases filed by FTC attorneys, the FTC collects the civil penalty and deposits it in the FTC's account at Treasury. It is recorded as a receivable and a collection on FTC's books. For cases filed by DOJ attorneys, the DOJ collects the civil penalty and deposits it in DOJ's account at Treasury. There is no entry on the FTC's books.

Our review identified one civil penalty case in the amount of $500,000 that was filed and collected by DOJ on behalf of the Bureau of Competition and, consequently, not deposited in FTC's Treasury account. However, the FTC mistakenly recorded this amount as a receivable and included it in FTC's ending Accounts Receivable and Civil Penalties balances at September 30, 1998. In this and similar cases where the FTC books a receivable that will be collected by DOJ for deposit, an entry by FTC will cause a double count on the government's ledgers.

The Assistant CFO for Finance told us that she cannot determine which civil penalty case will be collected by DOJ, and which will be collected by FTC. Hence all amounts are entered as receivables on the FTC's books. It is therefore critical that BC inform the finance branch of all FTC civil penalty cases distinguishing those filed by the FTC and those filed by the DOJ.

During 1999, the Bureau of Competition started to notify the Assistant CFO for Finance of its civil penalty cases and which agency was responsible for collection, i.e., FTC or DOJ. BC had only two cases in 1999, both were collected at DOJ.

In civil penalty cases brought by the Bureau of Consumer Protection, the information needed to determine the agency responsible for collection was not being provided. The Chief Financial Officer has informed us that his office will work with the BCP to establish a process to make the information available.

In the fiscal year 1999 audit, the OIG recommended that the Assistant CFO for Finance identify to BCP the data elements it requires for recording civil penalty judgments, including collection responsibility, amount of the judgment, and (if any) the payment schedule.

<u>Status at September 30, 2000</u>:

The OIG noted during the FY 2000 audit that the Finance Division is now receiving the necessary civil penalty collection information from both BC and BCP.

The OIG considers this finding closed.

8. **FY 1998 and 1999 Finding - Travel Per Diem Amounts Overcharged by Travelers.**

During the FY 1998 audit, seven of the 41 (17 percent) travel vouchers tested contained errors in the traveler's request for reimbursement for meals and incidental expenses (M&IE) on travel vouchers. FTC travelers were not adhering to the new regulations which allow only three-fourths of the applicable M&IE per diem for the first and last day of travel.

During FY 1999, travel regulations were updated in the FTC Administrative Manual, however, our 1999 audit tests indicated that there were still some areas of noncompliance throughout the agency. For example, hotel costs exceeded regulations in 2 of 30 cases, meal and incidental expenses exceeded regulations in 3 of 30 cases and mileage reimbursements exceeded regulation rates in 3 of 30 cases. NBC personnel told the OIG that these items, when reviewed as part of the statistical sample of vouchers, occur no more frequently than other observed errors. The dollar impact of these errors was generally minimal.

Rather than increase the sample size to detect more errors (and result in increased labor costs charged by NBC to the FTC) NBC staff told us that they do make changes to all vouchers when errors such as these are observed. However, NBC staff reiterated the importance of reminding travelers regularly to double check for these common errors prior to submitting the vouchers to the NBC for review and payment.

In the fiscal year 1999 audit, the OIG recommended that the Assistant CFO for Finance annually remind FTC staff in charge of travel administration in their respective bureaus and offices about travel regulations pertaining to hotel costs, meal and incidental expenses, and mileage reimbursements.

<u>Status at September 30, 2000</u>:

The OIG found no instances in 30 travel vouchers examined of expenses being reimbursed in excess of the allowable per diem authorized in the travel order.

The OIG considers this finding closed.

9. **FY 1998 & 1999 Finding - The National Business Center's Authorized Signature Source Book is Outdated.**

NBC personnel were using outdated source documents - most had not been updated since 1995 - to verify authorizing officials. As a result, many individuals who are not on file at the NBC as having the authority to do so were authorizing travel and payments.

There were 52 forms on file at the NBC containing the names of 121 FTC authorizing officials (duplicate names are not included in this total). Of this amount, 42 (or 35 percent) no longer worked at the FTC. We found no replacement forms for these 42 individuals.

Based on our discussions with NBC staff, it was unclear the extent to which they rely on this signature book before authorizing payment. One official told us that many of the individuals are familiar to her, and she processes documents based on this recollection alone.

The OIG believes that, from a vulnerability perspective, the agency is not at great risk as a result of this particular finding. Further, having to research a name located in a huge binder of all FTC approving officials does not appear to be a practical or efficient solution to an area of dubious vulnerability. As an alternative, the OIG recommended that the Assistant CFO for Finance provide NBC staff with copies of the FTC telephone directory. Names of approving officials unfamiliar to NBC staff could be verified with a simple phone call.

In the fiscal year 1998 audit, the OIG learned that the FTC telephone book was being routinely provided to the NBC staff. However, the OIG noted that while signatures are required to authorize payment, the corresponding typed name and title of the authorizing official are not. Many signatures were difficult to read and/or recognize, thus making it difficult for NBC staff to validate them without calls to the traveler.

In the fiscal year 1999 audit, the OIG recommended that the assistant CFO for Finance instruct all approving/authorizing officials to type or print their name with the approving signature over it on travel vouchers, travel orders, purchase orders, etc. to assist NBC staff to identify them.

Status at September 30, 2000:

During the OIG's review of NBC's travel voucher approval process, it was noted that NBC's procedures are to check only for an original signature in the approving signature block on the form. The OIG found no instances in 30 travel vouchers examined where there was not an original signature in the approving signature block on the form.

The OIG considers this finding closed.

10. FY 1998 & 1999 Finding - The Administrative Service Center Does Not Have Written Policies and Procedures for Processing FTC Documents.

Written policies and procedures for processing FTC documents (payroll, travel, payment vouchers, etc.) at the NBC did not exist.

Although it appeared to the OIG that current NBC personnel had a clear understanding of their respective procedures and reference sources available, written policies and procedures can be used in cross-training and provide for continuation of standards and controls when there is a transition in personnel (retirement and new hires, etc.)

In the FY 1998 audit, the OIG recommended that a policies and procedures manual be prepared.

During the FY 1999 audit, the NBC informed the CFO that the task of writing policies and procedures manuals had been assigned to staff at NBC. The CFO's office worked with NBC staff to facilitate the preparation of the manuals.

Status at September 30, 2000:

The OIG was provided with written procedural manuals for the travel and payment processes.

The OIG considers this finding closed.

11. FY 1998 & 1999 Finding - Receiving Reports Are Not Prepared Timely.

Receiving reports provide written evidence of acceptance of property or services by a Government official. Receiving reports contain the following information: (i) contract or other authorizing number, (ii) product or service description, (iii) quantities received - if applicable, (iv) date that the property or services were delivered or received, (v) date the property or services were accepted, and (vi) signature of the Contracting Officer's Technical Representatives (COTR).

The Prompt Pay Act of 1982 (PL. 97-177), among other things, requires the payment of interest to vendors on payments made after the payment due date which is specified in the contract or invoice, or if a payment date is not specified, 30 days after the receipt and acceptance of supplies and/or services. The Act's guidelines are very specific as to the need for complete and accurate invoices from vendors, and for the requirement of timely acceptance of goods and services. Receiving reports should be submitted through the FMO to the NBC once goods are accepted by the COTR.

In the fiscal year 1998 audit, the OIG found in its review of receiving reports that some of them were not prepared timely by responsible FTC employees. In four (4) of our sample of 25 (16 percent), the receiving report was completed after the payment voucher date; i.e., the date the invoice was scheduled for payment. Without documentation, NBC staff cannot pay vendors, necessitating the payment of interest penalties. Interest penalties totaling $7,170 were paid in fiscal year 1998. NBC staff told the OIG that they frequently receive invoices for goods and/or services and have to request the receiving report from the responsible FTC personnel.

The OIG recommended that the CFO provide guidance to all COTR's in the agency (i) emphasizing the importance of completing the receiving report, and (ii) explaining that interest penalties come out of office budgets. Such guidance should be issued annually to all COTRs.

In the fiscal year 1999 audit, the OIG noted that COTR instructions contained the requirement for preparing receiving reports and the CFO has taken steps to notify Bureaus and Office Heads of the requirement. In addition, staff in the finance office routinely send receiving reports to COTRs when invoices are received at the NBC. NBC staff informed FTC of the receipt of the invoice to start this process. Finance staff followed-up with COTRs when responses are not received within two weeks. The OIG noted that interest penalties paid in fiscal year 1999 have decreased by 50 percent over penalties paid in fiscal year 1998.

Although the OIG did not review each late payment to determine the cause for the payment of interest to a vendor, our analysis indicated that many result from late submission of receiving reports. While we did not attempt to identify any individual, we did note that most invoices result from transactions in the Office of Technology Management. Rather then issue additional agency-wide guidance or mandate further controls, we believe that OITM staff should be reminded of the need to complete receiving reports timely. Further, NBC staff should be instructed to track late receiving reports by individual, and forward the names to the CFO for follow up with the employee's supervisor.

The OIG recommended in the fiscal year 1999 audit that the Chief Information Officer reinforce to his staff the need to follow FTC policy regarding the timely preparation of receiving reports.

Status at September 30, 2000:

Interest penalties are usually the result of receiving reports not filed timely. Total interest expense incurred for late payment of invoices increased 333 percent, from $4,587 in FY 1999 to $19,859 in FY 2000. The OIG identified 13 vendors that received between $536 and $1844 in interest penalties in FY 2000, totaling $12,418, or 63 percent of the total dollar amount. The OIG provided the names of the COTRs associated with these 13 vendors to management.

Of the 13 vendors receiving the largest interest payments, the OIG determined that six of the 13 were associated with the Office of Information Management, four performed services for the Bureau of Competition, and the remaining three performed services in the ASO, the

Consumer Response Center, and the International Technical Assistance office. Interest payments by FTC division of at least $400 follow (amounts are rounded):

Interest Penalties by Division
FY 2000

Division Code	Interest Paid
0616	1,300
623	5,200
0825	400
1030	1,300
1035	1,800
1142	800
1144	400
1688	900
3900	600
5000	3,200
5010	1,300
All Other	2,700
	$19,900

Recommendation

The OIG recommends that the CFO provide COTR names and interest penalty history regarding the 13 FY 2000 cases presented above to senior management in the five bureaus/divisions identified. Management should then inform the OIG of actions taken to address the late payments.

12. FY 1999 Finding - Formal Policy for Allowance for Uncollectible Accounts, Write-offs, and Referrals to Treasury Needed.

This finding originated during the FY 1998 audit, when the OIG noted that FTC did not have a formal policy which addresses the determination of the allowance for uncollectible accounts, the write-off of accounts receivable, and the referral of delinquent accounts to Treasury.

The status of this finding at the end of the FY 1999 audit was that a draft policy had been completed, but not yet formalized.

Status at September 30, 2000:

The same policy used in FY 1999 for the determination of the allowance for uncollectible accounts and the write-off of accounts receivable was used in FY 2000. Separately, a formal policy for the identification and submission of cases eligible for Treasury referral was implemented during FY 2000.

The OIG considers this finding closed.