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Description of document: Federal Trade Commission (FTC) Inspector General (OIG)
Audit Manual and Investigations Manual, 2016

Requested date: 29-December-2016

Released date: 27-January-2017

Posted date: 14-May-2017

Source of document: Freedom of Information Act Request
Office of General Counsel
Federal Trade Commission
600 Pennsylvania Ave., N.W.
Washington, D.C. 20580
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Email: FOIA@FTC.GOV

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

Via email

JAN 27 2017

Re: FOIA-2017-00321
FTC OIG Audit Manual and
FTC OIG Investigation Manual

This is in partial response to your request dated December 29, 2016 under the Freedom of Information Act seeking access to Office of Inspector General's Audit Manual and Investigation Manual. In accordance with the FOIA and agency policy, we have searched our records as of December 30, 2016, the date we received your request in our FOIA office.

We have located and reviewed approximately 105 pages of responsive records thus far, and are continuing our search for additional records. You are granted full access to the records located thus far, which are enclosed.

If you are not satisfied with this response to your request, you may appeal by writing to Freedom of Information Act Appeal, Office of the General Counsel, Federal Trade Commission, 600 Pennsylvania Avenue, N.W., Washington, D.C. 20580, within 90 days of the date of this letter. Please enclose a copy of your original request and a copy of this response.

You also may seek dispute resolution services from the FTC FOIA Public Liaison Richard Gold via telephone at 202-326-3355 or via e-mail at rgold@ftc.gov; or from the Office of Government Information Services via email at ogis@nara.gov, via fax at 202-741-5769, or via mail at Office of Government Information Services (OGIS), National Archives and Records Administration, 8601 Adelphi Road, College Park, MD 20740.

If you have any questions about the way we have handled your request or about the FOIA regulations or procedures, please contact Anna Murray at (202) 326-2820.

Sincerely,

A handwritten signature in black ink, appearing to read "Dione J. Stearns", is written over a circular stamp.

Dione J. Stearns
Assistant General Counsel

Att: 105 pages



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

FEB 14 2017

Via email

Re: FOIA-2017-00321
FTC OIG Audit Manual and FTC OIG Investigation Manual

This is in response to your request dated December 29, 2016, under the Freedom of Information Act seeking access to copies of the FTC OIG Audit Manual and Investigation Manual. In accordance with the FOIA and agency policy, we have searched our records as of December 30, 2016, the date we received your request in our FOIA office. We sent a partial response to you on January 27, 2017.

Some information is exempt from disclosure under FOIA Exemption 7(E), 5 U.S.C. § 552(b)(7)(E). Exemption 7(E) protects information that would disclose techniques and procedures for law enforcement investigations or prosecutions, or would disclose guidelines for law enforcement investigations or prosecutions if such disclosure could reasonably be expected to risk circumvention of the law. *See Foster v. DOJ*, 933 F. Supp. 687(E.D. Mich. 1996).

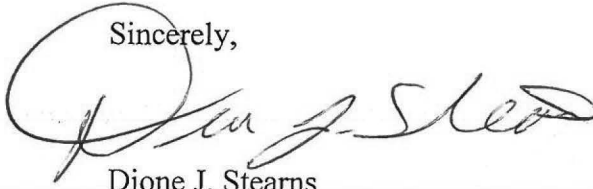
For your information, Congress excluded three discrete categories of law enforcement and national security records from the requirements of the FOIA. *See* 5 U.S.C. 552(c) (2006 & Supp. IV 2010). This response is limited to those records that are subject to the requirements of the FOIA. This is a standard notification that is given in response to all requests for records within the Office of the Inspector General and should not be taken as an indication that excluded records do, or do not, exist.

If you are not satisfied with this response to your request, you may appeal by writing to Freedom of Information Act Appeal, Office of the General Counsel, Federal Trade Commission, 600 Pennsylvania Avenue, N.W., Washington, D.C. 20580, within 90 days of the date of this letter. Please enclose a copy of your original request and a copy of this response.

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Dione J. Stearns
Assistant General Counsel

Att: 43 pages

FEDERAL TRADE COMMISSION



Office of Inspector General

AUDIT MANUAL

June 2016

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FTC OIG AUDIT MANUAL
Chapter 100 - Office of Inspector General

PURPOSE

1. This Manual consolidates the policies, procedures, standards, and other techniques to be followed by the OIG audit staff in planning, conducting, and reporting Federal Trade Commission audit work on behalf of the Office of Inspector General. Throughout this document, the term “audits,” when used alone refers to audits and attestation engagements conducted in accordance with GAGAS.

POLICY

2. The authority for the Office of Inspector General (OIG) within the Federal Trade Commission (FTC) is prescribed in Public Law 95-452 *Inspector General Act of 1978*, as amended by Title I of the Inspector General Act Amendments, Public Law 100-504 *Inspector General Act Amendments of 1988*, and Public Law 110-409 *Inspector General Reform Act of 2008*. The Act establishes the OIG as an independent and objective organization responsible for:
 - Conducting and supervising audits and investigations of the FTC programs and operations;
 - Providing leadership and coordination; recommending policies to promote economy, efficiency, and effectiveness; preventing and detecting fraud and abuse; and
 - Keeping the head of the FTC and the Congress fully and currently informed about problems and deficiencies relating to the administration and operations of the FTC.

PROVISIONS OF THE INSPECTOR GENERAL ACT, AS AMENDED

Duties and Responsibilities

3. The Inspector General (IG) is the head of the OIG; as such, the IG is responsible for the overall direction and operation of the office and reports to and is under the general supervision of the Commission and shall not report to, or be subject to supervision by any other officer or employee of the FTC.
4. The Inspector General shall:
 - a. Provide policy direction for, and conduct, supervise, and coordinate audits and investigations relating to the programs and operations of the FTC;
 - b. Review existing and proposed legislation and regulations relating to programs and operations of the FTC and make recommendations in semiannual reports to the Congress concerning the impact of such legislation or regulations on the economy and efficiency in the administration of such programs and operations administered

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Chapter 100 - Office of Inspector General

or financed by the FTC, or the prevention and detection of fraud and abuse in such programs and operations;

- c. Recommend policies for, and conduct, supervise, and coordinate other activities carried out or financed by the FTC for the purpose of promoting economy and efficiency in the administration of, or preventing and detecting fraud and abuse in the FTC programs and operations;
- d. Recommend policies for, and conduct, supervise, or coordinate activities between the FTC and other Federal agencies, state, and local government agencies and non-governmental entities with respect to all matters relating to the promotion of economy and efficiency in the administration of, or the prevention and detection of, fraud and abuse in programs and operations administered or financed by the FTC, or the identification and prosecution of participants in such fraud or abuse;
- e. Keep the head of the FTC and the Congress fully and currently informed of matters concerning fraud and other serious problems, abuses, and deficiencies relating to the administration of programs and operations administered or financed by the FTC; recommend corrective action concerning such problems, abuses, and deficiencies; and report on the progress made in implementing such corrective action;
- f. Prepare semiannual reports summarizing the activities of the OIG for the six-month periods ending on March 31 and September 30 and transmit to Congress;
- g. Comply with standards established by the Comptroller General of the United States for audits of Federal establishments, organizations, programs, activities, and functions;
- h. Report expeditiously to the Attorney General whenever the Inspector General has reasonable grounds to believe there has been a violation of Federal criminal law.

Authority

- 5. The Inspector General shall:
 - a. Have access to all records, reports, documents, papers, or other materials which relate to programs and operations with respect to the FTC;
 - b. Make such investigations, audits, and reports relating to the programs and operations of the FTC as are in the judgment of the Inspector General, necessary or desirable;
 - c. Request such information or assistance as may be necessary for carrying out the duties and responsibilities from any Federal, State, or local governmental agency or unit;

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Chapter 100 - Office of Inspector General

- d. Require by subpoena the production of all information, documents, reports, answers, records, accounts, papers, and other data and documentary evidence necessary in the performance of the duties specified above, which subpoena, in the case of contumacy or refusal to obey, shall be enforceable by order of any appropriate United States district court;
- e. Administer to or take from any person an oath, affirmation or affidavit;
- f. Have direct and prompt access to the head of the FTC when necessary for any purpose pertaining to the performance of functions and responsibilities under this Act;
- g. Enter into contract and other arrangements for audits, studies, analysis, and other services; and
- h. Select, appoint, and employ such officers and employees as may be necessary for carrying out the functions, powers, and duties of the Office subject to other applicable provisions of the law.

DELEGATION

- 6. The Inspector General may delegate to any officer or employee of the OIG the duties, responsibilities, and authority necessary to comply with the Inspector General Act, as amended, and conduct the operation of the office.

LINE OF SUCCESSION

- 7. Whenever the Inspector General is unable for any reason to perform assigned duties, he/she may designate an individual who is authorized to serve on behalf of the IG. A memorandum or email appointing the Acting IG will be prepared by the Inspector General for the Commission and General Counsel. The person so designated will act as IG. The designated individual will serve as "Acting Inspector General."

INDEPENDENCE

- 8. The Inspector General Act of 1978, as amended, establishes the OIG as an independent organization, headed by the IG who reports directly to the head of the FTC. Generally Accepted Government Auditing Standards (GAGAS) incorporate a conceptual framework for independence to provide a means for auditors to assess auditor independence to activities that are not expressly prohibited. The conceptual framework requires auditors to make independence determinations based on facts and circumstances that are often unique to specific audit environments (GAGAS 3.07-3.26). Procedures and responsibilities for establishing and maintaining independence are covered in Chapter 200 of the FTC-OIG Audit Manual titled "General Standards".

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ACCESS TO RECORDS

9. Section (6)(a)(1) of the IG Act authorizes the IG (and representatives of the IG) to have access to all FTC records, reports, audits, reviews, documents, papers, recommendations or other material relating to the FTC programs, activities, and operations. If access to such records is not given, the OIG staff member who is denied access shall immediately notify the IG who will make a written request for the records. If the request is not immediately honored, the IG, pursuant to Section 6(b)(2) of the IG Act, will notify the Commission of the refusal to provide records.
10. In some exceptional cases where a request for FTC records is denied, the OIG staff member so informs the IG and the IG believes the records may be destroyed or altered before the request is honored, the IG will immediately notify the Commission orally and, if the records are not immediately supplied the records will be seized. NO SEIZURE OF RECORDS SHOULD TAKE PLACE WITHOUT THE EXPRESS AUTHORIZATION OF THE IG.
11. The IG, pursuant to Section 6(a)(4) of the IG Act, may issue a subpoena for the production of records; however, no subpoena may be issued for records of other federal agencies.
12. The IG shall have direct and prompt access to the head of the establishment involved when necessary for any purpose pertaining to the performance of functions and responsibilities under the IG Act. The authority to access and subpoena records is prescribed by Public Law 95-452, as amended by Title I of the Inspector General Act Amendments, Public Laws 100-504 and 110-409.
13. Any difficulty in accessing records should be reported through the appropriate line of authority to the IG who will determine the appropriate course of action on a case-by-case basis.
14. The first course of action for resolving access problems should normally be at the working level.
15. Assuming that the access problem cannot be resolved at the working level, the IG will present the problem to the head of the FTC for timely resolution.
16. If the problem is unresolved or the resolution is unsatisfactory, the IG may elect to report such an impairment of scope and independence in a "seven day letter" to the Congress.

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CODE OF CONDUCT

17. Each officer and employee of the OIG or other person assigned to or performing work for the Inspector General must comply with the Government-wide Standards of Conduct for Employees of the Executive Branch, 5 C.F.R. 2635, et seq.
18. All other personnel assigned to or performing work for the IG are responsible for complying with the intent of these standards.
19. Professional staff is also responsible for complying with the "Code of Conduct" or "Code of Ethics" as specified by their profession (i.e., AICPA, CMA, or IIA Code of Ethics, etc.).

COORDINATION WITH OTHER AUDIT ORGANIZATIONS

20. In accordance with the Inspector General Act, as amended, primary responsibility for auditing the FTC rests with the Office of Inspector General (OIG). Audits by other organizations may be considered fulfilling OIG audit responsibilities to the extent that the scope, quality, and timing of such audits meet the requirements of the OIG annual audit plan. Such audits may be supplemented by OIG audit work to fulfill OIG audit requirements.
21. The OIG is normally responsible for performing liaison activities with other audit organizations.
22. With respect to GAO audits and evaluations of FTC activities, the OIG are responsible for maintain liaison, as necessary, with representatives of GAO. The OIG's coordinating and review of GAO and management's response is limited to an administrative and informational perspective. The OIG does not have any responsibility for developing management's position nor approving management's response.
23. In addition to GAO audits, the OIG should normally be the initial contact for audit and investigatory inquiries.
24. When performing GAGAS audits and attestations and subject to applicable provisions of laws and regulations the OIG should make audit and attestation documentation available in a timely manner to other auditors or reviewers (GAGAS 4.16, 5.17, 6.85).

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Chapter 200 – General Standards

POLICY

1. By virtue of the unique position of the Office of the Inspector General (OIG) and the need for discretion in handling sensitive issues and information, audit staff members are expected to conduct themselves in accordance with general personnel and professional standards and guidelines that are frequently more restrictive than those governing other employees of the FTC. All provisions of this instruction apply to the audit staff.
2. The Inspector General Act of 1978, as amended, requires that the OIG "...comply with standards established by the Comptroller General of the United States for audits of Federal establishments, organizations, programs, activities, and functions." These standards are contained in the Governmental Accountability Office (GAO) "Government Auditing Standards" (GAGAS).
3. Each auditor is responsible for having a sufficient knowledge of the Government Auditing Standards and the FTC Audit Manual. The Government Auditing Standards are available on GAO's web site. The FTC Audit Manual is maintained in hard copy format by the Audit Manager and electronically on the K drive.

Four General Auditing Standards

4. The four general auditing standards applicable to professional conduct are independence, professional judgment, competence, and quality control and assurance.

INDEPENDENCE

5. Independence comprises independence of mind and appearance. GAGAS establishes a conceptual framework that auditors should use to identify, evaluate, and apply safeguards to address threats to independence.
6. In all matters relating to the audit work, the audit organization and the individual auditor must be free from personal, external, and organizational impairments to independence (GAGAS 3.02).

Independence in Mind and Appearance

7. Independence of Mind – The state of mind that permits the performance of an audit without being affected by influences that compromise professional judgment, thereby allowing an individual to act with integrity and exercise objectivity and professional skepticism.

Independence in Appearance – The absence of circumstances that would cause a reasonable and informed third party, having knowledge of the relevant information, to

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Chapter 200 – General Standards

reasonably conclude that the integrity, objectivity, or professional skepticism of an audit organization or member of the audit team had been compromised (GAGAS 3.03).

8. Auditors should be independent during
 - a. any period of time that falls within the period covered by the financial statement or subject matter of the audit, and
 - b. the period lasts for the entire duration of the professional relationship (GAGAS 3.05)

Conceptual Framework for Independence

9. GAGAS' consideration of independence includes:
 - A conceptual framework for making independence determinations based on facts and circumstances that are often unique to specific environments; and
 - Requirements for and guidance on documentation necessary to support adequate consideration of auditor independence (GAGAS 3.06).
10. Auditors should apply the conceptual framework at the audit organization, audit, and individual auditor levels to:
 - a. Identify threats to independence
 - b. Evaluate the significance of the threats identified, both individual and in the aggregate, and
 - c. Apply safeguards as necessary to eliminate the threats or reduce them to an acceptable level (GAGAS 3.08)
11. The Inspector General Act of 1978, as amended, provides the necessary structural safeguards for the FTC audit organization to be considered independent. For example, organizational independence is ensured by having the IG report to the FTC Head, the Commission. This reporting is documented in the FTC's organizational chart. The IG's pay rate is set by the Inspector General Act, as amended, and the IG may not receive a cash performance award or bonus. The IG is not assigned and does not take on responsibilities that affect any FTC operations under audit.

Threats to Independence

12. Threats to independence are circumstances that could impair independence. Whether independence is impaired depends on the nature of the threat, whether the threat is of such significance that it would compromise an auditor's professional judgment or create the appearance that the auditor's professional judgment may be compromised,

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Chapter 200 – General Standards

and on the specific safeguards applied to eliminate the threat or reduce it to an acceptable level. Threats are conditions to be evaluated using the conceptual framework. Threats do not necessarily impair independence (GAGAS 3.13).

13. Threats to independence may be created by a wide range of relationships and circumstances. Auditors should evaluate the following broad categories of threats to independence when threats are being identified and evaluated (GAGAS 3.14)
 - a. Self-interest threat – the threat that a financial or other interest will inappropriately influence and auditor’s judgment or behavior
 - b. Self-review threat – the threat that an auditor or audit organization that has provided nonaudit services will not appropriately evaluate the results of previous judgments made or services performed as part of the nonaudit services when forming a judgment significant to an audit
 - c. Bias threat- the threat that an auditor will, as a result of political, ideological, social, or other convictions, take a position that is not objective
 - d. Familiarity threat – the threat that aspects of a relationship with management or personnel of an audited entity, such as a close or long relationship, or that of an immediate or close family member, will lead an auditor to take a position that is not objective
 - e. Undue influence threat – the threat that external influences or pressures will impact an auditor’s ability to make independent and objective judgments
 - f. Management participation threat – the threat that results from an auditor’s taking on the role of management or otherwise performing management functions on behalf of the entity undergoing an audit, and
 - g. Structural threat – the threat that an audit organization’s placement within a government entity, in combination with the structure of the government entity being audited, will impact the audit organization’s ability to perform work and report results objectively (GAGAS 3.17).

Safeguards to Independence

14. Safeguards are controls designed to eliminate or reduce to an acceptable level threats to independence. Under the conceptual framework, the auditor applies safeguards, as necessary, that address the specific facts and circumstances under which threats to independence exist (GAGAS 3.08c, 3.16).
15. Examples of safeguards include

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Chapter 200 – General Standards

- a. Consulting an independent third party, such as a professional organization, a professional regulatory body, or another auditor
- b. Involving another audit organization to perform or reperform part of the audit
- c. Having a professional staff member who was not a member of the audit team review the work performed, and
- d. Removing an individual from an audit team when that individual's financial or other interests or relationships pose a threat to independence (GAGAS 3.17)

Independence Policy

- 16. All audit staff, for every audit, must assess all conditions, situations, relationships, or activities that could result in a threat to their independence in conducting an audit. In cases where a threat to independence is identified and is considered significant, safeguards should be applied to eliminate the threat or reduce it to an acceptable level. If no safeguards are available to eliminate an unacceptable threat or reduce it to an acceptable level, independence would be considered impaired.

Independence Procedures

- 17. Prior to the engagement, each auditor will review the Audit Manual, Chapter 200 on Independence, to gain an understanding of the concepts and terminology of GAGAS with respect to auditor independence. Each auditor will annually complete the general statement of independence, OIG Form 1-Statement of Independence
- 18. For each audit assignment, each auditor must also certify their independence by completing OIG Form 2-Each Audit Independence Statement
- 19. Before completing OIG Form 2, each auditor must evaluate any conditions, situations, relationships, or activities that may result in a threat to his or her independence in conducting the audit in question.
- 20. Completion of OIG Forms 1 and 2 will indicate that each auditor has complied with the GAGAS requirement to document the application of the independence conceptual framework (GAGAS 3.20).
- 21. When potential independence issues arise, auditors should work with supervisory staff to resolve them to the extent possible.
- 22. The IG will ultimately determine if safeguards are effective and that the threat to independence has been eliminated or reduced to an acceptable level.
- 23. The safeguards applied to the identified threats shall be documented in the workpapers

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Chapter 200 – General Standards

(GAGAS 3.24).

24. Auditors must be alert to situations that can impair independence during the course of an audit and should notify their supervisor of a perceived change in status to determine if any safeguards are appropriate.
25. The signed independence statement shall be retained in the audit workpaper files.

Independence and nonaudit services

26. Generally, the OIG does not provide nonaudit services. In the event that such services were provided, procedures for ensuring that these services do not impair independence include the IG having knowledge of all services provided. The development of an annual audit plan would consider such non-audit services. The OIG would evaluate whether providing the services creates an independence impairment either in fact or appearance with respect to the FTC, using professional judgment, and following the guidance in GAO's Government Auditing Standards (GAGAS) 3.42 through 3.48 to determine whether a nonaudit service would impair the OIG's independence with respect to the FTC. A critical component of determining whether a nonaudit service threatens independence is consideration of management's ability to effectively oversee the nonaudit service to be performed. (GAGAS 3.34)
27. If the OIG does agree to provide a nonaudit service, the IG will evaluate whether providing such service would create a threat to independence (GAGAS 3.34)
28. The OIG will obtain management's assurance of its understanding of its functions and responsibilities (GAGAS 3.37)
29. The OIG will document its understanding of the nonaudit service, including evaluating previously performed nonaudit services (GAGAS 3.39 and 3.42)
30. If supplemental safeguards are required in performing a nonaudit service, the OIG will follow the procedures detailed in GAGAS 3.43 to determine whether the safeguards adequately mitigate the threat to independence.
31. If the threat to independence could not be eliminated or modified to an acceptable level the OIG will modify the GAGAS compliance statement (GAGAS 3.44).

If Impairment to Independence is Identified

32. Certain conditions may lead to threats that are so significant that they cannot be eliminated or reduced to an acceptable level through the application of safeguards, resulting in impaired independence. Under such conditions, auditors should decline to perform a prospective audit or terminate an audit in progress (GAGAS 3.25).

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33. If an impairment to independence is identified after the audit report is issued, the auditor should evaluate the threat's impact on the audit and on GAGAS compliance. If the auditors determine that the newly identified threat had an impact on the audit that would have resulted in the auditors' report being different from the report issued, they should communicate in the same manner as that used to originally distribute the report to those charged with governance, the appropriate officials of the audited entity, and other known users.

If the report was previously posted to the auditors' publicly accessible website, the auditors should remove the report and post a public notification that the report was removed.

The auditors should then determine whether to conduct additional audit work needed to revise findings and recommendations if the threat's impact would have resulted in the auditor's report being different (GAGAS 3.26).

PROFESSIONAL JUDGMENT

34. Auditors must use professional judgment in planning and performing audits and in reporting the results.
35. Professional judgment includes exercising reasonable care and professional skepticism.
36. Reasonable care includes acting diligently in accordance with applicable professional standards and ethical principles.
37. Professional skepticism is an attitude that includes a questioning mind and a critical assessment of evidence. Professional skepticism includes a mindset in which auditors assume neither that management is dishonest nor of unquestioned honesty (GAGAS 3.60-3.61).

COMPETENCE

Recruiting and Hiring

38. The OIG will utilize the Office of Personnel Management's USA Jobs Web site to recruit candidates for vacancies. The OIG hires auditors who meet OPM criteria for job classification GS-0511 Auditors.

Continuous Staff Development (GAGAS 3.69-3.70)

39. The OIG is responsible for ensuring that auditors performing work under GAGAS collectively possess the technical knowledge, skills, and experience necessary to be

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competent for the type of work being performed before beginning work on that audit (GAGAS 3.72). The following program was designed to meet this responsibility.

40. The supervisor approves each employee's training, considering the critical elements in the employee's annual Employee Performance Plan (see Staff Evaluation section below).
41. Training History Record. An up-to-date, complete and accurate record of each audit staff member's training is maintained by the OIG on the K drive. Meeting CPE requirements is primarily the responsibility of individual auditors. The Audit Manager reviews the training history to ensure that CPE requirements are met.

Staff Evaluation

42. All OIG staff members shall have an annual appraisal as required by the Office of Personnel Management (OPM). Appraisal periods are established by the FTC in accordance with OPM policy.
43. Appraisals are documented for each OIG employee using the annual Employee Performance Plan and Appraisal (FTC Form 151) that is tied to the FTC's Strategic Plan and approved by the employee's supervisor. The form lists the Critical Elements, and also the performance standards required.
44. An interim appraisal is conducted half-way through the performance appraisal period. These appraisals consist of a meeting between the employee and manager. Documentation supporting the interim appraisal consists of a form (FTC form 151) that is signed by both the employee and the supervisor.
45. Written performance appraisals are provided to OIG employees within 30 days following the end of the performance rating period.

Certifications

46. To ensure the continued high professional expertise of OIG auditors, the OIG encourages its auditors to seek professional certifications such as Certified Public Accountant (CPA), Certified Internal Auditor (CIA), Certified Information Systems Auditor (CISA), and Certified Management Accountant (CMA). Depending on the availability of resources, the OIG may provide support by such actions as reimbursing employees for continuing education courses, granting administrative leave as necessary for training, and also providing study time during normal work hours (up to four hours per week) for professional development such as relevant college courses or professional certifications. The OIG will allow administrative time to sit for the CPA exam up to three times. Such professional development may be offered to OIG employees when the IG determines that the costs to the OIG are offset by the benefits to the OIG audit program. This determination shall be at the discretion of the IG.

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Assigning Staff

47. The IG will assign staff to audits and attestation engagements based on their knowledge, skills, and abilities when compared to the complexity and subject matter of the engagement.
48. If staff members collectively do not possess special skills needed to perform the engagement, the IG will evaluate other avenues to acquire the needed skills including hiring a contractor.

Determining Whether Specialists Have Needed Skills

49. To determine whether specialists, internal or external, have the appropriate skills, the IG, Audit Manager, and/or Contracting Officer's Representative will review the individual's qualifications for the proposed work and make a determination on the suitability for the task. This will be memorialized in the audit documentation and retained in the respective audit file. GAGAS 6.43 lists areas to consider when evaluating the professional qualifications of a specialist.

Assessing Contractor Qualifications

50. The following procedures are to be applied:
 - a. Review the overall qualifications of the team performing the work. Review resumes and consider for key team members (partners, managers, and lead seniors) their educational level, professional certifications, and professional experience.
 - b. For financial statement audits, verify whether the auditors engaged to perform the audit are licensed certified public accountants or persons working for a licensed certified public accountant. If the contract contains option years, this is generally only done in the first year.
 - c. Obtain and review from the audit contractor, their latest peer review report, letters of comments, and response to the peer review report.
 - d. If the peer review report is more than one year old, determine if there have been any significant changes to the quality control procedures and obtain a recent copy of their quality control documentation.
 - e. If the peer review is qualified or adverse, evaluate whether the quality control system has since been strengthened to allow the use of the Independent Public Accountant's (IPA) work.
 - f. Communicate orally or in writing with the IPA to be satisfied they understand the

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audit requirements, timetable, and the type of report or letter the OIG will issue.

- g. Prepare a memorandum documenting the results of the work performed in regard to the IPA's independence, objectivity, and qualifications.

PROFESSIONAL JUDGMENT

- 51. All auditors are required to follow all applicable standards when conducting audits. A situation where the audit standard is either not applicable or cannot be followed should be reported to the Audit Manager and or the IG for their review and determination of appropriate action. The initial determination and all supporting decisions should be maintained in the audit documentation to be retained in the audit file. The documentation will also include the impact on the audit and on the auditor's conclusions.
- 52. If an applicable standard is not followed, the statement referencing compliance with GAGAS should be qualified. In these situations, auditors should disclose in the scope section of the report the applicable standard that was not followed, the reasons therefore, and how failure to follow the standard affected, or could have affected, the results of the audit.

QUALITY CONTROL

Leadership Responsibilities for Quality within the Audit Organization

- 53. To comply with GAGAS 3.82 Quality Control and Assurance, the OIG maintains a quality assurance program to ensure conformity with policies and procedures issued by the IG and GAGAS. The Quality Assurance Program for the FTC OIG includes the following elements (GAGAS 3.85):
 - a. Leadership responsibilities for quality,
 - b. Independence, legal, and ethical requirements,
 - c. Initiation, acceptance, continuance of engagements,
 - d. Human resources,
 - e. Audit performance, documentation, and reporting, and
 - f. Monitoring of quality
- a. **Leadership Responsibilities for Quality** - The IG has the authority and responsibility for ensuring that all audits and attestations comply with GAGAS and AICPA standards. He/she is to exercise professional judgment to ensure that the quantity, type, and content of audit documentation is sufficient in all respects to support OIG findings, conclusions, and recommendations (see AICPA AU-C §230 Audit Documentation, and corresponding AU-C §9230). He/she is responsible for

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ensuring that auditors effectively apply the OIG’s system of internal control, which includes:

- ensuring that OIG audit staff has access to the FTC OIG Audit Manual, and that each staff person complies with auditing policies and procedures, and
- recommending policy or procedural changes relating to auditing standards.

b. Independence, Legal, and Ethical Requirements - OIG policies and procedures on Independence are addressed in Chapter 200, paragraphs 5 through 33.

The effective conduct of the Federal Trade Commission's activities requires that employees act in a strictly ethical manner. Executive Order 12674 (as modified by Executive Order 12731) establishes the basic obligations of public service and the general ethical principles that guide the conduct of all Federal employees. See 55 FR 42547. In addition, the "Standards of Ethical Conduct for Employees of the Executive Branch," issued by the Office of Government Ethics, govern the conduct of all executive branch employees. See 5 CFR Part 2635 ("Standards of Conduct"). These regulations, along with the criminal conflict-of-interest laws (18 U.S.C. §§ 201-209, 216), provide the basis for most agency determinations about the propriety of an employee's official conduct.

In compliance with FTC requirements, the Inspector General takes face-to-face ethics training annually and the Audit Manager takes face-to-face ethics training every three years, and in off-years takes on-line ethics training.

c. Initiation, Acceptance, Continuance of Engagements - Policies and procedures for initiation and acceptance of audit engagements are addressed in Chapter 300 Annual Audit Plan. Continuance of audit engagements is addressed in Chapter 900, paragraph 95, “If an audit is terminated before it is completed, auditors should document the results of the work to the date of termination and why the audit was terminated.”

d. Human Resources – Policies and procedures designed to provide the OIG with reasonable assurance that it has personnel with the capabilities and competence to perform its audits in accordance with professional standards and legal and regulatory requirements are addressed in Audit Manual Chapter 200, paragraphs 38 through 50.

e. Audit Performance, Documentation and Reporting - Audit Manual Chapter 400 addresses the audit program, Chapter 600 addresses audit documentation, and Chapter 900 addresses reporting.

f. Monitoring of Quality – Monitoring procedures that enable the OIG to assess compliance with applicable professional standards include IG review and approval of the audit program (Chapter 400, paragraph 8), ongoing review, supervision of workpapers, and approval of workpapers (Chapter 200, paragraphs

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53-59), report referencing (Chapter 200, paragraph 60-64), and IG review and approval of audit reports before issuance (Chapter 900, paragraph 100-101).

On-going Supervision

54. The auditor and supervisor of each assignment shall exercise due professional care to assure conformity / compliance with Government Auditing Standards and OIG policies and procedures. This includes ensuring that audit work is well-planned, audit scope is appropriate, audit resources are economically used, audit findings are solidly supported, and the audit reports accurately reflect the results of the assignment.
55. The auditor(s) and their supervisor meet frequently during the conduct of field work to:
 - a. ensure that methodologies selected in the planning phase were appropriate;
 - b. ensure that the plan is being executed as intended; and
 - c. discuss major findings including those which may necessitate recommendations to management; illegal acts or abuse, and to discuss any limitations, if any, such as access to records and individuals.
56. The degree of supervision is based on factors which include the background and experience of the auditor and the complexity of the audit (GAGAS 6.53).

Internal Review

57. The audit manager will verify that the appropriate standards and policies have been followed during audits. The IG will review and approve audit programs, review audit work paper summaries, evidence supporting the findings, conclusions, and recommendations, and review the overall audit report. The IG will also review the final referencing sheets to ensure that quality control objectives have been met.
58. Formal work paper review with Audit Manager and/or IG sign-off will be performed. Audit work performed by the Audit Manager will be reviewed by the IG (GAGAS 6.83b).
59. Both the Draft and Final Reports require review and clearance by the IG prior to issuance (GAGAS 6.83c).

Completion of Checklists

60. To assess compliance with professional standards and quality control policies and procedures for GAGAS audits, the OIG auditor will complete the required checklist. The checklist will be reviewed and approved prior to report issuance.

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- Attachment 1 – IG’s Audit Quality Control Checklist

Independent Referencing

61. Each fact and line in the audit report and executive summary will be indexed by the auditor and independently referenced. This should occur prior to the issuance of the draft report. Changes made to the report after the initial referencing are to be re-indexed and referenced.
62. The independent referencer will sign the referencing checklist
 - Attachment 2 – Referencing Check List
63. "**See Below**" is an appropriate index when the statement prefaces a chart or table in the report such as, "The results of our testing appear in the table below."
64. "**Summary**" is an appropriate index when the statement summarizes facts that appear afterwards in the body of the report and are readily apparent to the independent referencer. Statements that are not supported by facts presented later in the report should be indexed to the supporting audit documentation.
65. The **executive summary** should be indexed and referenced to both the body of the report and the applicable workpaper. Print out an additional copy of the executive summary for this purpose. This requires some additional effort, but is important because it will ensure that the executive summary, which contains the most important items in the report, is consistent with both the body of the report and the audit documentation.

Annual Summary of Results of Monitoring Procedures

66. The OIG will annually analyze and summarize the results of its monitoring procedures of audits and attestations performed. The purpose of the assessment of work completed is to provide an evaluation of (1) adherence to professional standards and legal and regulatory requirements, (2) whether the quality control system has been appropriately designed, and (3) whether quality control policies and procedures are operating effectively and complied with in practice. The annual summarization may include a review of:
 - a. selected audit documentation and reports,
 - b. continuing professional development policies,
 - c. follow-up on previous monitoring findings

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The summarization will identify any systemic issue needing improvement, along with recommendations for corrective action.

External Peer Review

- 67. An external peer review will be conducted at least once every 3 years by an organization not affiliated with the FTC OIG. The objective of an external peer review is to determine whether the FTC OIG's quality control system is operating effectively to provide reasonable assurance that established policies and procedures and applicable auditing standards are being followed.
- 68. The OIG's peer review will be posted on the OIG page of the FTC's web site.
- 69. The IG and Audit Manager will evaluate recommended corrective actions, develop an action plan, and promptly institute corrective action as appropriate.

ONGOING INVESTIGATIONS OR LEGAL PROCEEDINGS

- 70. Avoiding interference with investigations or legal proceedings is important in pursuing indications of fraud, illegal acts, violations of provisions of contracts, or abuse. Laws, regulations, or policies might require auditors to report indications of certain types of fraud, illegal acts, violations of provisions of contracts, or abuse to law enforcement or investigatory authorities before performing additional audit procedures. When investigations or legal proceedings are initiated or in process, auditors should evaluate the impact on the current audit or attestation (GAGAS 5.10, 6.35). Any activities should be coordinated with the IG and Counsel to the IG.

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ANNUAL PLAN

1. The FTC-OIG shall maintain an annual work plan that assesses the nature, scope, trends, vulnerabilities, special problems, and inherent risks of agency programs and operations and for use in establishing the goals, objectives, and tasks to be accomplished by the OIG within a specific time period, usually one year. The plan is used to establish office priorities. The OIG will assign a priority based on one or more of the following factors:
 - a. Statutory and regulatory requirements
 - b. Risk - vulnerability to fraud, waste, and abuse
 - c. New or changed conditions
 - d. Extent of Federal participation in terms of fiscal resources or regulatory impact
 - e. Management interest in seeing that an audit universe component is reviewed because of either a known or a perceived problem or risk.
 - f. Audit experience or prior coverage
 - g. Financial Impact - amount of funds at risk
 - h. Audit Frequency – passage of time since last audit
 - i. Availability of audit resources
 - j. Sensitivity is the relative importance of an organization, program, function, or activity to the mission of the entity. Sensitivity may also be determined through Presidential, Congressional, or agency head interest or high public visibility.
 - k. Indication of fraud or other improper or illegal activity on the part of an individual or entity doing business with or obtaining benefits from the FTC
2. The OIG is responsible for:
 - a. Developing the annual work plan;
 - b. Monitoring progress in carrying out the plan; and
 - c. Reassessing priorities based upon unforeseen activity.

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3. The OIG will document an annual audit plan based upon audit universe priorities and at a minimum reflecting the required elements listed above.
4. On an as-needed basis, the OIG will amend or adjust the work plan based upon changing priorities.

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POLICY

1. All OIG audits and attestations will be conducted based on written audit programs or guides. The programs may be based on surveys conducted during the planning phase of the audit.
2. All experienced staff persons are responsible for developing audit programs for the work assigned. The programs must be approved by the IG.

Audit Risk

Audit risk is the possibility that the auditors' findings, conclusions, recommendations, or assurance may be improper or incomplete, as a result of factors such as evidence that is not sufficient and/or appropriate, an inadequate audit process, or intentional omissions or misleading information due to misrepresentation or fraud. Factors such as the time frames, complexity, or sensitivity of the work; size of the program in terms of dollar amounts and number of citizens served; adequacy of the audited entity's systems and processes to detect inconsistencies, significant errors, or fraud; and auditors' access to records, also impact audit risk.

Audit risk can be reduced by taking actions such as increasing the scope of work; adding experts, additional reviewers, and other resources to the audit team; changing the methodology to obtain additional evidence, higher quality evidence, or alternative forms of corroborating evidence; or aligning the findings and conclusions to reflect the evidence obtained.

Auditors must plan the audit to reduce audit risk to an appropriate level for the auditors to provide reasonable assurance that the evidence is sufficient and appropriate to support the auditors' findings and conclusions. This determination is a matter of professional judgment (GAGAS 5.16a-attestation, 6.56-6.58-Performance Audits).

Audit Program Contents

3. The audit (or attestation) program provides background information and a description of the methodology (audit steps and procedures) that is to be applied in order to accomplish the audit objectives. The program should require sufficient verification work to be done to enable the auditors to reach a conclusion on each objective established for the audit. Audit planning shall consider the needs of the Executive Branch, the Congress, the public, and FTC management. Generally, audit programs should contain:
 - Background information on the audit entity's history and current objectives/responsibilities, its legal authority, and similar information that will help the auditors carry out the audit program.

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- Criteria used, i.e., regulations, laws, and standard operating procedures pertaining to the audit area.
- Clearly stated audit objectives. Auditors should assess audit risk and significance and apply these assessments in defining the audit objectives
- A description of the scope of the audit (e.g., time period covered by the audit, the audit entity's universe, etc.).
- Clearly described methodology to be applied in gathering and analyzing evidence to enable the auditors to reach conclusions on the audit objectives.
- Target date for completing the field work, and preparing the draft and final reports.
- The audit program should be constructed in a manner that does not restrict the auditors' professional judgment with respect to curtailing nonproductive work or expanding the program to cover significant areas that come to light as the audit progresses (GAGAS 6.83a).

General Procedures

4. Auditors should assess audit risk and significance within the context of the audit objectives by gaining an understanding of the following (GAGAS 6.11)
 - a. The nature and profile of the programs and the needs of potential users of the audit report
 - b. Internal control as it relates to the specific objectives and scope of the audit
 - c. Information system controls for purposes of assessing audit risk and planning the audit within the context of the audit objectives
 - d. Provisions of laws, regulations, contracts, and grant agreements, and potential fraud, and abuse that are significant within the context of the audit objectives (GAGAS 6.28);
 - e. Ongoing investigations or legal proceedings within the context of the audit objectives; and
 - f. The results of previous audits and attestation engagements that directly relate to the current audit objectives.
5. During planning, auditors should also (GAGAS 6.12)
 - a. Identify the potential criteria needed to evaluate matters subject to audit
 - b. Identify sources of audit evidence and determine the amount and type of evidence needed given audit risk and significance
 - c. Evaluate whether to use the work of other auditors and specialists to address some of the audit objectives
 - d. Assign sufficient staff and specialists with adequate professional competence and identify other resources needed to perform the audit

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- e. Communicate about planning and performance of the audit to management officials, those charged with governance, and others as applicable; and
 - f. Prepare a written audit plan.
6. Auditors should obtain an understanding of the nature and profile of the program, which include (GAGAS 6.13)
- a. visibility, sensitivity, and relevant risks associated with the program under audit;
 - b. age of the program or changes in its conditions;
 - c. the size of the program in terms of total dollars, number of citizens affected, or other measures;
 - d. level and extent of review or other forms of independent oversight;
 - e. program's strategic plan and objectives; and
 - f. external factors or conditions that could directly affect the program.

Specific Procedures

7. Audit procedures are the specific steps and tests auditors will carry out to address the audit objectives. Auditors should design the methodology to obtain sufficient, appropriate evidence to address the audit objectives, reduce audit risk to an acceptable level, and provide reasonable assurance that the evidence is sufficient and appropriate to support the auditors' findings and conclusions. (GAGAS 6.06, 6.10)

Audit Plan Approval

8. The IG will sign and date audit (or attestation) plans to evidence approval.
9. Auditors may need to adjust the audit objectives, scope, and methodology as work is being completed. All changes will be approved by the IG (GAGAS 6.07)

Documentation of Accomplishments

10. The workpapers are used to document the information gathered, analyzed and developed to produce the audit report. Workpapers prepared in response to an audit plan step should be cross-indexed to the plan. If the work required by an audit step is curtailed or deleted, the reasons should be explained in the working papers.

Internal Controls

11. Auditors are to gain an understanding of the internal controls related to the specific objectives and scope of the audit or examination-level attestation (GAGAS 6.16). Auditors can obtain an understanding of internal control through inquiries, observations, inspection of documents and records, or review of other auditors' reports. The procedures auditors perform to obtain an understanding of internal control will vary among audits. Auditors are to use professional judgment in planning and performing the work to meet

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auditing standards and in order to plan the engagement and design procedures to achieve the objectives of the audit or attestation engagement.

Information Systems Controls

12. When evaluating internal controls, the auditor should determine whether information system (IS) controls are significant to the audit objectives. If IS controls are determined to be significant to the objectives, auditors should determine which audit procedures related to information systems controls are needed. The following factors may assist auditors in making this determination:
 - a. The extent to which significant internal controls depend on the information systems
 - b. The availability of evidence outside the information system to support findings and conclusions
 - c. The relationship of information systems controls to data reliability
 - d. When evaluating the effectiveness of IS controls is directly a part of the audit objective, auditors should test IS controls necessary to address the audit objective (GAGAS 6.24, 6.27).

Reliance on Computer Based Data

13. Auditors should assess the sufficiency and appropriateness of computer-processed information regardless of whether this information is provided to auditors or auditors independently obtain it. The nature, timing, and extent of audit procedures to assess sufficiency and appropriateness are affected by the effectiveness of the entity's internal controls over the information, including information systems controls, and the significance of the information and the level of detail presented in the auditors' findings and conclusions in light of the audit objectives.

Designing the Audit to Detect Violations of Legal and Regulatory Requirements, Contract Provisions, Fraud, and Abuse

14. **14a. Financial Audits.** When laws, regulations, or provisions of contracts are significant to the audit objectives, auditors should design the audit methodology and procedures to provide reasonable assurance of detecting misstatements that could have a direct and material effect on the determination of the financial statement amounts or other financial data significant to the audit objectives. Auditors, in consultation with OIG Counsel, should determine which laws, regulations, and provisions of contracts are significant to the audit objectives and assess the risk that illegal acts or violations of provisions of contracts or grant agreements could occur. Based on that risk assessment, the auditors shall design and perform procedures to provide reasonable assurance of detecting significant instances of illegal acts or violations of provisions of contracts. Auditors should include audit documentation on their assessment of risk. Auditors should consult

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GAGAS for detailed standards related to the identification of actual or potential findings in this area.

If specific information comes to the auditors' attention that provides evidence concerning the existence of possible illegal acts that could have a material indirect effect on the financial statements, the auditors should apply audit procedures specifically directed to ascertaining whether an illegal act has occurred. When an illegal act has or is likely to have occurred, auditors should determine the effect on the financial statements as well as the implications for other aspects of the audit.

14b. Performance Audits Auditors should determine which laws, regulations, and provisions of contracts are significant within the context of the audit objectives and assess the risk that violations of those laws, regulations, and provisions of contracts could occur. Based on that risk assessment, the auditors should design and perform procedures to provide reasonable assurance of detecting instances of violations of legal and regulatory requirements or violations of provisions of contracts that are significant within the context of the audit objectives (GAGAS 6.28).

In planning the audit, auditors should assess the risks of fraud occurring that is significant within the context of audit objectives, and if fraud factors or risks have occurred or are likely to occur, the auditors should design procedures to obtain reasonable assurance of detecting any such fraud. The auditors should extend audit procedures, as necessary, to (1) determine whether fraud has likely occurred and (2) if so, determine its effect on audit findings. (GAGAS 6.30-6.32)

Because the determination of abuse is subjective, auditors are not required to detect abuse in performance audits. However, as part of a GAGAS audit, if auditors become aware of abuse that could be quantitatively or qualitatively significant to the program under audit, auditors should apply audit procedures specifically directed to ascertain the potential effect on the program under audit within the context of the audit objectives (GAGAS 6.34).

14c. Auditors performing an attestation engagement should determine which of the three levels of service apply to that engagement and refer to the appropriate AICPA standards and GAGAS sections for applicable requirements and considerations (GAGAS 5.02).

14c1. Examination-Level Attestations In planning, auditors should design the examination-level attestation engagement to provide reasonable assurance of detecting fraud, illegal acts, or violations of provisions of contracts that could have a material effect on the subject matter of the attestation engagement. Thus, auditors should assess the risk and possible effects of material fraud, illegal acts, or violations of provisions of contracts or grant agreements on the subject matter of the attestation engagement. When risk factors are identified, auditors should

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document the risk factors identified, the auditors' response to those risk factors individually or in combination, and the auditors' conclusions.

When performing a GAGAS examination engagement, auditors should communicate pertinent information to individual contracting for or requesting the examination engagement; to cognizant legislative committees when auditors perform the examination engagement pursuant to a law or regulation, or they conduct the work for the legislative committee that has oversight of the audited entity, or to those charged with governance (GAGAS 5.04-5.05).

When auditors comply with all applicable GAGAS requirements for examination engagements, they should include a statement in the examination report that they performed the examination engagement in accordance with GAGAS (GAGAS 5.19).

For all levels of attestation engagements: If during the course of the engagement, auditors become aware of abuse that could be quantitatively or qualitatively material, auditors should apply procedures specifically directed to ascertain the potential effect on the subject matter or other data significant to the engagement objectives (GAGAS 5.09-examination).

When performing a GAGAS examination engagement, auditors should evaluate whether the audited entity has taken appropriate corrective action to address findings and recommendations from previous engagement that could have a material effect on the subject matter (GAGAS 5.06).

When performing a GAGAS examination engagement, auditors should design the engagement to detect instances of fraud and noncompliance with provisions of laws, regulations, contracts and grant agreements that may have a material effect on the subject matter or the assertion thereon (GAGAS 5.07). Instances considered to be significant deficiencies or material weaknesses should be included in the report (GAGAS 5.22). If auditors report separately they should state in the examination report that they are issuing additional reports (GAGAS 5.21)

If during the course of the engagement, information comes to the auditors' attention indicating that fraud, illegal acts, or violations of provisions of contracts or grant agreements that could have a material effect on the subject matter may have occurred, auditors should perform procedures as necessary to (1) determine if fraud, illegal acts, or violations of provisions of contracts are likely to have occurred and, if so, (2) determine their effect on the results of the attestation engagement. Instances of fraud, noncompliance, and abuse that have a material effect on the subject matter should be included in the report (GAGAS 5.24)

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14c2 Review-level and Agreed-upon-procedures-Level Attestations When auditors comply with all applicable requirements for a review engagement conducted in accordance with GAGAS, they should include a statement in the review report that they performed the engagement in accordance with GAGAS (GAGAS 5.51).

For both Review-level and Agreed-upon procedures level attestations, the AICPA standards require auditors to establish an understanding with the audited entity (client) regarding the services to be performed for each attestation engagement. Such an understanding reduces the risk that either the auditors (practitioner) or the audited entity may misinterpret the needs or expectations of the other party. The understanding includes the objectives of the engagement, responsibilities of entity management, responsibilities of auditors, and limitations of the engagement (GAGAS 5.54, 5.64).

The AICPA standards require that the auditors' review report be in the form of a conclusion expressed in the form of negative assurance (GAGAS 5.56).

The AICPA standards require that the auditors' report on agreed-upon procedures engagements be in the form of procedures and findings and specifies the required elements to be contained in the report (GAGAS 5.66).

14c3 Reporting on Reviews

Because reviews are substantially less in scope than audits and examination engagements, it is important to include all required reporting elements contained in the Statements on Standards for Attestation Engagements (SSAE)s. For example, a required element of the review report is a statement that a review engagement is substantially less in scope than an examination, the objective of which is an expression of opinion on the subject matter, and accordingly, review reports express no such opinion. Including only those elements that the AICPA reporting standards for review engagements require or permit ensures that auditors comply with the AICPA standards and that users of GAGAS reports have an understanding of the nature of the work performed and the results of the review engagement (GAGAS 5.57).

14c4 Reporting on Agreed-upon procedures

Because GAGAS agreed-upon procedures engagements are substantially less in scope than audits and examination engagements, it is important not to deviate from the required reporting elements contained in the SSAEs. For example, a required element of the report on agreed-upon procedures is a statement that the auditors were not engaged to and did not conduct an examination or a review of the subject matter, the objectives of which would be the expression of an opinion or limited assurance and that if the auditors had performed additional procedures,

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other matters might have come to their attention that would have been reported. Another required element is a statement that the sufficiency of the procedures is solely the responsibility of the specified parties and a disclaimer of responsibility for the sufficiency of those procedures (GAGAS 5.67)

When auditors comply with all applicable GAGAS requirements for agreed-upon procedures engagements, they should include a statement in the agreed-upon procedures engagement report that they performed the engagement in accordance with GAGAS (GAGAS 5.61).

Consideration of Fraud and Illegal Acts

15. **a. Financial Audits** The audit will be planned to provide reasonable assurance that financial statements are free of material misstatements, whether caused by error or fraud.
- b. Performance Audits** In planning the audit, auditors should assess risks of fraud occurring that is significant within the context of the audit objectives. Auditors should gather and assess information to identify risks of fraud, and audit team member should discuss among the team fraud risks including factors such as individuals' incentives or pressures to commit fraud, the opportunity for fraud to occur, and rationalizations or attitudes that could allow individuals to commit fraud GAGAS 6.30).

When auditors identify factors or risks related to fraud that has occurred or is likely to have occurred that they believe are significant within the context of the audit objectives, they should design procedures to provide reasonable assurance of detecting such fraud (GAGAS 6.31).

When information comes to the auditors' attention indicating that fraud, significant within the context of the audit objectives, may have occurred, auditors should extend the audit steps and procedures, as necessary, to (1) determine whether fraud has likely occurred and (2) if so, determine its effect on the audit findings. If the fraud that may have occurred is not significant within the context of the audit objectives, the auditors may conduct additional audit work as a separate engagement, or refer the matter to other parties with oversight responsibility or jurisdiction (GAGAS 6.32).

Financial Statement Audits

16. The OIG generally contracts with an Independent Public Accountant (IPA) to conduct the FTC's financial statement audit. OIG policy is that the contract requires that the contractor follow the General Accountability Office (GAO) Government Auditing Standards. These standards incorporate by reference the American Institute of Certified Public Accountants (AICPA) Statements on Auditing Standards (SAS).

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17. To ensure that the IPA performs the audit in compliance with GAGAS, the Audit Manager must prepare a plan for monitoring the audit work. The Inspector General will approve the monitoring plan.
18. In addition to the AICPA requirements for auditor communication, the monitoring plan must include a requirement for notifications and communication with Congress, FTC Commissioners and FTC's Chief Financial Officer.
 - Attachment 5-Sample Monitoring Plan of IPA
19. During the conduct of the financial statement audit, the contractor, OIG and FTC management will meet on a regular basis to discuss necessary items.

FTC OIG AUDIT MANUAL
Chapter 500 – Starting the Audit

POLICY

1. Except when an audit needs to be conducted on a surprise basis or short notice, the auditee will be given advance notification of the start of an audit assignment. This should be done after the audit plan is approved by the IG.
2. The auditor-in-charge (AIC) will initially contact the auditee to inform them of the engagement and to arrange for an entrance conference. The IG will then sign an engagement memorandum, and OIG personnel will conduct an entrance conference.

Arranging the Entrance Conference

3. The AIC is responsible for making initial contact with the auditee to inform them of the engagement and to arrange an entrance conference meeting.

Engagement Memorandum

4. It is the responsibility of the AIC to prepare and issue, and for the IG to sign a formal Engagement Memorandum.
5. A formal Engagement Memorandum should be issued for each assignment. If the audit is being conducted on a surprise or confidential basis, the auditee will not be given advance notification of the audit engagement. Occasionally, the OIG will conduct a review on short notice in which case, the work papers documenting the entrance conference should achieve the intent of an engagement memorandum.
6. When the auditors perform the audit or attestation pursuant to a law or regulation, such as the financial statement audit, the auditors should communicate with those charged with governance.
7. If the audit or attestation is performed in response to a request, the auditors should communicate to the individuals contracting for or requesting the audit.

The engagement memorandum serves to document the time, place, and attendees at the entrance conference. At a minimum, all Engagement Memoranda should be addressed to all of the auditee(s) affected by the audit and should be from the IG. The Memorandum should contain in the subject block, the title of the audit.

Entrance Conference

8. An entrance conference shall be held with responsible management officials before undertaking an audit, unless an exception is specifically authorized by the IG or appropriate designee.

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Chapter 500 – Starting the Audit

9. Joint or multiple conferences will be held when the audit crosses organizational boundaries. The OIG may defer an entrance conference when the audit steps need to be performed on an unannounced basis to ensure the integrity of the audit process. Examples include audits of imprest funds and audits of inventory balances. The IG or appropriate designee may also waive an entrance conference when deemed appropriate. The AIC should document the reason for waiver in the working papers.
10. The OIG holds an entrance conference to:
 - Discuss the audit objectives, scope, and milestones;
 - Introduce the auditor-in-charge (AIC) and audit staff to management;
 - Meet the operating official(s) who will serve as the point(s) of contact during the audit;
 - Establish agreeable working relationships, including arrangements for on-site work space and access to records;
 - Provide management with an opportunity to ask questions about the audit, or suggest areas for examination;
 - Advise management that any audit findings and recommendations will be discussed with them at the exit conference prior to issuance of the audit report; and
 - Obtain information regarding possible duplicative efforts by other audit entities.
11. The AIC shall prepare the Entrance Conference Memorandum to be filed in the working papers. The memorandum should include (1) the date, time, and location of the conference, (2) the name and title of all attendees, and (3) a brief statement summarizing the conference.

FTC OIG AUDIT MANUAL
Chapter 600 – Audit Documentation

POLICY

1. Auditors should prepare and maintain audit documentation. Audit documentation related to planning, conducting, and reporting on the audit should contain sufficient information to enable an experienced auditor, who has had no previous connection with the audit, to ascertain from the audit documentation the evidence that supports the auditors' significant judgments and conclusions. Audit documentation should contain support for findings, conclusions, and recommendations before auditors issue their report. Throughout this document, the term "audits," when used alone refers to audits and attestation engagements conducted in accordance with GAGAS.
2. Audit documentation serves to (1) provide the principal support for the auditors' report, (2) aid auditors in conducting and supervising the audit, and, (3) allow for the review of audit quality. Audit documentation should be appropriately detailed to provide a clear understanding of its purpose and source and the conclusions the auditors reached, and it should be appropriately organized to provide a clear link to the findings, conclusions, and recommendations contained in the audit report.

Materiality

3. The concept of materiality recognizes that some matters, either individually or in the aggregate, are important for fair presentation of a subject matter or an assertion about a subject matter, while other matters are not important. In performing the engagement, matters that, either individually or in the aggregate, could be material to the subject matter are a primary consideration.
4. In engagements performed in accordance with GAGAS, auditors may find it appropriate to use lower materiality levels as compared with the materiality levels used in non-GAGAS engagements because of the public accountability of government entities and entities receiving government funding, various legal and regulatory requirements, and the visibility and sensitivity of government programs. The concept of materiality recognizes that materiality levels are used in non-GAGAS engagements because of the public accountability of government entities and entities receiving government funding, various legal and regulatory requirements, and the visibility and sensitivity of government programs.

Accuracy and Reliability

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Chapter 600 – Audit Documentation

5. Information obtained from interviews or other sources should be verified to the maximum extent practicable by examination of records, confirmation of account balances, and other appropriate verification procedures. Where information cannot be verified by a review of the records, consideration should be given to having the source confirm the information in writing.

Clarity and Comprehension

6. Workpapers should be clear without oral explanations by the preparer and their purpose, source, scope, results, and conclusions should be readily understood by anyone using them.

Legibility and Neatness

7. All workpapers should be legible and neat.

Relevancy and Significance

8. Accumulating unnecessary documentation hampers the review and report writing process. In preparing audit documentation, the auditor should have a specific audit-related objective in mind. Careful attention to the purpose of each piece of documentation is therefore required to prevent voluminous files that contain extraneous material and hamper auditor and reviewer efficiency.

Audit Documentation Identification and Captions

9. Each document or the 1st page of a multiple-page document, where applicable, contains the following caption and information:
 - a. Purpose/Objective - Why the document was prepared;
 - b. Source - Where, or from whom, the information on the document was obtained;
 - c. Scope - The extent of the audit effort;
 - d. Details/Results - What information was obtained from the discussion, calculation, or review; and

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- e. Conclusion - The judgment the auditor reached as a result of the information on the document.
10. The Source is mandatory. The Purpose should be specifically stated unless otherwise evident. When warranted, the scope, details, results, and conclusion will be used. If the auditor has questions as to when they are warranted, the audit supervisor will provide clarification. When tick marks and symbols are used in workpapers, the document should contain the tick mark/symbol legend.

Interview Format

11. All interviews will be documented and include the following information:
- a. Date, time, and place of interview;
 - b. Participants
 - Name, position, and organizational unit represented by the official interviewed;
 - Names of audit staff members present;
 - c. Purpose of the interview
 - d. Discussion, and
 - e. Conclusion.

Attachment 3 – Record of Discussion is a sample of the standard workpaper format.

Organization of Workpapers

12. Workpapers are organized into logical sections. These sections contain documentation that addresses the specific objectives and steps in the approved audit plan. Generally, these documents are organized by audit objectives and the corresponding audit steps, preferably in the order that the objectives and steps appear in the audit plan. A very simple audit may require only one audit documentation section, but most audits require several such sections. The audit documentation sections can be established at the beginning of the audit, and modified as the audit progresses, or they can be developed as the auditor performs the work.

Summarizing Documentation Sections

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Chapter 600 – Audit Documentation

13. When audit documentation sections are completed, the auditor usually prepares a document summarizing the results of work performed on that segment of the audit. The section summary includes a precise statement of the objective, an outline of the work performed, the essential facts obtained, and the auditor's conclusions and recommendations. The summary should be cross-indexed to the supporting detail workpapers. The summary should document the auditors' overall assessment of the collective evidence used to support findings and conclusions (GAGAS 6.69).
14. Evidence is sufficient and appropriate when it provides a reasonable basis for supporting the findings or conclusions within the context of the audit objectives (GAGAS 6.71).
15. Evidence has limitations or uncertainties when the validity or reliability of the evidence has not been assessed or cannot be assessed, given the audit objectives and the intended use of the evidence. When these limitations and uncertainties are significant to the audit findings and conclusions, the auditor should apply additional procedures, as appropriate. Such procedures include
 - a. seeking independent, corroborating evidence from other sources
 - b. redefining the audit objectives or limiting the audit scope to eliminate the need to use the evidence
 - c. presenting the findings and conclusions so that the supporting evidence is sufficient and appropriate and describing in the report the limitations or uncertainties with the validity or reliability of the evidence, if such disclosure is necessary to avoid misleading the report users about the findings or conclusions;
 - d. determining whether to report the limitations or uncertainties as a finding, including any related, significant internal control deficiencies (GAGAS 6.72).

Summarizing the Overall Audit

16. When all audit documentation sections are complete, the auditor usually prepares a document summarizing the results of all audit work performed. The summary should address the following
 - a. The work performed and evidence documented support the significant judgments, findings, conclusions, and recommendations (GAGAS 6.83b)
 - b. The audit documentation was designed to meet the circumstances of the particular audit (GAGAS 6.81)

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- c. The audit objectives, scope, and methodology have been documented (GAGAS 6.83a)

Identifying Findings

- 17. Clearly developed findings assist management in understanding the need for taking corrective action. If auditors are able to sufficiently develop the elements of a finding, they should provide recommendations for corrective action if they are significant within the context of the audit objectives. GAGAS 4.10-4.14 provides details on developing the elements of a finding for financial audits; GAGAS 6.73-6.77 provides details on developing the elements of a finding for performance audits. GAGAS 5.11-5.15 provides details for attestation examination engagements.

Issue (Condition): Condition is a situation that exists. The condition is determined and documented during the audit or attestation engagement.

Criteria represent the laws, regulations, contracts grant agreements, standards, measures, expected performance, defined business practices, and benchmarks against which performance is compared or evaluated. Criteria identify the required or desired state or expectation with respect to the program or operation. Criteria provide a context for evaluating evidence and understanding the findings, conclusions, and recommendations included in the report. Auditors should use criteria that are relevant to the audit or attestation objectives and permit consistent assessment of the subject matter.

Cause identifies the reason or explanation for the condition responsible for the difference between the situation that exists (condition) and the required or desired state (criteria). Common factors include poorly designed policies, procedures, or criteria; inconsistent, incomplete, or incorrect implementation; or factors beyond the control of program management. Auditors may assess whether the evidence provides a reasonable and convincing argument for why the stated cause is the key factor contributing to the difference between the condition and the criteria. See GAGAS A6.06 for additional discussion on cause.

Effect or potential effect is a clear, logical link to establish the impact of the difference between the condition and the criteria. The effect or potential effect identifies the outcomes or consequences of the condition and may be used to demonstrate the need for corrective action in response to identified problems or relevant risks. See GAGAS A6.07 for additional discussion on effect.

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Chapter 600 – Audit Documentation

Recommendation: (Optional) If auditors are able to sufficiently develop the elements of a finding, they should develop recommendations for corrective action if they are significant within the context of the audit objectives. The difference between the condition and the criteria (the required or desired state) may serve as a basis for recommendations for corrective actions. If alternative recommendations exist, the auditor may discuss alternative solutions with management to identify the best solution to address the condition.

Attachment 4 – Worksheet for Developing a Finding is a sample of the standard workpaper format.

Audit Documentation Files

18. After issuance of a final audit report, the IG will approve closing the audit. All documents in the audit must have Final Approval by the IG or Audit Manager before an audit can be closed.

Maintenance and Retention of Audit Records

19. The OIG audit workpapers are to be retained in accordance with the National Archives and Records Administration records disposition schedule governing FTC OIG audit materials.
20. OIG audit contractors are responsible for maintaining the official work papers while the audit is in process and for providing reasonable access to the COR. Under professional standards, audit documentation is the property of the auditor.

Supervisory Review of Audit Documentation

21. Supervisory review of audit documentation is an important element of an effective audit because it provides added assurance that all potential findings have been recognized, properly developed, and adequately supported and that evidence supports the findings, conclusions, and recommendations in the report. The IG or his designee is responsible for reviewing audit or attestation documentation prepared by the staff before the report is issued (GAGAS 4.15a; GAGAS 5.16-attestations).

Access to Audit Documentation

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22. Audit documentation should be safeguarded to prevent access by unauthorized persons or premature disclosure of information. All audit files are maintained on the FTC OIG's network drive, at K\OIG\OIG-0914. Access to the OIG's K drive is limited to OIG employees. Access privileges and permissions are managed by the OIG's Designated File Management Official.
23. Any requests by outside parties to obtain access to audit documentation must be reviewed by the Counsel to the IG and approved by the IG. The determination of whether to grant access will be made in a timely manner.
24. Audit documentation contains the various conclusions reached by auditors during a specific assignment. Disagreements between OIG staff members including supervisors should be documented in the audit documentation. The manner in which matters are resolved should also be documented.

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Chapter 700 -Evidence

POLICY

1. In accordance with Government Auditing standards, it is the policy of the Office of Inspector General that sufficient, appropriate evidence is to be obtained to provide a reasonable basis for the auditors' findings and conclusions. Auditors are responsible for identifying potential sources of evidence and determining the relevance, validity and reliability of such evidence.

TYPES OF EVIDENCE

2. Evidence can be categorized as physical, documentary or testimonial..

Physical Evidence

3. Physical evidence is obtained by direct inspection or observation of activities of people, property, or events. Such evidence may be documented in the form of memoranda summarizing the matters inspected or observed, photographs, charts, maps or physical samples.

Testimonial Evidence (GAGAS 6.62)

4. Testimonial evidence is information obtained from interviews, inquiries, or questionnaires.
5. Testimonial evidence may be useful in interpreting or corroborating documentary or physical information. Auditors should evaluate the objectivity, credibility, and reliability of the testimonial evidence.
6. Documentary evidence may be used to help verify, support, or challenge testimonial evidence.
7. Certain statements by officials, such as explanations, justifications, lines of reasoning, and intentions, are valuable sources of evidence that many times cannot be corroborated. If the auditor anticipates that such statements are an important part of the audit finding and will be included in the report, the auditor may have the interviewee initial the interview write-up indicating concurrence, or have the interviewee sign a statement, placed at the end of the interview write-up, similar to the one provided below.

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"I have read this memorandum of interview and I agree that it presents fully the matters discussed and the statements made during the interview."

Signature

Date

8. When measuring the reliability of testimonial evidence some general questions should be considered. Why would the person misinform you? If the person has a vested interest in what is being discussed or if the person is expressing opinions, he/she may not be providing you with objective evidence. Accordingly, the reliability of the evidence will be impaired.
9. What is the person's responsibility? Testimonial evidence regarding events to which this person has no responsibility, carries less weight than if the person was the responsible official. In most instances testimonial evidence obtained from a person with no responsibility for the subject operation or event should be used as a lead to obtain more reliable forms of evidence.
10. What is the person's position? In interviewing the heads of departments and sections, inquiries should be limited to broader questions or overall views. When details are needed on how something works, the first line supervisor or the worker should be interviewed.

Documentary Evidence

11. Documentary evidence consists of created information such as letters, contracts, accounting records, invoices, and management information on performance. The two types of documentary evidence are external and internal. External are those documents which originate outside of the organization being audited. Internal documents are those which originate inside the organization being audited.
12. The reliability of documentary forms of evidence used in support of findings must constantly be considered. The important factor is the purpose for which the evidence will be used. If the documentation is to be used as preliminary or corroborating evidence, the auditor may not be as concerned as he/she would be if the document will be used as primary evidence or the only evidence. Any significant alterations on a document should be investigated. Important factors affecting the reliability of internal documentation include whether; (1) the documents have circulated through outside parties, (2) the FTC's internal controls are satisfactory for assuming the accuracy of the evidence, and (3) the evidence is to stand alone or serve to corroborate other forms of evidence.

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Analytical Evidence

13. Analytical evidence may include the three previous forms of evidence: physical, testimonial, and documentary and consist of the results of computations, comparisons, reasoning, or data analysis. Analytical evidence frequently takes other forms of evidence and assimilates these into a logical framework which helps identify problems, form conclusions and develop recommendations.

TESTS OF EVIDENCE

14. All audit and attestation evidence should stand the tests of sufficiency, and appropriateness.

Sufficiency

15. Evidence is sufficient if enough evidence exists to persuade a knowledgeable person that the findings are reasonable. When appropriate, statistical methods may be used to establish sufficiency.

Appropriateness

16. Evidence is appropriate if it is relevant, valid, and reliable. There are different types and sources of evidence that auditors may use, depending on the audit objectives. Evidence may be obtained by observation, inquiry, or inspection. Each type of evidence has its own strengths and weaknesses. The following contrasts are useful in judging the appropriateness of evidence. However, these contrasts are not adequate in themselves to determine appropriateness. The nature and types of evidence to support auditors' findings and conclusions are matters of the auditors' professional judgment based on the audit objectives and audit risk.
- Evidence obtained when internal control is effective is generally more reliable than evidence obtained when internal control is weak or nonexistent.
 - Evidence obtained through the auditors' direct physical examination, observation, computation, and inspection is generally more reliable than evidence obtained indirectly.
 - Examination of original documents is generally more reliable than examination of copies.

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- Testimonial evidence obtained under conditions in which persons may speak freely is generally more reliable than evidence obtained under circumstances in which the persons may be intimidated.
- Testimonial evidence obtained from an individual who is not biased and has direct knowledge about the area is generally more reliable than testimonial evidence obtained from an individual who is biased or has indirect or partial knowledge about the area.
- Evidence obtained from a knowledgeable, credible, and unbiased third party is generally more reliable than evidence from management of the audited entity or others who have a direct interest in the audited entity.

DATA GATHERED BY THE AUDITORS

17. Data gathered by auditors include the auditors' own observations and measurements. Among the methods for gathering this type of data are questionnaires, structured interviews, direct observations, and computations. The design of these methods and the skill of the auditors applying them are the keys to ensuring that these data constitute sufficient, competent, and relevant evidence. When these methods are applied to determine cause, auditors are concerned with eliminating conflicting explanations.

DATA GATHERED BY MANAGEMENT

18. Data gathered by management: Auditors can use data gathered by officials of the audited entity as part of their evidence. However, auditors should determine the validity and reliability of data that are significant to the audit objectives and may do so by direct tests of the data. Auditors can reduce the direct tests of the data if they test the effectiveness of the entity's internal controls over the validity and reliability of the data and these tests support the conclusion that the controls are effective. The nature and extent of data testing will depend on the significance of the data to support the auditors' findings. How the use of unaudited data gathered by officials of the audited entity affect the auditors' report depends on the data's significance to the auditors' findings (GAGAS 6.65). For example, in some circumstances, auditors may use unaudited data to provide background information; however, the use of such unaudited data would generally not be appropriate to support audit findings and conclusions.

DATA GATHERED BY THIRD PARTIES

19. Data gathered by third parties: The auditors' evidence may also include data gathered by third parties. In some cases, these data may have been audited by others, or the auditors

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Chapter 700 -Evidence

may be able to audit the data themselves. In other cases, however, it will not be practical to obtain evidence of the data's validity and reliability. How the use of unaudited third-party data affects the auditors' report depends on the data's significance to the auditors' findings. For example, in some circumstances, auditors may use unaudited data to provide background information; however, the use of such unaudited data would generally not be appropriate to support audit findings and conclusions.

ASSESSING THE RELIABILITY OF COMPUTER-PROCESS DATA

20. Auditors should assess the sufficiency and appropriateness of computer-processed information regardless of whether this information is provided to auditors or auditors independently extract it. The nature, timing, and extent of audit procedures to assess sufficiency and appropriateness is affected by the effectiveness of the entity's internal controls over the information, including information systems controls, and the significance of the information and the level of detail presented in the auditors' findings and conclusions in light of the audit objectives (GAGAS 6.66).
21. A suggested approach is presented in GAO's *Assessing the Reliability of Computer-Processed Data* (GAO-09-0680G). This guide also provides samples of appropriate language to include in the report.
22. The GAO framework is built on (1) making use of all existing information about the data; (2) performing at least a minimal level of data testing; (3) doing only the amount of work necessary to determine whether the data are reliable enough for GAO's purposes; (4) maximizing professional judgment; and (5) bringing the appropriate people, including management, to the table at key decision points.
23. When sampling is used, the method of selection that is appropriate will depend on the audit objectives. When a representative sample is needed, the use of statistical sampling approaches generally results in stronger evidence than that obtained from nonstatistical techniques (GAGAS 6.64).

ADDITIONAL REQUIREMENTS FOR FINANCIAL AUDITS

24. Workpapers must document that the accounting records agree or reconcile with the audited financial statements or other audited information.

FTC OIG AUDIT MANUAL
Chapter 800 - Interviews

POLICY

1. Interviews shall be conducted to obtain information needed to accomplish audit objectives. Evidence obtained through interviews shall be confirmed by documentation to the maximum extent feasible. All interviews, including telephone conversations, shall be documented promptly.

PROCEDURES AND RESPONSIBILITIES

2. Each auditor is responsible for insuring that interviews are properly conducted. The responsibilities include conducting interviews in a professional manner, verifying information obtained with documentation, and writing up interviews accurately and promptly.

SUGGESTIONS FOR INTERVIEWING

Preparing for the Interview

3. Interviews should be properly planned. The interviewer should know the purpose of the interview and what information is needed. The interviewer should review any information needed for the interview and prepare a list of questions. The interviewer should be familiar enough with the previously disclosed facts of the problem or situation to intelligently conduct the interview. This is particularly valuable in permitting the interviewer to recognize and follow up on any inconsistencies between information obtained in the interview and information previously obtained from other sources.
4. When feasible, the auditor should provide the interviewee advance notice of the major topics to be addressed. Advance notice may avoid wasted time if the interviewee should want to refer to particular documents or become familiar with the subject matter before the interview. The auditor should point out in the advance notice that other matters may be discussed if the need arises.
5. When significant or potentially controversial matters are to be discussed, two OIG staff members should be present to provide a greater degree of assurance that the written record of the interview accurately reflects the information obtained.

Conducting the Interview

6. The interview starts with a proper introduction if the parties have not previously met. The use of official credentials for this purpose will depend upon the purpose of the interview

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and the relationship between the participants. Presentation of proper identification, particularly when conducting off site audits, should remove any doubt in the mind of the interviewee that the interviewer is an official Office of Inspector General representative.

7. The initial approach is important, especially when the auditor is meeting the interviewee for the first time. The auditor should make efforts to make the interviewee feel at ease and establish a comfortable rapport that will elicit the interviewee's cooperation with the interviewer. For example, some brief comment about an event of local importance often serves to "break the ice" and establish a cordial relationship. Good judgment must be exercised. If the interviewee does not want to spend even a few minutes on matters not directly related to the subject of the interview, the auditor should immediately get down to business.
8. After the introduction the interviewer should explain the purpose of the interview. Depending on the circumstances, the interviewee may be allowed to tell his/her story or be questioned specifically about the information desired.
9. The interviewer should control the discussion to keep it directed toward obtaining the information pertinent to the purpose of the interview and to conserve time. A skilled interviewer will guard against the interviewee's discussing irrelevant matters to avoid answering questions or providing information.
10. The interviewer's / auditor's attitude should be one of seeking information rather than of engaging in an argument or debate. The auditor should promote a spirit of cooperation between themselves and the interviewee and a common understanding of what the actual situation and facts are and, if the interview is to cover such matters, what the causes of any problems and indicated corrective actions may be.
11. Other suggestions to keep in mind include the following:
 - a. Avoid asking questions that can be answered with a "Yes" or "No." Effective interviewing technique involves the use of open ended questions. (E.g. tell me about ...)
 - b. Listen for audit leads.
 - c. Notes should be taken and the individuals who made statements at the meeting should be identified by name and title.
 - d. Get all the information needed during one interview. Avoid to the extent possible the need for a second interview.

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- e. At the conclusion of the interview, briefly summarize the salient information obtained. Re-telling the story can help confirm the auditor's understanding of what was said and may help the interviewee recall additional pertinent facts for both the interviewer and the interviewee.
 - f. If information obtained is perceived to be significant, the auditor may elect to have the interview write-up initialed by the interviewee. This technique is effective in documenting the fact that the interviewer has not mischaracterized the facts as conveyed by the interviewee.
 - g. Do not extend the interview beyond a reasonable period of time, which, if possible, should approximate the time agreed to when the appointment was made, barring any unforeseen detours in the interviewer's gathering of information.
12. Added care must be taken when conducting an interview of a contractor, particularly when a claim is pending against the Government. The merits of a claim should not be discussed. The contracting officer, not the auditor, is responsible for negotiating claim settlements. The auditor's explicit restatement of this delineation of responsibilities during the interview may facilitate a clearer understanding by the contractor interviewee of the role of the interviewer/auditor.

INTERVIEW SITUATIONS

13. Hostile Interviewee - When faced with an interviewee who is hostile in verbal and/or physical demeanor the auditor must decide how best to proceed. Some of the most common and successful responses to a hostile interviewee include:
- a. Rescheduling the interview and allowing the interviewee regain self-control,
 - b. Requesting the interviewee's supervisor to sit in on the interview, or
 - c. Allowing the interviewee to vent frustration and continue with the interview.
14. Under no circumstances should the auditor argue or engage in a heated conversation with a hostile interviewee. The auditor should also be sure that his or her immediate supervisor is aware of the hostile or tense situation.
15. Illegal Act - During the course of an interview, information sometimes surfaces which indicates the potential for criminal wrongdoing and the interviewee may not realize that the particular action or situation being discussed may be considered illegal. In this

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situation the auditor may record information obtained as part of the normal audit interview process and clarify information provided relating to a potential illegal act.

16. If the auditor believes that there is a reasonable possibility that the illegal act has occurred, he or she must be careful that the interviewee's Constitutional rights are not violated during the interview process. You should immediately consult with Counsel to the Inspector General in such situations for appropriate legal advice.

DOCUMENTING THE INTERVIEW

17. Interview results should be written up promptly. The section on audit work papers, particularly the discussion of interview format, addresses how interviews should be written up. Telephone conversations should also be written up using the same principles.
18. Some of the important information which should be documented in any telephone or interview write-up includes:
 - a. Date;
 - b. Subject and or Purpose of the Interview;
 - c. Name and title of person(s) talked to; and
 - d. Information obtained.
19. The standard workpaper for Interviews is presented as Attachment 3 – Record of Discussion.

FTC OIG AUDIT MANUAL
Chapter 900 – Reporting Audit Results

PURPOSE

1. This Chapter covers policies and procedures for communicating the results of audits and other reviews to managers and other interested officials. It describes the responsibility of OIG staff and provides detailed guidance for audit reporting.
2. The purposes of audit reports are to (1) communicate the results of audits to those charged with governance, the appropriate officials of the audited entity, and the appropriate oversight officials; (2) make the results less susceptible to misunderstanding; (3) make the results available to the public, as applicable, and (4) facilitate follow-up to determine whether appropriate corrective actions have been taken.
3. Auditors must issue audit reports communicating the results of each completed audit in a form that is appropriate for its intended use (GAGAS 7.03-7.04)
4. Not later than 3 days after any report or audit is made publicly available, that report will be posted on the website of the OIG.

STANDARDS AND POLICIES

5. The FTC-OIG's reporting policies and procedures are designed to fully comply with generally accepted government auditing standards regarding reporting standards for financial audits, performance audits, and attestation engagements. Refer to the Yellow Book for details not addressed in this manual.
6. This section provides a suggested comprehensive model for audit reporting, the exact order of the report components may be customized to fit individual situations.
7. Auditors shall report the results of their audit work in writing.
8. The audit report represents our final work product. The OIG's stature and image, in terms of how well the audit mission is accomplished, are measured and judged largely by the quality of written audit reports. Therefore, OIG audit reports must be professional products in terms of content, organization, and appearance. Everyone involved shares in the responsibility of achieving excellence in report writing.
9. Audit reports should be written in a modern, conversational style with language that is simple, clear, and concise.

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SPECIFIC REQUIREMENTS FOR ATTESTATION REPORTS

10. Attestation reports generally follow the guidelines listed in this chapter. Auditors performing attestations should comply with the AICPA attestation standards. The AICPA reporting standards that apply to all levels of attestation engagements, as follows¹:
1. The auditor must identify the subject matter or the assertion being reported on and state the character of the engagement in the report.
 2. The auditor must state their conclusion about the subject matter or the assertion in relation to the criteria against which the subject matter was evaluated in the report.
 3. The auditor must state all of the significant reservations about the engagement, the subject matter, and, if applicable, the assertion related thereto in the report.
 4. The auditor must state in the report that the report is intended for use by specified parties under the following circumstances:
 - When the criteria used to evaluate the subject matter are determined by the auditor to be appropriate only for a limited number of parties who either participated in their development or can be presumed to have an adequate understanding of the criteria.
 - When the criteria used to evaluate the subject matter are available only to specified parties.
 - When reporting on subject matter and a written assertion has not been provided by the responsible party.
 - When the report is on an attest engagement to apply agreed-upon procedures to the subject matter.

SPECIFIC REQUIREMENTS FOR FINANCIAL AUDIT REPORTS

11. GAGAS incorporates by reference the American Institute of Certified Public Accountants (AICPA) Statements on Auditing Standards (SAS). Auditors performing financial audits

¹ AICPA four Standards of Reporting on attestation engagements from AT § 101.63 – 101.78

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in accordance with GAGAS should comply with the incorporated SASs and the additional requirements in GAGAS.

12. The additional GAGAS requirements for performing financial audits relate to:
 - a. Auditor communication
 - b. Previous audits and attestation engagements
 - c. Fraud, noncompliance with provisions of laws, regulations, contracts, and grant agreements, and abuse
 - d. Developing elements of a finding
 - e. Audit documentation
13. When auditors comply with all applicable GAGAS requirements for financial audits, they should include a statement in the auditors' report that they performed the audit in accordance with GAGAS (GAGAS 4.18).
14. When providing an opinion or a disclaimer on financial statements, auditors must also report on internal controls over financial reporting and on compliance with laws, regulations, and provisions of contracts or grant agreements. (GAGAS 4.19).
15. The auditors should include a description of the scope of the auditors' testing of internal control and compliance and state in the reports whether the tests performed provided sufficient evidence to support opinions on the effectiveness of internal control and compliance with provisions of laws, regulations, contracts, or grant agreements (GAGAS 4.20).
16. If auditors report separately, they should state that they are issuing these additional reports and that these reports are an integral part of a GAGAS audit (GAGAS 4.22).
17. Auditors should report significant deficiencies and/or material weaknesses in internal control as required by GAGAS 4.23 for financial audits, GAGAS 7.18 for performance audits, and GAGAS 5.20-5.24 for attestation examinations.
18. If the OIG becomes aware of new information that might have affected its opinion on a previously-issued financial statement, the OIG should advise entity management. If circumstances require reissuance of the prior statements, the OIG will follow the steps in AU-C 560 *Subsequent Events and Subsequently Discovered Facts*. Additional guidance is provided in OMB Bulletin 14-02 *Audit Requirements for Federal Financial Statements*.

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STANDARD AUDIT REPORT FORMAT

19. Auditors should prepare audit reports that contain (1) the objectives, scopes, and methodology; (2) the audit results, including findings, conclusions, and recommendations, as appropriate; (3) a statement about the auditors' compliance with GAGAS; (4) a summary of the views of responsible officials; and (5) if applicable, the nature of any confidential or sensitive information omitted (GAGAS 7.08)
20. This section presents the OIG guidance governing the nature and format of standard audit reports. This format is usually used in internal audits of a major scope but may be appropriate in some complex external audits. The standard audit reports will usually contain the parts shown in the list that follows.
21. Format for Body of Reports. Each will be explained more fully below in a separate section.
 - a. Executive Summary
 - b. Abbreviations Used in This Report
 - c. Table of Contents
 - d. Background
 - e. Objectives, Scope, and Methodology
 - f. Findings
 - g. Recommendations
 - h. Unresolved Prior Audit Findings
 - i. FTC Comments and OIG Evaluation
 - j. APPENDICES (Management Response)

TREATMENT OF SEPARATE SECTIONS

Executive Summary

22. The Executive Summary should summarize the report. It should provide a brief condensation of the more important findings, adverse effects, recommendations, and general comments in the report. It should provide the reader with an accurate understanding of the major audit conclusions without the need to read the entire report.
23. To the extent practicable, the audit conclusions shall be related to the audit objectives and scope set forth in the Introduction. For example, if the audit objectives included evaluation of the effectiveness of operations, the Executive Summary should present clearly the auditor's judgment of the degree to which operations audited were effective. Care should be taken to use proper tonal quality in presenting audit conclusions, particularly adverse conclusions. Adverse conclusions should always be based on, or

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substantiated by, the findings in the report. Do not list the findings. Instead, state the general condition of the major segments reviewed in terms that place them in perspective, and bring out the materiality and significance of the audit results.

24. Corrective action taken during the audit on audit findings should also be noted here. Where applicable, refer to interim reports that led to the corrective action. Whenever adequately supported, also comment on the particularly good aspects of the operations.
25. The executive summary should be limited to two pages.

Abbreviations Used in This Report

26. Abbreviations used in the report should be listed after the Executive Summary, on a single, separate page.

Background

27. Auditors may provide background information to establish the context for the overall message and to help the reader understand the findings and significance of the issues discussed. Auditors should disclosed significant facts which, if not disclosed, could mislead knowledgeable users, misrepresent the results, or conceal significant improper or illegal practices (GAGAS 7.17)
28. The Background section is designed to help the reader understand the nature and size of the audited program, function, or entity and any special problems, circumstances, or events related to the audit. For example, press coverage, or Executive Branch or FTC policies relating to the audit should be explained to put the audit results and recommendations into their proper perspective and context. This section may also include legislative implementing criteria affecting the program, function, or entity.
29. Data on available resources, such as personnel strength and funding, will also be included in most reports. Care should be taken to include only that background information which is relevant and necessary.
30. The background section should generally be limited to one page.

Objectives, Scope, and Methodology (GAGAS 7.09-7.11)

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31. **Objective** – This section of the report will identify the audit objective. This should be the same as the objective identified in the Annual Work Plan, if applicable and the engagement letter.
32. **Scope and Methodology** – This section of the report should describe the coverage and depth of the audit work performed, the criteria relied upon, as well as the techniques used for gathering and analyzing evidence. This information should be tailored to describe the work actually done and should relate to the objectives for the audit. It should include the following if applicable:
- Explain the relationship between the organizational structure and function of the entity and what was audited,
 - Identify the time period covered by the audit,
 - Identify organizations and geographic locations where the audit work was conducted,
 - Explain or identify standards used to determine whether a program meets expectations,
 - Cite the types and sources of the evidence obtained, and the techniques applied to verify and analyze the evidence,
 - Identify and report work that was relied upon and performed by other auditors,
 - Address your assessment of the reliability of computer-processed data, if necessary, and
 - If there were any significant constraints imposed on the audit approach by information limitations or scope impairments, including denials of access to certain records or individuals, such limitations should be reported in this section.
33. In describing the work conducted to address the audit objectives and support the reported findings and conclusions, auditors should, as applicable, explain the relationship between the population and the items tested; identify organizations, geographic locations, and the period covered; report the kinds and sources of evidence; and explain any significant limitations or uncertainties based on the auditors' overall assessment of the sufficiency and appropriateness of the evidence in the aggregate (GAGAS 7.12).
34. In reporting audit methodology, auditors should explain how the completed audit work supports the audit objectives, including the evidence gathering and analysis techniques, in sufficient detail to allow knowledgeable users of their reports to understand how the auditors addressed the audit objectives (GAGAS 7.13).
35. **Statement on Auditing Standards** – guidance A statement on the auditing standards will be included in the Objectives, Scope, and Methodology Section of the report. When auditors comply with all applicable GAGAS requirements, they should include a statement in the

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auditors' report that they performed the audit or examination in accordance with GAGAS (GAGAS 4.18, 5.19) For performance audits, use the language in GAGAS 7.30

36. Any departures from applicable Government Auditing Standards should be documented in the workpapers and explained in the report. This includes the reason for the departure and the known effect on the audit or attestation (GAGAS 4.15b, 5.16c, 6.84, 7.31).

Findings and Recommendations (General Guidelines)

37. The guidelines which follow describe how to present audit findings and some ideas and criteria on the contents of the reported finding. Certainly in some cases, the auditor may have to tailor their presentation of a finding differently because of special circumstances. But as a general rule, the format and guidelines outlined here should be adhered to because doing so will result in logical, more readable and better quality audit reports.
38. Purpose. The Findings and Recommendations section of the report is designed to give the readers a complete picture of each finding, including situation, causative factors, adverse effects, and recommendation for corrective action, and management's reaction to the finding and recommendation. This section will be read closely by individuals responsible for implementing the recommended actions. They will want to find sufficient information to afford a complete understanding of the problems faced and solutions needed. Thus, this section must contain sufficient factual data to fully convince the reader that significant problems exist, that the major causative factors have been identified, and that the auditor's conclusions are valid.
39. While the OIG wants to provide readers with enough information, the auditor should be careful not to provide too much information--excessively thick reports containing a great deal of extraneous information tend to turn off potential readers. So, report writers and reviewers will have to use their individual judgment to decide when they have the proper balance between completeness and conciseness.
40. The auditor should place the findings in perspective by describing the nature and extent of the issues being reported and the extent of the work performed that resulted in the finding. As appropriate, relate the instances identified to the population and quantify the results in terms of dollar value or other measure.
41. These guidelines are applicable to audits (GAGAS 7.14-7.16) and to attestations (GAGAS 5.27-5.28)
42. Format. Each finding will have a subject title and subtitles, as appropriate. A separate section for FTC Comments and OIG Evaluation will be included in final reports, if appropriate.

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43. Titles. Each finding should be given a brief title that identifies its subject matter. Titles should be neutral in language and should avoid using negative tones.
44. Order of Presentation of Findings. The findings should normally be presented in order of significance. It is also imperative that matters reported be confined to those having an important effect on the operations of the auditee or those of interest to higher management levels because of their broad application. Including unimportant findings can impair auditees' confidence in OIG, make reports unduly long, and obscure the really important findings. All levels involved in report preparation shall, therefore, apply professional judgment in deciding whether each finding is important enough to be included in the report or is so unimportant that no written presentation is necessary.
45. Combined Findings. Whenever possible, combine similar or related minor findings into one significant finding. Doing this may enable you to better develop and show basic management weaknesses (causes), more significant actual or potential adverse effects, and support recommendations made to correct the underlying causes for a number of conditions and adverse effects.
46. Noncompliance with Regulations. In most instances, noncompliance with regulations should not be reported as the principal point of a finding. The performance, or lack of performance, which deviates from regulations shall be given primary emphasis. The explanatory comments shall refer to the regulations and identify the applicable provisions. However, identifying the cause and effect of the noncompliance is most important. There are occasions, however, where noncompliance may be the main point of a finding. This would be true in the case of special coverage resulting from high-level interest in noncompliance with certain regulations and laws.
47. Assumption and Opinions. If a comment in a finding represents an opinion or an assumption, it will be so identified. The basis for the opinion or assumption will be stated in the report and must be fully supported in the audit working papers.
48. Statements or Representations of Others. Information provided orally shall be used with caution and only when germane to the finding. Any statements provided by others should generally be corroborated by others or supported by related documentation. Only in extreme cases should an individual's testimony be cited in a report.
49. Use of Names in Reports. All name references which would directly identify individual persons shall be omitted from the finding of all audit reports. Appropriate position titles may be used. Auditees' comments and reactions to findings should be credited to the responsible official by title or position to the maximum extent possible. This policy facilitates public release of audit reports, since it reduces the possibility of invasion of

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privacy through public access to audit reports. If individual identification is necessary for understanding or to effect corrective action, furnish this information separately to the auditee by an informal copy of a working paper cross-referenced to the finding. Such information should be provided informally during the course of the audit to facilitate the exit conference. However, in some cases it may be more practical to provide this data at the exit conference. The working paper file shall document that such information was furnished.

50. Tone of Language. Auditing might be considered the art of independently finding out what people are doing, evaluating these actions in the light of some standard, and, then, if the auditor concludes that the audited entity should change what it is doing, presenting the audit results in a manner that leads the audited entity to conclude that change is necessary. Therefore, all audit report findings should be thought of in relation to the idea of change. The auditor discovers or finds a condition in which individuals are performing in a certain way, and the auditor believes that the condition should be changed--i.e., that the persons involved should perform differently. Simply telling them in your reports to change because the auditor believes they should or because the "regulations" say they should, will not sufficiently convince them of the need to change. The auditor should present enough information (evidence) to demonstrate to the addressee of the audit report that the adverse condition being described does in fact exist and to convince them that it is serious enough (significance) to make it worth the effort of trying to change or correct that condition. Even though audit reporting involves criticism, the criticism must be presented in a constructive manner. Wording shall never be sarcastic or antagonistic. The reports should merely state the facts in a forthright manner along with the auditors' conclusions.
51. Finding. A well-developed Finding section, regardless of the subject matter, will include certain characteristics and parts. It will begin with a summary paragraph which will provide a brief summation of the overall condition including (1) what was found to be wrong or in need of improvement and (2) the actual or potential effect or harm resulting from the condition. The rest of the section will develop the finding and include a comparison of "what is" (condition) with "what should be" (criteria), and an answer to the question "what does this mean?" or "so what?" (effect). Further, if an audit report is to be constructive, the reasons why (cause) there is a difference between "what is" and "what should be" must be identified and explained. Having identified the cause, the next logical step is to make a recommendation which will help prevent a recurrence of the problem.
52. Summary Paragraph. This paragraph should represent the finding in miniature and should gain the reader's attention by letting him know right away what you found. This paragraph is particularly helpful in the case of findings which are lengthy or complex. The rest of the finding can then be read in light of this paragraph. Be sure to include the essence of all sub-findings if the finding is so subdivided. The first sentence of the summary paragraph, when possible, should briefly but clearly describe the deficiency.

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53. The Summary Paragraph, if possible, should briefly summarize not only what the auditor found, but the significance or adverse effects of the situation. This pinpoints the meaning of the finding immediately. It can also state very briefly, overall opinions or conclusions and even mention cause and criteria.
54. Any material stated briefly in the summary paragraph will normally be developed in greater detail in the development section of the finding. The summary paragraph may be omitted from short findings where its inclusion would result in unnecessary repetition.
55. Development Section. The development section is probably the most important part of the finding because it is here that the auditor attempts to convince the reader of the merits of their case and the need to take corrective action. In this section the auditor should set the scene or circumstances surrounding the finding; present in logical sequence, facts and specific illustrations or examples supporting the finding; and provide the reader with sufficient qualitative and quantitative evidence of the key elements of the finding.
56. A well-written summary paragraph will dictate the order and content of the Development Section. Follow the order established by the summary paragraph in discussing facts, criteria, cause, and effect.
57. Use photographs, charts, graphs, etc., either in the development section or in exhibits, where this technique will be useful in instructing and informing the officials responsible for taking corrective action on the reported conditions. If considerable statistical data are deemed necessary, summarize the statistics in the finding and present the detailed statistics as an appendix to the report. Where this procedure is used, present the narrative part of the finding in such manner that it can be understood without reference to the appendix.
58. If a deficiency was brought to the attention of the auditor by the auditee or the auditee's staff, acknowledge this fact in this section of the report.
59. In the development section you should also recognize corrective action previously taken or being taken. In some instances, the corrective action may be incomplete, or focus only on the specific deficiencies cited in the finding and not include action needed to correct more extensive conditions or to prevent recurrence. Recognition shall be given for that action taken; however, the finding must make it clear what, if any, further actions are needed and an appropriate recommendation should be made.
60. Condition. This element presents the factual evidence which the auditor found in the course of the examination. Normally, a clear and accurate statement of the condition

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evolves from the auditor's comparing the results of fact finding procedures with appropriate evaluation criteria.

61. Criteria. Criteria are the standards, rules, or tests by which you are measuring the questionable condition or performance. Published criteria may be summarized or paraphrased, depending on their length, relevance, and clarity. Some examples, of criteria are:
- Written requirements (laws, regulations, instructions, manuals, directives, etc.).
 - The exercise of good judgment.
 - Independent opinion of experts outside of the FTC.
 - Prudent business practice, provided that the cited practice as a criteria is a valid and logical standard to apply to the case in point.
 - The auditor may have to find information which will serve as evidence of criteria if criteria are not already set forth in writing. If good judgment or subjective or outside judgment are to be used as criteria, keep in mind that it should make sense, be logical, and convincing enough to the reader.
62. Cause. Cause is the underlying action, lack of action, weakness, deficiency, or inadequacy. Why did it happen? Why was there noncompliance (if that was the case)? Of course, we realize that determining basic causes might require analysis of human behavior in a way which we are not equipped to do (e.g. evaluating temperament and psychological and personality factors, etc.). However, we think that it is necessary to exert a reasonable amount of effort to get as close to the real cause of the problem as possible, or at least to one or more causes which will put the finding in perspective; make the finding convincing; and lead to a sensible, specific recommendation for corrective action. Simply saying the problem or adverse condition exists because someone didn't comply with regulations is not very meaningful, helpful, or convincing. Also, this kind of simplistic approach unnecessarily constrains the auditor with a rather superficial recommendation that they "comply with regulations." Most people already know that without the need for advising them.
63. Effect. The effect(s) are what resulted or could result from the condition being questioned--in dollar or other terms which may not be as readily measurable. The auditor should not generalize by simply saying that a practice "weakens controls" or "fails to provide sufficient control." The auditor should be able to explain how it weakens control.

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64. **Discussion of unresolved prior audit findings.** Will be included in the audit reports when the current follow-up on prior findings indicates that a finding has not been resolved and closed. Describe the title and date of the audit report in which the prior finding appeared. Refer to or cite information from the prior report. Explore and comment on the reasons why only partial or no action was taken on the prior recommendation(s). If applicable, discuss management's partial action on the prior recommendation(s). Remember, the objective is to present a compelling argument to effect change. Clearly explain and demonstrate why corrective action is still needed.
65. **Recommendations.** Each finding, for which corrective action is necessary, should contain one or more recommendations. If there is more than one recommendation, they should be numbered.
66. The Recommendations Section will inform the addressee of specific actions needed to eliminate or reduce the problem(s) found. Recommendations shall normally be directed to the organizational level that can take corrective action or direct that it be taken.
67. Recommendations shall be meaningful, realistic and practical. They will address the cause or causes for reported problems--not the problems themselves. Writers will use action verbs and make specific and logical recommendations. When appropriate, recommendations offering alternative solutions should be made. The recommendations should cover only the causative factors presented in the discussion supporting the finding; new matters should not be introduced. The recommendations should follow logically from what the auditor presented in the development section of the finding.
68. Auditors should strive to make positive and operative recommendations to improve programs and operations and offer an alternative when possible. Also, do not recommend that a regulatory provision be complied with alone; instead, recommend the action necessary to accomplish compliance if possible. Do not include background information, unnecessary explanation, or reasons for making the recommendation as part of the recommendation. Items of this nature should have already been addressed in the report.
69. **FTC Comments and OIG Evaluation.** This section will appear in final audit or attestation reports only. Comments will either be obtained at the exit conference or through an official request to comment on the draft report. If management declines to comment on draft findings and recommendations, so indicate in the report and issue it.
70. In some situations it may not be appropriate to obtain official advance comments on the audit findings from the auditee--especially if findings involve the possibility of fraud, serious irregularity or malfeasance, or where auditees in private industry might bring libel suits against the Government.

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71. How to present in the final report the auditee's official views and reactions to your draft report and your analysis and evaluation of their comments will depend in part on the length and relevance of the reactions, on whether management concurs or disagrees with you, and on what changes have to be made in the findings and previously proposed corrective action(s) as a result of your evaluation of the auditee comments (GAGAS 5.34-5.35, GAGAS 7.35).
72. Management's comments on each finding may be presented either verbatim or in summary form. A copy of Management's comments, however, should always be included as an appendix to the audit or attestation report (GAGAS 5.32, GAGAS 7.34).
73. If the audited entity refuses to provide comments or is unable to provide comments within a reasonable period of time, the auditors may issue the report without receiving comments. In such cases, the auditors should indicate in the report that the audited entity did not provide comments (GAGAS 5.38, GAGAS 7.38)
74. When summarizing the comments be sure to state whether management agreed or disagreed with the finding(s) and recommendation(s). Show the corrective action the auditee has agreed to take, if applicable. The auditor should be careful to summarize management's comments correctly.
75. Concurrence with the auditor's findings tends to support their validity, makes them more convincing, and indicates progress in resolving the problem presented in the finding. When management concurs, there may be little need for the OIG to respond extensively to the draft report comments or to include them verbatim in the body of the report.
76. When the official comments oppose the auditor's draft finding and recommendation(s) and the auditor believes that management's position lacks merit, the auditor must rebut their position effectively in the report. The auditor must explain the reason for maintaining their position. In some cases, rather than place undue emphasis on a strong rebuttal following the auditee's comments, it may be more effective to rewrite the finding, giving appropriate recognition to the comments and our reaction in the body of the finding. This treatment may be particularly desirable to avoid having to insert a lot of new material in the auditor's rebuttal. Conversely, it may be necessary to strengthen the finding with more support, modify the finding, or delete it if you think management's non-concurring position is valid or if it casts doubt on the auditor's position. In short, do not leave the reader with opposing views or conflicting information without some attempt to clarify your position, reconcile the views or modify the finding to eliminate inconsistencies or confusion. (GAGAS 5.37, GAGAS 7.37)
77. If the recommendation as presented in the draft report is no longer appropriate or valid after you receive the auditee's response, you can remove it from the final report:

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78. Delete any reference to the draft report recommendation and that part of the reply relating to it, or if it seems appropriate, briefly discuss the draft report recommendation and reply in the development section or in a footnote.
79. Add new information and revise the finding as necessary (or delete the finding entirely).
80. General Comments. In some reports it may be useful to include a part entitled General Comments, to comment on other relevant matters which are important or informative but do not involve audit findings. These comments should be included only if they make the report more meaningful.

The following types of information may be included in this part:

81. Recognition of noteworthy accomplishments, particularly when management improvement in one program or activity may be applicable elsewhere. Positive or laudatory comments should normally deal with specific circumstances or conditions, rather than broad generalities.
82. Observations of conditions for which a recommendation is not appropriate, or timely, but which would be of interest to higher agency officials. The conditions might include outstanding or potential litigation, financial trends, potential budget overruns, or any other observations concerning potential or existing problem areas which require little, if any, audit analysis but which are relevant to the audit and necessary to place the report in proper perspective.
83. The continued existence of an adverse condition, although management has taken all reasonable measures to correct it.
84. If more than one matter is discussed in the General Comments part of the report, provide a descriptive caption for each item. Do not use this section for reporting minor findings.
85. Attachments. Schedules, tables, charts, graphs, photographs, and other documents that explain or supplement other parts of the report can be included as attachments if it is not included in the body of the report. Assign each attachment an identifying title which should be typed in capital letters, centered at the top of the page and underlined. Attachments will be identified by capital letters in the upper right hand corner of the page. If there is only one attachment, no letter should be used.
86. Appendices (Management Response). Lists, copies of letters from the auditee, and other documents that support the report including management's comments on the draft report, should be attached as Appendices. Assign each appendix an identifying title which should

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be typed in capital letters centered at the top of the page and underlined. Appendices will be identified by Roman numerals in the upper right hand corner of the page. If there is only one Appendix, no number should be used.

REPORTING DEFICIENCIES

87. Auditors should include in the audit or attestation report (1) the scope of their work on internal control and (2) any deficiencies in internal control that are significant within the context of the audit objectives and based upon the audit work performed (GAGAS 5.20-5.24; GAGAS 7.18-7.19).
88. When auditors conclude, based on sufficient, appropriate evidence, that fraud, noncompliance with provisions of laws, regulations, contracts or grant agreements, or abuse either has occurred or is likely to have occurred which is significant within the context of the audit objectives, they should report the matter as a finding. (GAGAS 5.24; GAGAS 7.21)

When Deficiencies are Not Significant

89. When auditors detect deficiencies in internal control or instance of fraud, noncompliance or abuse that are not significant to the objectives of the audit, they may include those deficiencies in the report or communicate those deficiencies in writing to officials of the audited entity unless the deficiencies are inconsequential considering both qualitative and quantitative factors. Auditors should refer to that written communication in the audit report, if the written communication is separate from the audit report. Determining whether or how to communicate to officials of the audited entity deficiencies that are inconsequential within the context of the audit objectives is a matter of professional judgment. Auditors should document such communications (GAGAS 5.21; GAGAS 7.19, 7.22).
90. In a performance audit, auditors may identify significant deficiencies in internal control as the cause of deficient performance. In reporting this type of finding, the internal control weakness would be described as the cause.

REPORTING FRAUD, ILLEGAL ACTS, VIOLATIONS OF PROVISIONS OF CONTRACTS OR GRANT AGREEMENTS, ABUSE, MATERIAL NON-COMPLIANCE, OR REPORTABLE CONDITION

91. When auditors conclude, based on evidence obtained, that fraud, illegal acts, significant violations of provisions of contracts, or significant abuse either has occurred or is likely to have occurred, or if there are material non-compliances or reportable conditions they

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should include in their audit (or attestation) report relevant information in accordance with generally accepted government auditing standards (GAGAS 4.23, 4.27, 5.20-examination, 5.49-review, 5.59-agreed upon procedures).

92. Abuse involves behavior that is deficient or improper when compared with behavior that a prudent person would consider a reasonable and necessary business practice given the facts and circumstances. Abuse also includes misuse of authority or position for personal financial interests or those of an immediate or close family member or business associate. Abuse does not necessarily involve fraud, or noncompliance with provisions of laws, regulations, contracts, or grant agreements.
93. When reporting instances of fraud, illegal acts, violations of provisions of contracts and abuse, auditors should place their findings in proper perspective by providing a description of the work conducted that resulted in the finding. To give the reader a basis for judging the prevalence and consequences of these findings, the instances identified should be related to the population or the number of cases examined and be quantified in terms of dollar value, if appropriate. If the results cannot be projected, auditors should limit their conclusion to the items tested.
94. When auditors detect violations of provisions of contracts or abuse that are not significant, they should communicate those findings in a separate letter to officials of the audited entity unless the findings are clearly inconsequential, considering both qualitative and quantitative factors. If the auditors have communicated instances of fraud, illegal acts, violations of provisions of contracts or grant agreements, or abuse in a separate letter to officials of the audited entity, auditors should refer to that letter in the audit report. Auditors should use their professional judgment in determining whether and how to communicate to officials of the audited entity fraud, illegal acts, violations of provisions of contracts or grant agreements, and abuse that are clearly inconsequential. Auditors should include in their audit documentation evidence of all communications to officials of the audited entity about instances of fraud, illegal acts, and violations of provisions of contracts and abuse. (GAGAS 5.25)

TERMINATED BEFORE COMPLETION

95. If an audit is terminated before it is completed and an audit report is not issued, auditors should document the results of the work to the date of termination and why the audit was terminated. Determining whether and how to communicate the reason for terminating the audit to those charged with governance, appropriate officials of the audited entity, the entity contracting for or requesting the audit and other appropriate officials will depend on the facts and circumstances and, therefore, is a matter of professional judgment. (GAGAS 6.50, 7.06)

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Chapter 900 – Reporting Audit Results

RE-ISSUED OR RE-POSTED REPORTS

96. If, after the report is issued, the auditors discover that they did not have sufficient, appropriate evidence to support the reported findings or conclusions, they should communicate in the same manner as that used to originally distribute the report to those charged with governance, the appropriate officials of the audited entity, the appropriate officials of the organizations requiring or arranging for the audits, and other known users, so that they do not continue to rely on the findings or conclusions that were not supported.
97. If the report was previously posted to the auditors' publicly accessible website, the auditors should remove the report and post a public notification that the report was removed.
98. The auditors should then determine whether to conduct additional audit work necessary to reissue the report, including any revised findings or conclusions or repost the original report if the additional audit work does not result in a change in findings or conclusions (GAGAS 7.07).

TIMELINESS

99. All audit reports will be issued in a timely manner. Timeliness is defined and measured by issuing the report before the relevant information becomes stale. During the audit, the auditor may provide interim reports of significant matters to appropriate FTC officials.

REPORT CLEARANCE

100. Both the Draft and Final Reports require review and clearance by the IG prior to issuance.
101. IG approval of the Draft and Final Reports indicates that a review has been made that the auditors have determined and documented the overall sufficiency of evidence and have determined whether enough appropriate evidence exists to address the audit objectives and support the findings and conclusions (GAGAS 6.67, 7.27)

REPORT DISTRIBUTION

102. Audit reports will be distributed to the Commission and to those officials who are responsible for acting on audit findings and recommendations, and to others authorized to receive such reports such as those charged with governance, or to the appropriate oversight bodies or organizations requiring or arranging for the engagements (GAGAS 4.45).

FTC OIG AUDIT MANUAL
Chapter 900 – Reporting Audit Results

103. Distribution of reports completed under GAGAS depends on the relationship of the auditors to the entity and the nature of the information contained in the report. If the subject matter or the assertion involves material that is classified for security purposes or contains confidential or sensitive information, auditors may limit the report distribution. Auditors should document any limitation on report distribution.
104. If not otherwise mandated by statutory or regulatory requirements, prior to releasing results to parties outside the organization, the IG should:
- (1) assess the potential risk to the organization,
 - (2) consult with senior management and/or legal counsel as appropriate, and
 - (3) control dissemination by indicating the intended users of the report.

REPORTING FINDINGS DIRECTLY TO PARTIES OUTSIDE THE AUDITED ENTITY

105. Auditors should report known or likely fraud, noncompliance with provisions of laws, regulations, contracts, or grant agreements, or abuse directly to parties outside the audited entity in the following two circumstances.
- a. First, when entity management fails to satisfy legal or regulatory requirements to report such information to external parties specified in law or regulation.
 - b. Second, when entity management fails to take timely and appropriate steps to respond to known or likely fraud, noncompliance with provisions of laws, regulations, contracts, or grant agreements or abuse that is significant.
106. The Inspector General and the Audit Manager should be informed when such situation occur so that they can determine the appropriate actions to take. These requirements are also effective for attestations (GAGAS 5.29-5.30, 7.24)

REPORTING CONFIDENTIAL AND SENSITIVE INFORMATION

107. If certain pertinent information is prohibited from public disclosure or is excluded from a report due to the confidential or sensitive nature of the information, auditors should disclose in the report that certain information has been omitted and the reason or other circumstances that makes the omission necessary (GAGAS 4.39; GAGAS 5.39, GAGAS 7.39).

FTC OIG AUDIT MANUAL
Chapter 900 – Reporting Audit Results

108. For limited use reports, auditors may also consider communicating general information in a written report and communicate detailed information orally (GAGAS 4.44; GAGAS 5.43, 7.43)

AUDITOR COMMUNICATION FOR FINANCIAL AUDITS

109. When performing a GAGAS financial audit, auditors should communicate pertinent information that in the auditors' professional judgment needs to be communicated to individuals contracting for or requesting the audit, and to cognizant legislative committees when auditors perform the audit pursuant to a law or regulation, or they conduct the work for the legislative committee that has oversight of the audited entity.
110. In those situations where there is not a single individual or group that both oversees the strategic direction of the audited entity and the fulfillment of its accountability obligations or in other situations where the identity of those charged with governance is not clearly evident, auditors should document the process followed and conclusions reached for identifying the appropriate individuals to receive the required auditor communications.

FTC OIG AUDIT MANUAL
Chapter 1000 – Report Distribution Policies

POLICY

1. Draft audit reports should be issued for review and comment to all FTC officials or operational units which are expected to take action on audit recommendations or which are discussed substantially in the report.
2. Final audit reports should be issued to all FTC officials who are expected to take action on audit recommendations or which are discussed substantially in the report. Copies of all audit reports should also be distributed to the Commission, and the audit follow-up official.

PROCEDURES AND RESPONSIBILITIES

3. The Auditor-in-charge will ensure that the draft report complies with all format and substance requirements for draft reports as specified in this audit manual, to include identifying every page of the report as "DRAFT", and prepare a transmittal memorandum providing instructions to FTC officials.
4. The transmittal memorandum may be addressed individually or collectively to all FTC officials or operational units which are expected to take action on audit recommendations or are discussed substantially in the report.
5. The draft memorandum should identify what recommendations the FTC officials are expected to address and establish a date for reply.
6. If it is believed that providing an advance copy of a draft report would benefit the reporting process, the decision must first be approved by the Inspector General.

FINAL REPORT

7. The auditor-in-charge is responsible for ensuring that the final report complies with all format and substance requirements for final reports in this manual and preparing a transmittal memorandum forwarding the report to the auditee.
8. A transmittal memorandum should be prepared which distributes copies of the report to all FTC officials or operational units that are expected to take action on the recommendations, are discussed substantially in the report, or may otherwise obtain some benefit from its contents. The transmittal memorandum may either be prepared individually for each recipient or collectively for a group of recipients.

FTC OIG AUDIT MANUAL
Chapter 1000 – Report Distribution Policies

9. Normally, the transmittal memorandum is a simple mechanism used to transmit an audit report from the Inspector General to the auditee. However, at times it may be used to communicate information which is known to be of particular interest to the Head of the FTC or to highlight a particular situation such as when the FTC and the Inspector General are not in agreement and resolution is being sought. The report transmittal should not be used to summarize or highlight various aspects of the report since this is already done in the executive summary.

RECORD OF DISTRIBUTION

10. Draft and final report transmittal letters will evidence the FTC officials to whom the draft and final reports were distributed. If parties other than those on the transmittal letter were sent a copy, this should be evidenced in the audit documentation.
11. Auditors should document any limitation on report distribution for those reports containing confidential or sensitive information (GAGAS 5.44, 5.52, 5.62).

FTC OIG AUDIT MANUAL
Chapter 1100 - Report and Recommendation Tracking

POLICY

1. Because report and recommendation tracking is an integral part of good management, it is a responsibility shared jointly by both management and the OIG. Corrective action taken by management on resolved findings and recommendations is essential to improving the effectiveness and efficiency of Government operations. Without an effective tracking system in place to ensure that corrective action is being taken, much of the OIG audit work would be wasted. Therefore, the OIG shall establish tracking systems that ensure the proper resolution and implementation of audit recommendations. These systems shall provide for a complete record of actions taken, findings and recommendations. They also are to ensure that audit recommendations are resolved within 180 days of issuance of the final report, or other implementation date as approved by the Inspector General.

DEFINITIONS

2. Resolution or Management Decision - The point at which the OIG and FTC management agree on action to be taken on reported findings and recommendations
3. Corrective Action - The specific measures taken by management officials to implement resolved audit findings and recommendations. The date corrective action is completed should be captured in the OIG follow-up tracking system.
4. Management Officials - FTC officials who are responsible for receiving and analyzing audit reports, providing timely responses to the OIG/AFO and taking corrective action when appropriate.
5. Audit Follow-up Official - Is a senior level FTC official assigned responsibility for ensuring that (1) systems of audit follow-up, resolution, and corrective action are documented and in place, (2) timely responses are made to all audit reports, (3) all disagreements between OIG and management officials are resolved, (4) corrective actions are actually taken, and (5) circular A-50 semiannual reports are prepared and forwarded to the FTC head.

PROCEDURES AND RESPONSIBILITIES

6. The OIG is to maintain a follow-up system on audit reports including attestations, and recommendations and use this system to report on the status of management's efforts to implement audit and attestation recommendations to the FTC head and Congress.

FTC OIG AUDIT MANUAL
Chapter 1100 - Report and Recommendation Tracking

7. Management is primarily responsible for ensuring that resolved audit or attestation recommendations are implemented in a timely fashion.
8. When performing an audit or attestation, the auditor should evaluate whether the audited entity has taken appropriate corrective actions to address findings and recommendations from previous audits or attestations that are significant within the context of the audit objectives (GAGAS 4.05; GAGAS 5.06; GAGAS 6.36).

EXIT CONFERENCE

9. The OIG will hold an exit conference with the auditee to discuss the findings and recommendations developed during the audit. The auditor may provide a copy of a discussion draft of the report to the auditee prior to the exit conference. During the exit conference, the auditor will attempt to elicit comments on the validity of the facts presented and the reasonableness of the audit conclusions and recommendations. The conference will also give the auditee the opportunity to seek clarification or additional information concerning the results of the audit.
10. If findings and recommendations have previously been discussed with the auditee, then the auditor, in consultation with the IG, may determine that an exit conference is not needed. The decision to eliminate the exit conference must first be approved by the Inspector General.

DRAFT AUDIT REPORT

11. The OIG will issue a draft audit report to the auditee after considering any comments and concerns expressed at the exit conference or in other discussions. The draft memorandum identifies what recommendations the auditee is expected to address and establishes a date for a written reply. The auditee is to provide written comments to express agreement or disagreement with each of the conclusions drawn and recommendations made in the draft report.

FINAL AUDIT REPORT

12. The OIG will carefully analyze any written comments received to determine if the findings and recommendations should be maintained as written in the draft report, modified, or deleted. The OIG will make any changes necessary and then issue the final audit report to the Division or Office head, with a copy to the Commission. The entire contents of the comments will be attached as an appendix to the final audit report (GAGAS 4.33-4.36).

FTC OIG AUDIT MANUAL
Chapter 1100 - Report and Recommendation Tracking

THE RESOLUTION PROCESS

13. After the final audit report is issued, the auditee should develop an action plan for each recommendation with which there is agreement and submit it to the OIG. Ideally, the action plan will set forth each specific action planned to implement the recommendation and the schedule for its implementation. Resolution is achieved when the OIG formally agrees with the action plans.

AUDIT FOLLOWUP RESPONSIBILITIES

14. Management has the responsibility for implementing the agreed upon action plans. As the agency's audit liaison, the Financial Management Office (FMO) will maintain a record of the status of recommendations and will update it with information received from responsible officials. The status of recommendations will be discussed at the quarterly meetings, co-led by the Executive Director and the OIG.

DATA ELEMENTS IN OIG TRACKING SYSTEMS

15. The OIG is to report to the FTC head and Congress on the status of all open audit reports and recommendations. The specific data elements that are to be captured in the OIG report and recommendation tracking system is left to the discretion of the OIG but must, at a minimum, contain the details necessary to accurately report on the category of actions in the OIG's semiannual report as identified in the IG Act of 1978, as amended.
16. The FTC-OIG tracking system, includes the following information for each audit recommendation:
 - Report Number and Report Name
 - Finding or recommendation number;
 - Target Date of Completion
 - Date submitted to OIG for closure
 - Actual Date of OIG closure

FTC OIG AUDIT MANUAL
Chapter 1200 – Contracting Out for Professional Audit Services

POLICY

1. The Inspector General Act of 1978, as amended, provides IGs with authority to contract with public accounting firms and other professional service companies to obtain needed audit and consultant services. It is the policy of the OIG to utilize these services whenever they are deemed to be economically efficient or when in-house expertise is not readily available to meet a particular OIG mission responsibility. The IG Act requires IGs to establish guidelines for when it is appropriate to use non-Federal auditors². Those guidelines follow.
2. Contracting authority is an effective tool to increase the quality, efficiency, and productivity of any Federal office. It is the policy of the Office of Inspector General to utilize contract services whenever (1) in-house resources are inadequate to cover an appropriate percentage of the audit universe, (2) a certain expertise is needed on a short term basis, or (3) they are deemed to be economically efficient.
3. The OIG will closely control and monitor all work of the contractor to ensure contract terms are met and that GAO Government Auditing Standards are fully complied within the contractor's performance of their duties. The OIG will control selection of contractors and determine the scope of the audit and the release and distribution of final reports.
4. Auditors performing financial audits should be knowledgeable in generally accepted accounting principles (GAAP) and the AICPA's generally accepted auditing standards for field work and reporting and the related Statements on Auditing Standards (SAS), and they should be competent in applying these standards and SASs to the task assigned. Similarly, when performing an attestation engagement, auditors should be knowledgeable in the AICPA general attestation standard related to criteria, and the AICPA attestation standards for field work and reporting and the related Statements on Standards for Attestation Engagements (SSAE), and they should be competent in applying these standards and SSAEs to the task assigned.
5. Auditors engaged to perform financial audits or attestation engagements should be licensed certified public accountants or persons working for a licensed certified public accounting firm or a government auditing organization. Public accountants and accounting firms meeting licensing requirements should also comply with the applicable provisions of the public accountancy law and rules of the jurisdiction(s) where the audit is being performed and the jurisdiction(s) in which the public accountants and their firms are licensed.

² 5 USC § 4(b)(1)(B)

FTC OIG AUDIT MANUAL
Chapter 1200 – Contracting Out for Professional Audit Services

PROCEDURES AND RESPONSIBILITIES

Procurement

6. To ensure that contractors provide a quality audit, study or review at a reasonable price (but not necessarily the lowest price) the OIG should work with the FTC's contracting officer. The OIG may also use guidance provided on the IGET website under 'Financial Statement Contracting Samples & Tools.' The procurement process should also follow the Federal Acquisition Regulations (FAR) issued by GSA. These references provide for awarding multi-year contracts (optional) and establishing contractual arrangements with more than a single audit or other professional service firm (optional). Such a selection of more than a single professional audit service firm would require a minimum amount to be paid to each firm, the details of which are to be specified in the contract.
7. The advantages of awarding a multi-year contract are to allow the Contractor to develop an understanding of the FTC. This in turn should lead to greater efficiencies and lower out year rates.
8. The advantages in awarding a contract to multiple contractors are to obtain diverse expertise and specialist knowledge or skills that will ultimately lead to a higher quality audit.

Contract Administration

9. Contract administration begins after contract award. Its purpose is to assure compliance with all written terms and conditions to which the parties have agreed and which are contained in the contract. The contract is the primary reference concerning the rights and obligations of the parties.
10. Once a contract is awarded, a Contracting Officer's Representative (COR) will be designated in writing to work directly with the contractor. This OIG employee will act for the contracting officer on technical issues relating to the audit services to be provided to the OIG. The COR must be provided timely training from an approved COR course. The COR is responsible for:
 - Monitoring compliance in accordance with the contract's scope of work;
 - Resolving technical questions;
 - Handling administrative matters of the contract to include approving invoices and monitoring scheduling and budgets;
 - Reviewing and responding to all contract products and deliverables, to include audit programs, progress reports, workpapers, and audit reports; and
 - Assisting in contract closeout by forwarding to the contracting officer all required statements and/or records to ensure a complete contract file.

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Chapter 1200 – Contracting Out for Professional Audit Services

11. The COR cannot make any arrangements or commitments with the contractor which would modify the terms, conditions or scope of the contract. The COR cannot alter or agree to any rate or price modification. These responsibilities and authorities reside with the FTC's contracting officer and if such modifications are necessary the COR will need to obtain written approval from the contracting officer. Where the contract contemplates the issuance of task orders, the description of the work the contractor is obligated to perform must be found in each task order issued under the contract.
12. A post-award orientation conference may be scheduled by the contracting officer to: (1) discuss how the contract will be administered, (2) uncover any misunderstandings, and (3) clarify certain contract clauses, such as:
 - The "inspection clause" that allows the government to inspect what is being produced under the contract at all stages of performance and wherever the work is being conducted.
 - The "key person clause" which provides that work will be assigned only to certain named individuals and that the contractor agrees not to divert or remove these individuals without first notifying the contracting officer and the COR.

Quality Assurance

13. Assuring the quality of contractor performance is always important. However, when an OIG plans to rely heavily on outside audit support to conduct internal audits, the quality of the work of the firm and its employees will directly impact on the reputation of the OIG. For this reason alone, it is critical that the OIG establish a process to carefully monitor contractor work.
14. The most effective way for the OIG to ensure quality is to make certain that contractors are exercising proper supervision over their employees. Adequate supervision adds seasoned judgment to the work done by less senior staff.
15. Auditing contractor compliance with laws and regulations is an important OIG function. This OIG emphasis on conducting performance audits is not commonly found in the private sector. Thus, whenever contractors are assigned responsibility to conduct performance audits as opposed to the more traditional financial audits, special attention must be paid by the COR to contractor compliance with yellow book standards.
16. The enactment of the Accountability of Tax Dollars Act of 2002 (PL 107-289) extended to many agencies, including the FTC, the requirement to prepare and submit to the Congress and the Director of the Office of Management and Budget an audited financial statement of the FTC for the previous year.
17. The Government Accountability Office (GAO) and the President's Council for Integrity and Efficiency (PCIE) adopted a joint GAO/PCIE Financial Audit Manual (FAM) as

FTC OIG AUDIT MANUAL
Chapter 1200 – Contracting Out for Professional Audit Services

guidance for the member agencies' to conduct financial statement audits. If the OIG performs the FTC's financial statement audit, the OIG will plan and perform the financial statement audit in accordance with GAGAS and applicable OMB guidance. If the financial statement audit is performed by a contractor, the contract will require that the audit be done in accordance with GAGAS and applicable OMB guidance.

18. FAM Chapter 650, *Using the Work of Others*, provides guidance on designing and performing appropriate oversight and other procedures when using the work of auditors, including contracting for the entire audit. If the OIG contracts out all or portion of the financial statement audit to an Independent Public Accountant, the audit staff assigned to monitoring the Financial Statement Audit will be familiar with and follow the guidance in FAM Chapter 650, which is incorporated by reference.
19. To document annual monitoring of the IPA Contract, the OIG COR will prepare and complete
 - a. IPA Monitoring Plan
Based on FAM guidance
 - b. IPA Deliverables Matrix
Based on the IPA contract, FAM guidance, and discussions with FMO and the IPA

FTC OIG Audit Manual

ATTACHMENTS & OIG INDEPENDENCE FORMS

ATTACHMENTS & OIG INDEPENDENCE FORMS

Attachment 1	IG's Quality Control Checklist
Attachment 2	Referencing Checklist
Attachment 3	Record of Discussion
Attachment 4	Worksheet for Developing a Finding
Attachment 5	Sample Monitoring Plan of IPA
Attachment 6	Sample IPA Deliverables Matrix
OIG Form 1	Statement of Independence
OIG Form 2	Each Audit-Statement of Independence

IG's Audit Quality Control Checklist

Audit:		Yes, No, N/A	WP Ref.
1	Approved audit plan signed by IG		
2	"Confirmations of Independence" executed by all OIG participants		
3	Engagement Memo		
4	Entrance Conference		
5	Audit risk was addressed considering the following: <ul style="list-style-type: none"> - Nature and profile of program and needs of potential users - Internal controls significant to audit objectives - Information system controls significant to audit objectives - Legal, regulatory requirements, contract provisions, potential fraud that are significant to audit objectives - Results of previous audits that directly relate to audit objectives 		
6	Documented understanding of internal controls		
7	Documented reliability of computer processed data, if relied on		
8	Laws, regulations, and other criteria significant to audit objective		
9	Fraud discussion with auditee and audit staff		
10	Follow-up of previous FTC audits, if any		
11	Documented sampling method, if applicable		
12	Documented coordination with investigations or legal proceedings, if applicable		
13	Do the workpapers evidence supervisory review?		
13	Referenced draft report and referencer's notes		
14	Draft report issued for comment by management		
15	Were management comments addressed and included as an attachment?		
16	Complete Audit Plan referenced to workpapers		

Completed _____

Initials _____

FTC OIG Audit Manual-Attachment 2

Record of Discussion

Date:

Time:

Place:

Participants:

Purpose:

Discussion:

Conclusion:

Worksheet for Developing a Finding

NFR # _____

Title of Finding

W/P Reference

Timeline:

- Date provided to Management: Insert Date of Delivery to Auditee
- Date Response Due from Management: 10 business days from date of delivery to auditee

Background: The purpose of this NFR is to communicate our understanding of the issues identified during the audit as a result of our work performed

Condition (What is –i.e., statements of fact)

Criteria (What should be—the goals to be achieved)

Cause (Why it happened—the explanation for the condition and the effect)

Effect or Potential Effect (The difference between what is and what should be, and its significance)

Discussion (Summarize argument supporting the finding and give specific examples. Normally, this section provides additional detail about how conclusions were reached by “generalizing” about a number of related specifics or details)

Recommendation(s) Describe what actions we want taken, when, and by which manager(s)

Worksheet for Developing a Finding

Management Response

Please indicate your response by checking the appropriate box below and providing the appropriate supporting documentation, if applicable, with ten (10) business days from the date of this notification.

- ☐ Management concurs with this finding
- ☐ Management does not concur with this finding
- ☐ Management partially concurs with this finding.

Name
Title, Department
Date

Management Response

Signature of Management Representative

Auditor Comments on Management Response

Final Disposition

Include in final report? ☐

Do not include in final report? ☐

Sample IPA Monitoring Plan

Federal Trade Commission Office of Inspector General

Plan for

Monitoring the Audit Work Performed by the Independent Public Accounting Firm Financial Statement Audit for FY 2014

OIG Assignment No.: AR 15-001



This program provides instruction and guidance for conducting oversight and monitoring procedures over the independent public accountant performing the audit of the FTC FY 2014 financial statements.

APPROVED BY:


Kelly Tshibaka

Acting Inspector General

Sample IPA Monitoring Plan

MONITORING PLAN IPA Financial Statement Audit for FY 2014 AR 15-001

MONITORING PLAN

A. INTRODUCTION AND BACKGROUND

INTRODUCTION

This program provides information and guidance for monitoring the performance of an independent public accountant (IPA) conducting an audit of the Federal Trade Commission's (FTC) financial statements for fiscal year 2014.

Both the audit and the oversight will be conducted at FTC Headquarters. The accounting records are maintained by the Department of Interior's Interior Business Center in Denver, Colorado. The IPA plans to visit the Interior Business Center to perform tests of the accounting records maintained there.

This program is not all-inclusive and is not intended to restrict the OIG's initiative or the work required to meet the monitoring requirements. Moreover, this program is not a substitute for knowledge of applicable laws, regulations, policies, and procedures. The steps in this program are minimum requirements to be accomplished. Since no oversight program can encompass all circumstances that may be encountered during the oversight and monitoring of the IPA contract, evaluators should pursue and develop any significant issues relating to the principal areas whether or not there are specific requirements for this coverage in the program.

BACKGROUND

Under the CFO Act, as expanded by the Accountability of Tax Dollars Act, the FTC is required to prepare financial statements annually, and the OIG is required to audit the statements or contract for an independent CPA firm to conduct the audit. The FTC has contracted with the CPA firm of Brown & Company CPAs PLLC (Brown & Co) to audit FTC's financial statements.

These oversight procedures performed by the OIG are defined as a nonaudit service, therefore Generally Accepted Government Auditing Standards (GAGAS) do not apply to these oversight procedures. Based on our assessment of independence as described in GAGAS¹, performance of these oversight procedures does not impair the independence of the OIG. The OIG will perform oversight procedures using guidance presented in the Government Accountability Office/President's Council on Integrity and Efficiency *Financial Audit Manual* (GAO/PCIE²FAM July 2008) 650, "Using the Work of Others."

¹ *Government Auditing Standard, 2011 Revision*, Chapter 3 provides standards for independence

² The President's Council on Integrity and Efficiency (PCIE) and the Executive Council on Integrity and Efficiency (ECIE) were combined into the Council of the Inspectors General on Integrity and Efficiency (CIGIE) by The Inspector General Reform Act of 2008, P.L. 110-409

Sample IPA Monitoring Plan

MONITORING PLAN IPA Financial Statement Audit for FY 2014 AR 15-001

B. MONITORING OBJECTIVES

The OIG has two objectives in our oversight of Brown & Co.

1 Compliance with Contract The first objective is to act as the eyes and ears of the Contracting Officer by verifying Brown & Co.'s billings and ensuring compliance with the terms of the contract. This objective includes ensuring that Brown & Co. conducts its audits in accordance with the Scope of Work and not allowing or directing Brown & Co. to do work outside of the Scope of Work, unless the contract is properly amended as necessary.

2 Perform audit in accordance with GAGAS The second objective of our oversight of Brown & Co. is to meet the OIG's requirement to monitor audit work performed at FTC for compliance with generally accepted government auditing standards.

C. MONITORING SCOPE

Fiscal year FY 2014 financial statement audit performed by Brown & Co

D. MONITORING METHODOLOGY

The contract requires that Brown & Co conduct its audit in accordance with GAGAS, Office of Management and Budget Bulletin No. 07-04, *Audit Requirements for Federal Financial Statement*³ and its successors. To accomplish our objective, we plan on following the guidance related to the nature and extent of procedures the auditor should perform contained in Section 650 of the FAM titled *Using the Work of Others*. Based on our oversight procedures, we will assess whether Brown & Co. followed contract requirements and audit standards.

The OIG intends to issue a transmittal letter expressing no assurance; see Level of Oversight in Section E of this monitoring plan.

Using the FAM 650 guidance, we will:

1. Evaluate Brown & Co.'s independence and objectivity
2. Evaluate Brown & Co.'s qualifications
3. Use a low level of review (as defined in FAM guidance)
4. Review and document the appropriate workpapers prescribed by FAM 650.42 (key summary planning and completion documentation) and FAM 650A – *Summary of Audit Procedures and Documentation for Review of Other Auditors' Work* in AutoAudit.

³ Current guidance is OMB Bulletin No. 14-02, *Audit Requirements for Federal Financial Statements* (October 21, 2013)

Sample IPA Monitoring Plan

MONITORING PLAN **IPA Financial Statement Audit for FY 2014** **AR 15-001**

For FY 2014 the following workpapers or equivalent will be reviewed and documented per guidance from FAM 650 A Table 1 and Table 2, at the low level of review.

At the entity level:

- communications with Brown & Co as to the objectives of the work
- audit plan (Brown & Co Comprehensive Planning Document)
- assessment of the risk of material misstatement due to fraud
- audit summary memorandum
- summary of unadjusted audit differences
- final analytical procedures
- FAM 1003 Financial Statement Audit Completion Checklist
- FAM 2010 Checklist for Federal Accounting
- FAM 2020 Checklist for Federal Reporting and Disclosures
- Auditor's report
- final financial statements and notes
- required supplementary information
- Management letter

At the line item or cycle level for significant line items:

- Audit program
- Notice of findings and recommendations (NFR)
- Summary memo

The detailed steps have been divided in to the following sections:

1. General – to conduct and document general oversight steps
2. Evaluating independence, objectivity, and qualifications
3. Planning
4. Testing
5. Audit Opinion
6. Management Letter
7. Summary memos of monitoring procedures
8. COR File Contents
9. Quality Assurance - GAGAS

STAFFING

The following OIG personnel are assigned to conduct oversight of the financial audits for FY 2014: Mary Harmison, Audit Manager, All OIG personnel assigned to conduct oversight are expected to be familiar with Government Auditing Standards, AICPA U.S. Auditing Standards, and the GAO/PCIE Financial Audit Manual and the roles and responsibilities of the COR. Staff should also be familiar with FASAB standards and OMB guidance related to financial statements and financial audits.

Sample IPA Monitoring Plan

MONITORING PLAN IPA Financial Statement Audit for FY 2014 AR 15-001

E. MONITORING APPROACH

TYPE OF REPORTING

We considered the guidance in FAM 650.09 in determining the type of reporting. For the audit, we will issue an "auditor transmittal letter/ memorandum expressing no assurance." This letter indicates that the independent public accountant is responsible for the audit report and the conclusions expressed in the report. This OIG does not express an opinion the financials or on conclusions on compliance with laws and regulations.

LEVEL OF OVERSIGHT

In determining our level of review we considered the following chart presented in FAM 650.10 and the factors discussed in FAM 650.36.

Table 650.1: Overview of Work Performed for Each Type of Reporting				
Type of reporting	Evaluate the other auditors' independence and objectivity (FAM 650.11-.24)	Evaluate the other auditors' qualifications (FAM 650.25-.35)	Level of review (FAM 650.36-.42)	Hold discussions and/or perform supplemental tests (FAM 650.43-.47)
No association with report (FAM 650.09 a)	No*	No	None	No
Auditor transmittal letter expresses no assurance (FAM 650.09 b, first bullet)	Yes	Yes	Low or none	No
Auditor transmittal letter expresses negative assurance (FAM 650.09 b, second bullet)	Yes	Yes	Moderate or low	No
Report refers to the other auditors' report and indicates a division of responsibilities (FAM 650.09 c)	Yes	Yes	Low or none	No
Report concurs with the other auditors' report or does not mention the other auditors' work (FAM 650.09 d and e)	Yes	Yes	High, moderate, or low	Yes for internal auditors' work (should include supplemental tests); yes for auditors' work for high level of review; no for auditor's work for moderate or low level of review

*If the auditor contracts with the other auditors or serves as the COTR, the contracting process generally will require the auditor to evaluate the other auditors' independence, objectivity, and qualifications and to monitor performance under the contract.

Sample IPA Monitoring Plan

MONITORING PLAN IPA Financial Statement Audit for FY 2014 AR 15-001

Transmittal Letter – No Assurance

For the letter we will be issuing, “Auditor transmittal letter expresses no assurance”, FAM Table 650.1 above cites that the level or review should be either low or none. Overall, we have determined that a low level of review is appropriate for the audit based on:

- Type of reporting (“auditor transmittal letter expresses no assurance”)
- Overall assessment of Brown & Co.’s independence, objectivity and integrity (if no problems found with Brown & Co.’s independence, objectivity or integrity)
- Brown & Co.’s qualifications and experience, (if no problems found in assessing Brown & Co.’s qualifications and experience)
- Unqualified opinions on FTC: FY 2013 for the 17th consecutive year

FY 2014 Challenges

Challenges anticipated for the FY 2014 financial statement audit include:

- Incorporating lessons learned from FY 2013; particularly in the areas of Redress, Payroll, and coordination with Interior Business Center in Denver.

Planned response

- OIG and FMO will hold mini-meetings with Redress and Payroll to discuss lessons learned and procedures for FY 2014
- FMO Audit Liaison, Milissa Young-Loiselle, plans to go to Denver with Brown & Company staff

- GAO/CIGIE may not issue a revised Financial Audit Manual that incorporates the revised auditing standards until late fall 2014

Planned response

- This plan will incorporate GAGAS revised in 2011, AICPA clarified *Codification of Statements on Auditing Standards* effective last year (FY 2013), and guidance from the March 2014 draft CIGIE/GAO Peer Review Guide Appendix F *Checklist for Review of Monitoring Work Performed by an Independent Accounting Firm*

Adjustments will be made to the monitoring programs as revised requirements and guidance are issued by GAO, CIGIE, and OMB.

Other areas may be subject to a more than low level of review based upon the discretion and judgment of the Audit Manager. In no circumstances will the level of review be reduced from the planned level without consultation and approval by the Inspector General.

Sample IPA Monitoring Plan

MONITORING PLAN IPA Financial Statement Audit for FY 2014 AR 15-001

MONITORING STEPS

1 General

Objective: To conduct and document general oversight steps

- 1.1 Send notification letters informing them of the start of the audit to:
 1. Congress
 2. Interior Business Center (Denver)
 3. FTC Commissioners and CFO
 4. FTC Redress Administration Office (RAO)
- 1.2 Obtain and document a signed "Statement of Independence Form" from all OIG personnel performing CFO oversight duties certifying their freedom from personal and external impairments to their independence.
- 1.3 Set up oversight program in AutoAudit
- 1.4 Obtain and verify Brown & Co.'s invoices and prepare and submit the Receiving Reports to IBC for payment
- 1.5 Read the statement of work or request for proposal to determine whether this contracting document provides sufficient background on the audited entity and indicates the objectives of the work, what the contractor should include in its proposal, how proposals will be evaluated, and how the report will be used.
- 1.6 Attend weekly working meetings and facilitate communications between IPA, Audit Liaison, IBC-Denver, and FTC

2 Evaluating the Independence, Objectivity, and Qualifications of Brown & Co., (FAM Page 650 B-2)

Objective: To assess the independence, objectivity, and qualifications of Brown & Co.

Independence & Objectivity

- 2.1 Obtain written representation from Brown & Co. (Declaration of Independence and Quality Control Assurance Statement) as to its independence, objectivity, and whether personnel assigned have met the CPE requirements (GAGAS 3.02-3.06, 3.48).
- 2.2 Obtain signed independence statements from Brown & Co. staff assigned to FTC audit. Evaluate the overall qualifications of the team performing the work. Specifically, obtain and review resumes for key team members, considering their educational level, professional certifications, and professional experience (GAGAS 3.69-3.78)

Qualifications

- 2.3 Review Brown & Co.'s peer review report, and letter of comments and response letter, if applicable. If the peer review report was issued more than three years earlier, obtain documentation relating to the firm's internal quality control policies and procedures or review the firm's inspection program (GAGAS 3.106)

Sample IPA Monitoring Plan

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2.4 Communicate orally or in writing with Brown & Co. to be satisfied that they understand the requirements, the timetable, and the type of transmittal letter the OIG expects to issue. Also, inform Brown & Co. that the OIG should be notified of any proposed non-audit services to be provided after the start of the audit to evaluate the potential effect of these non-audit services on the firm's independence (GAGAS 3.11, 3.33 -3.58)

3 Oversight of Audit Work - Planning

Objective: Assess whether the work was planned and performed in accordance with government auditing standards (GAGAS). GAGAS incorporates by reference the AICPA Statements on Auditing (GAGAS 2.08). These include

- a. Whether the work was properly planned (AU-C 300)
- b. Whether a sufficient understanding of internal control was obtained to plan the audit & determine the nature, timing, and extent of tests to be performed (AU-C 315)
- c. Materiality in Planning & Performing - whether the work was planned to obtain sufficient appropriate audit evidential matter to afford a reasonable basis for an opinion (AU-C 320)

3.1 Attend the entrance conference

3.2 Obtain and review

- a. the Brown & Co. Overall Audit Plan
- b. Organization Audit Planning Form
- c. Account Risk Analysis
- d. Preliminary analytical review
- e. Preliminary Materiality

3.3 Obtain and review the IS Audit Plan

4 Oversight of Audit Work - Testing

Objective: Determine that sufficient appropriate audit evidential matter was obtained to afford a reasonable basis for an opinion (AU-C 500)

4.1 Determine that all major accounts have been tested.

4.2 Determine that Brown & Co. tested all pertinent laws and regulations and provisions of contracts and grant agreements, non-compliance with which could have a material effect on the financial statements

4.3 For significant line items obtain and retain the following (at a minimum)

1. Completed audit plan (note: if completed audit plans are not retained by OIG, document the OIG's review of audit plans)
2. Conclusions about significant issues and their resolutions (may be found in summary memorandum)

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3. Documentation supporting exceptions/findings [Note: this does not involve obtaining all of the detailed support for a finding but rather the summary of testing performed and the results]

4.4 Review Brown & Co.'s determination of compliance with generally accepted government auditing standards by reviewing the GAO/PCIE Financial Statement Completion Checklist (FAM 1003) or equivalent

4.5 For initial year of audit, review Brown & Co.'s work regarding determination of opening balances (AU-C 510)

5 Oversight of Audit Work – Reporting, the Audit Opinion

Objective: Determine that the audit opinion is supported by the underlying audit work

5.1 Review Brown & Co.'s determination of compliance with generally accepted government auditing standards by reviewing:

1. GAO/PCIE Checklist for Federal Accounting (FAM 2010), or equivalent
2. GAO/PCIE Checklist for Federal Reporting and Disclosures (FAM 2020), or equivalent

5.2 Assess whether Brown & Co. has received and reviewed appropriate management representations. Review whether:

1. The Management Representation Letter contained, as applicable, the representations indicated in AU-C 580, and OMB 14-02
 - 1) Additional representations have been obtained if appropriate
 - 2) The management representation letter is appropriately dated
 - 3) The management representation letter is signed at the appropriate level (retain copy of letter for workpapers)
2. The Legal Representation Letter contained appropriate language as suggested by auditing standards and guidelines (AU-C 580, and FAM 1002 or successor, OMB 14-02)
 - 1) The letter contains an appropriate materiality threshold
 - 2) Is the letter dated or updated with the date of auditors' report

5.3 Read the financial statements, the notes, RSSI, RSI, and MD&A and other accompanying information. A comprehensive review of compliance with GAAP and OMB guidance does not need to be performed; however, compliance with GAAP and OMB guidance should be considered and any deficiencies noted compared with those identified by Brown & Co. and communicated to Brown & Co. if not already included. Retain copies for workpapers

5.4 Review Brown & Co.'s review of the Performance and Accountability Report (PAR) for compliance with GAAP and OMB guidance. Has the auditor determined if information in the MD&A, RSSI, and RSI is materially consistent with the financial statements?

5.5 Review the Summary of Unadjusted Audit Differences

1. Based on review of test work does the summary appear complete?

Sample IPA Monitoring Plan

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2. Is the auditors' opinion appropriate given the level of unadjusted misstatements?
3. Has the auditor brought all identified misstatements to the attention of management?

5.6 Review the draft report for compliance with GAGAS and OMB Bulletin 14-02. Compare the findings in the report with those identified in the audit work and follow-up on any discrepancies

5.7 Prepare the transmittal letter for the final auditors' report, for signature by the Inspector General

6 Oversight of Audit Work – Reporting, Management Letter, and Exit Conference Objective: Determine that significant findings are reported to management

6.1 Review the management letter, if prepared. All financial and IT findings should be used as the basis for the Management Letter comments.

6.2 Compare findings in the Management Letter to the NFRs. Follow up on discrepancies.

6.3 Attend the Exit Conference

7 Summary Memorandums of Monitoring

7.1 Compliance with GAGAS

Objective: Document results of monitoring procedures as basis for the OIG's no assurance transmittal, that Brown & Company is responsible for the audit report and the conclusions expressed therein.

7.2 Contract Deliverables

Objective: Document review of contract deliverables for consistency with the contract requirements.

1. List contract deliverables per contract, pages 10-11 of 19. Note that per the contract, "The IG has the authority to agree to proposed adjustments to the established dates for these specific tasks only as long as the extension does not affect the Final Report Due Dates and contract end date."
2. Link to work performed in AutoAudit workpapers

Sample IPA Monitoring Plan

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8 **Quality Assurance – Complete CIGIE Appendix F Checklist for Review of Monitoring of Audit Work Performed by an Independent Public Accounting Firm**

Objective: As part of Quality Assurance of this monitoring work, the OIG cross-references the CIGIE Peer Review March 2014 draft Appendix F checklist to AutoAudit workpapers, to document that OIG ensures that the work of non-federal auditors adheres to generally accepted government auditing standards (GAGAS)

The following pages display guidance from FAM 650

650 C – Example Transmittal Letters from GAO/PCIE Financial Audit Manual (2 pages)

Table 1: Summary of Audit Procedures from Reviewing Other Auditors' Work

Table 2: Summary of Documentation from Reviewing Other Auditors' Work

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650 C - Example Transmittal Letters from GAO/PCIE Financial Audit Manual (page 1 of 2)

Planning and General

650 C - Example Reports when Using the Work of Others

650 C - Example Reports when Using the Work of Others

Example 1 – Transmittal Letters

As discussed in FAM 650.09 b, there are two types of transmittal letters, one expressing no assurance and one expressing negative assurance on the other auditor's work. Examples of both types are presented as follows:

[Addressee]

We contracted with the independent certified public accounting firm of [name of firm] to audit the financial statements of [name of entity] as of [date] and for the year then ended, to provide an opinion [or a report] on internal control over financial reporting (including safeguarding assets) and compliance with laws and regulations, to provide an opinion on whether [entity's] financial management systems substantially complied¹ with the requirements of the Federal Financial Management Improvement Act of 1996 (FFMIA) (for CFO Act agencies), and to report any reportable noncompliance with laws and regulations they tested. The contract required that the audit be done in accordance with U.S. generally accepted government auditing standards, OMB audit guidance, and the GAO/PCIE *Financial Audit Manual* [if required by the contract].

In its audit of [name of federal entity], [name of CPA firm] found

- the financial statements were fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles,
- [federal entity] had effective² internal control over financial reporting (including safeguarding assets) and compliance with laws and regulations,
- [entity's] financial management systems substantially complied³ with the requirements of the Federal Financial Management Improvement Act of 1996 (FFMIA) (for CFO Act agencies), and⁴
- no reportable noncompliance with laws and regulations tested.

[Name of CPA firm] also described the following significant matters (if any):

- [Discuss any significant matters].

¹ If the other auditors did not provide an opinion (i.e., did not give positive assurance) on whether the entity's systems complied with FFMIA, change this to "no instances in which entity's financial management systems did not substantially comply" (negative assurance).

² If the other auditors did not provide an opinion on internal control, change this to "there were no material weaknesses in internal control" (and include a definition of material weakness in a footnote).

³ If the other auditors did not provide an opinion (i.e., did not give positive assurance) on whether the entity's systems complied with FFMIA, change this to "no instances in which entity's financial management systems did not substantially comply" (negative assurance).

⁴ Non-GAO auditors may combine bullets 3 and 4.

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650 C - Example Transmittal Letters from GAO/PCIE Financial Audit Manual (page 2 of 2)

Planning and General

650 C - Example Reports when Using the Work of Others

For transmittal letters expressing no assurance, use the following paragraph:

[Name of CPA firm] is responsible for the attached auditor's report dated [date] and the conclusions expressed in the report. We do not express opinions on [name of entity]'s financial statements or internal control or on whether [entity]'s financial management systems substantially complied with FFMA (for CFO Act agencies); or conclusions on compliance with laws and regulations. ~~the effectiveness of internal control or~~

For transmittal letters expressing negative assurance, use the following paragraph:

In connection with the contract, we reviewed [name of CPA firm]'s report and related documentation and inquired of its representatives. Our review, as differentiated from an audit in accordance with U.S. generally accepted government auditing standards, was not intended to enable us to express, and we do not express, opinions on [name of entity]'s financial statements or internal control¹ or on whether [entity]'s financial management systems substantially complied with FFMA (for CFO Act agencies);² or conclusions on compliance with laws and regulations. [Name of CPA firm] is responsible for the attached auditor's report dated [date] and the conclusions expressed in the report. However, our review disclosed no instances where [name of CPA firm] did not comply, in all material respects, with U.S. generally accepted government auditing standards.³

Example 2 – Report Concurring with Other Auditors' Opinion (Presenting Report of Other Auditors after the Auditor's Report)⁴

As discussed in FAM 650.09 d, the auditor may use this approach when other auditors have reported on financial statements and the auditor wants to provide more assurance than what is provided in the transmittal letter example 1 above.

[Addressee]

Under [citation of statute], we are responsible for auditing [name of entity]. To help fulfill these responsibilities, we contracted with [name of firm], an independent certified public accounting firm. [Name of firm]'s report dated [date] is attached.

~~Sentence should read "We do not express opinions on FTC's financial statements or conclusions on the effectiveness of internal control or conclusions on compliance with laws and regulations"~~

¹ If the other auditors did not provide an opinion on internal control, change this to read "conclusions about the effectiveness of internal control."

² If the other auditors did not provide an opinion on FFMA change "opinion" to "conclusions."

³ If the auditor found that the other auditors did not comply with GAGAS, or if the auditor disagrees with the other auditors' conclusions, see FAM 650.54-56.

⁴ This example assumes the other auditors opined on internal control and on whether the financial management systems substantially complied with FFMA. If the other auditors provided negative assurance, appropriate changes are needed.

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GAO/PCIE Financial Audit Manual

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Sample IPA Monitoring Plan

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Table 1: Summary of Audit Procedures from Reviewing Other Auditors' Work

Procedures to be performed at the low level of review are indicated by regular font. The moderate level of review includes the low level plus those in bold letters.

Planning and General 650 A - Summary of Audit Procedures and Documentation for Review of Other Auditors' Work	
Table 1: Summary of Audit Procedures from Reviewing Other Auditors' Work	
AUDIT PROCEDURES	
At entity level	For significant assertions, line items, accounts, or applications
1. Communicate with the other auditors: <ul style="list-style-type: none"> as to the objectives of the work discuss their procedures and results Attend key entrance and exit meetings COORDINATE OR CONCUR IN SIGNIFICANT PLANNING DECISIONS BEFORE MAJOR WORK IS STARTED 2. Review: <ul style="list-style-type: none"> audit strategy scope of work audit summary memorandum summary of uncorrected misstatements analytical procedures completion checklist determination of planning and design materiality representation letters information systems background general and application controls documentation (with assistance from IS controls specialist) other key documentation 3. Read: <ul style="list-style-type: none"> other auditor's report financial statements and notes supplementary information MDA and other accompanying information Management's response 	1. Review: <ul style="list-style-type: none"> audit procedures (plan) conclusions about significant issues and their resolution (often in audit summary) account risk analysis (ARA) specific control evaluations (SCE) cycle memo flowcharts determination of tolerable misstatement sampling plan other auditors' key documentation high risk accounts, estimates, and judgments analytical procedures EVALUATION OF SAMPLE RESULTS SUMMARY OF UNCORRECTED MISSTATEMENTS 2. PARTICIPATE IN DISCUSSIONS WITH MANAGEMENT PERSONNEL AND/OR PERFORM SUPPLEMENTAL TESTS OF THE LINE ITEMS (ESPECIALLY KEY ITEMS, ESTIMATES AND JUDGMENTS); COMPARE CONCLUSIONS
July 2008	GAO/PCIE Financial Audit Manual Page 650 A-2

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Table 2: Summary of Documentation from Reviewing Other Auditors' Work

DOCUMENTATION	
Retain	Optional
<p>1. Auditor prepared:</p> <ul style="list-style-type: none">• audit strategy• memo documenting entrance and exit conference• MEMOS DOCUMENTING KEY MEETINGS ATTENDED AND DISCUSSIONS WITH AUDITED ENTITY MANAGEMENT• results of review of documentation• SUPPLEMENTAL TEST DOCUMENTATION• summary memo <p>2. Other auditor prepared:</p> <p>At entity level:</p> <ul style="list-style-type: none">• other auditor's report• entity's final financial statements, notes, and supplementary info• management letter• other auditor's unadjusted known and likely misstatements, consideration of risk of further misstatements, and comparison with materiality• audit completion checklist• other auditor's audit summary memo <p>At line item or assertion level:</p> <ul style="list-style-type: none">• documentation that evaluates exceptions• other auditor's documentation evidencing significant judgments and conclusions	<p>1. Auditor and other preparers:</p> <ul style="list-style-type: none">• entity profile• audit procedures (plan)• account risk analyses• specific control evaluations• sampling plan• trial balance• lead schedules• evaluation of sample results• management representation letter• legal representation letter

Sample IPA Deliverables Matrix

#	Deliverable	Dependent on	Soft Due Date	Hard Due Date	Delivered Date	Comments
1	Meeting Agenda(s), for entrance conference, bi-weekly status meetings and exit conference	Date meetings are held	1 day prior to each meeting	–		Meeting dates established in cooperation with FMO
2	Meeting Minutes, for entrance conference, bi-weekly status meetings and exit conference	Date meetings are held	3 days after each meeting date	–		Meeting dates established in cooperation with FMO
3	Notice of Findings and Recommendations	As soon as findings are identified	–	–		All NFRs discussed with FMO & Recommendation requires written agreement or disagreement signed by FMO
4	Final Audit Plan and Final Audit Program and Testing Guide	FMO timely delivery of updated Cycle Memos	–	–		Per contract, the Final Audit Plan is due Award+60 days; COR can accept or reject the Final until satisfied that it meets GAGAS requirements
5	Audit Summary Memoranda		–	Nov 15		COR reviews all, & retains those for Material Line Items
6	Preliminary Audit Working Papers		–	–		
7	FINAL Audit Working Papers		–	Nov 15		COR documents review; COR must review and accept before IPA releases FINAL audit reports

Sample IPA Deliverables Matrix

#	Deliverable	Dependent on	Soft Due Date	Hard Due Date	Delivered Date	Comments
8	Draft Reports – Of Opinion on Financial Statements – On Internal Control – On Compliance with Laws and Regulations	FMO timely delivery of Draft Agency Financial Report	–	–		The 3 auditor reports are presented as one report for the FTC
9	FINAL Reports – Of Opinion on Financial Statements – On Internal Control – On Compliance with Laws and Regulations	FMO timely delivery of FINAL Agency Financial Report	–	Nov 15		
10	Financial Statement Audit Completion Checklist	FMO timely delivery of completed checklist	–	Nov 15		Prepared by FMO & reviewed by IPA
11	Checklist for Federal Reporting and Disclosures	FMO timely delivery of completed checklist	–	Nov 15		Prepared by FMO & reviewed by IPA
12	Draft Management Letter	Delivery of all Notice of Findings and Recommendations	–	–		All NFRs discussed with FMO & Recommendation requires written agreement or disagreement signed by FMO
13	Final Management Letter	Acceptance of Draft by COR	–	Apr 30, 2017		April 30 is the end of the Contract Period of Performance

The COR works closely with the IPA and FMO in order to deliver the FINAL audit report on time. The IPA's delivery dates are dependent on FMO completing its tasks in a timely manner. IPA delivery dates dependent on FMO are in **Red Font and Blue Shading**



Statement of Independence

In all matters relating to its audit, inspection and investigative work, the Office of the Inspector General and individuals involved must be independent in mind and appearance so that their opinions, findings, conclusions, judgments, and recommendations will be impartial and viewed as impartial by reasonable and informed third parties. For inspectors, the Quality Standards for Inspection and Evaluation apply. For investigators, the Quality Standards for Investigations adopted by the Council of the Inspectors General on Integrity and Efficiency apply.

Consistent with the conceptual framework established by GAGAS 3.07 – 3.26 auditors should evaluate threats to independence when the facts and circumstances under which the auditors perform their work may create or augment threats to independence. Examples of the types of circumstances that create threats to independence that might be identified when applying the conceptual framework are provided in GAGAS A3.02 – 3.08.

Auditors use professional judgment to determine whether the facts and circumstances created by an event (e.g., the start of a new audit, assignment of new staff to an ongoing audit, and acceptance of a non audit service) warrant use of the conceptual framework. A threat to independence is not acceptable if it either (a) would impact the auditor's ability to perform an audit without being affected by influences that compromise professional judgments or (b) could expose the auditor or audit organization to circumstances that would cause a reasonable and informed third party to conclude that the integrity, objectivity, or professional skepticism of the audit organization or a member of the audit team, had been compromised.

If threats to independence are identified and based on an evaluation of those threats, the auditor determines that the threats are not at an acceptable level, the auditor should determine whether appropriate safeguards are available and can be applied to eliminate the threats or reduce them to an acceptable level. If the auditor determines that safeguards to mitigate threats to independence are required, the auditor should document the threats identified and the safeguards applied in a separate memorandum specific to the applicable engagement.

Completing this form underscores the importance of adherence to standards of independence and objectivity and must be annually certified by all OIG employees involved in audit and investigations. Individuals who are unable to make this certification or experience a situation where they believe their independence and/or objectivity is or may be impaired should notify the Inspector General to discuss their situation. OIG's counsel is available for consultation.

I am not aware of any threats to my independence or impairments that would keep me from objectively planning, conducting, or otherwise participating in OIG engagements and reaching independent conclusions. I acknowledge my responsibility to re-evaluate my independence for each assignment and will promptly notify the Inspector General, or designee, if threats to my independence arise.

Signature: _____

Printed Name: _____

Date: _____



**FEDERAL TRADE COMMISSION
OFFICE OF INSPECTOR GENERAL**

STATEMENT OF INDEPENDENCE

In all matters relating to its audit and investigative work, the Office of the Inspector General must be free from personal, external, and organizational impairments to independence; must avoid the appearance of such impairments; and should maintain an independent attitude and appearance.

I, the undersigned, on the date shown, certify that no personal impairments exist that would inhibit my ability to be impartial, or that would give the appearance of not being impartial, during the performance of the subject project.

PROJECT TITLE _____

PROJECT NO. _____

I certify that I have read the Government Auditing Standards for auditor independence (GAO "Yellow Book," December 2011 Revision, Chapter 3, paragraphs 3.02-3.59)³ and to the best of my knowledge and belief, except as noted below, I am free both in mind and appearance from personal and external threats to independence with regard to the project indicated above.

I understand that I am responsible for identifying potential threats to my independence, notifying my supervisor of any potential threats, applying appropriate safeguards to address any threats, and recusing myself from individual assignments, if appropriate. I also understand that if I do not comply with the independence standard, I may be subject to sanctions up to and including possible termination.

This Statement of Independence applies to the entire period of professional engagement.

I considered threats to independence including:

- Self-interest threat
- Self-review threat
- Bias threat
- Familiarity threat
- Undue influence threat
- Management participation threat
- Structural threat
- Other: _____

Have any threats been identified by an auditor for this audit? _____ (Yes or No) If yes, please document safeguards for each threat identified. Contact the IG for more information regarding the threats and safeguards identified. If private, threats and safeguards can be documented and sent directly to the IG.

Name: _____

Date: _____

³ The GAS 2011 Revision added a conceptual framework for independence focused on six broad threat categories to independence that may be created by a wide range of relationships and circumstances. These threat categories include: self-interest, self-review, bias, familiarity, undue influence, and management participation, and structural threats.

FEDERAL TRADE COMMISSION

Office of Inspector General



INVESTIGATIONS MANUAL

May 4, 2016

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I. Introduction

This manual is intended to be a guide for Office of Inspector General (OIG) investigators performing investigations under the authority of the Inspector General (IG) of the Federal Trade Commission (FTC). The principles and practices set forth below are not intended to represent the legal positions of or to bind the FTC or the United States Government.

II. FTC Office of Inspector General Investigative Authority

The FTC OIG was established in 1989 as required by the Inspector General Act Amendments of 1988 (5 U.S.C. App.). Under the Inspector General Act (IGA), the IG is authorized to conduct, supervise, and coordinate investigations relating to the programs and operations of the FTC as are in the IG's judgment necessary or desirable. (IGA § 6 (a)(2)).

The IG is required to keep the head of the agency and Congress currently and fully informed concerning fraud and other serious problems, as well as abuses and deficiencies relating to the programs and operations administered or financed by the FTC. The IG also is required to report expeditiously to the Attorney General whenever there are reasonable grounds to believe that there has been a violation of Federal criminal law. (IGA § 4(a)(1), 4(a)(5), and 4(d)).

Under the IGA, FTC OIG investigators have authority to undertake investigations at the direction of the IG, to administer oaths, affirmations or affidavits and to serve OIG subpoenas. (IGA § 6 (a)(4) and (5)). FTC OIG investigators **do not** have statutory law enforcement authority. Accordingly, an FTC OIG investigator **does not** have authority to serve search or arrest warrants, make arrests, or carry a firearm or other weapon while on duty unless deputized by the Department of Justice (DOJ).

III. Delegation of Authority

The IG is vested with authority to approve and sign subpoenas, approve and issue OIG Reports of Investigation, sign correspondence to members of Congress or congressional committees, sign reports and correspondence to FTC commissioners and senior management officials, and to approve contact with other Federal agencies and the news media. (5 U.S.C. App. §6)

When the IG is not available to carry out his or her responsibilities, s/he shall designate an alternate who shall serve as acting in his or her absence and all authority vested in the IG is delegated to the Acting Inspector General.

IV. Scope of OIG Investigations

OIG investigations address allegations of administrative, civil, and criminal violations of laws, policies, and regulations. The subject of an OIG investigation can be an agency employee, a contractor, anyone conducting business with the FTC, or any person or entity involved in alleged wrongdoing affecting FTC programs and operations.

OIG investigations generally will be limited to the scope of the original complaint and any other potential misconduct or violations of laws, policies, or regulations discovered during the investigation into the original complaint.

V. Special Investigations

A. Allegations of Wrongdoing by the IG or Senior OIG Staff

Executive Order 12993 established an Integrity Committee within the President's Council on Integrity and Efficiency (now known as the Council of the Inspectors General on Integrity and Efficiency (CIGIE)) to investigate allegations of wrongdoing against the IG or OIG staff acting with the knowledge of the IG or when the allegation against the staff person is related to an allegation against the IG. Any such allegation will be referred to the Integrity Committee.

The IG also shall refer any administrative allegations against a senior OIG staff member to the Integrity Committee when a review of the substance of the allegation cannot be assigned to an executive branch agency with jurisdiction over the matter (*e.g.*, no other agency, like Office of Special Counsel or another OIG, has jurisdiction) and the IG determines that an objective internal investigation of the allegation, or the appearance thereof, is not feasible.

Senior Staff are OIG staff members ranked GS-15 and above.

B. Allegations of Wrongdoing by Other OIG Employees

To assure objectivity, the IG will seek the assistance of another OIG or the Federal Bureau of Investigation to investigate allegations of wrongdoing by an FTC OIG employee who is not a senior staff member.

C. Allegations of Wrongdoing by an FTC Commissioner or Senior Management Official

All investigations of allegations of wrongdoing by an FTC Commissioner or senior management official will be performed under the direct supervision of the IG.

VI. Standards of Conduct for OIG Investigations

A. General Standards

OIG investigators will always perform their official duties in a courteous and professional manner.

An OIG investigator shall not participate in an investigation that raises an actual or perceived conflict of interest on the part of the investigator or a member of his or her family. (*See* 18 U.S.C. § 201-209 and 5 CFR Part 2635). If a potential conflict of interest arises during the pendency of an investigation, the investigator will immediately notify the IG and recuse him or herself from the investigation.

B. CIGIE Standards on Personal Impairments

All OIG investigations are to be conducted in accordance with the “Quality Standards for Investigations (QSI)” published by the CIGIE. The QSIs require, among other things, that the FTC OIG and its investigators maintain:

1. Freedom from official, professional, personal or financial relationships that could affect their investigative judgment;
2. Freedom from preconceived opinions regarding its investigation;
3. No previous involvement in decision making or in a management capacity regarding its investigation;
4. Freedom from biases, including those created by political or social convictions regarding the investigation; and
5. Freedom from conflicting financial interests regarding the investigation.

C. Disclosure of Impeachment Information

An OIG investigator who is called to serve as an affiant or witness in a criminal prosecution is required to disclose to the Federal prosecutor any potential impeachment information about him or herself.¹ OIG investigators are also required to advise the IG of potential impeachment information and to update such disclosure during the pendency of an investigation and prosecution.

Impeachment information is generally defined as any evidence of conduct that undermines a witness's credibility or character for truthfulness, or that demonstrates bias. This includes information in the witness's personnel file that demonstrates dishonesty or similar conduct.² Failure to provide

¹ In Brady v. Maryland, 373 U.S. 83 (1963), the Supreme Court held that a criminal defendant is entitled to all exculpatory information in the possession of the prosecution. In Giglio v. United States, 405 U.S. 150 (1972), the Court expanded the holding in Brady to include any impeachment information regarding a prosecution witness.

² In United States v. Henthorn, 931 F.2d 29 (9th Cir. 1991) the Ninth Circuit Court of Appeals ruled that, upon request by defense counsel, a prosecutor must provide information from a Federal employee's personnel file that demonstrates dishonesty or similar conduct. The Department of Justice has interpreted "personnel file" to include investigative files.

impeachment information to a criminal defendant may result in the charges being dismissed and the prosecutor and investigator being sanctioned by the court.

D. Contact with Represented Parties

Rules of professional conduct generally provide that an attorney shall not communicate with a person who is represented by another attorney with regard to the matter that is the subject of such representation without the consent of the other attorney.³ (See American Bar Association Model Rules of Professional Conduct (ABA Rules) No. 4.2).

OIG investigators should attempt to ascertain whether an individual to be questioned (subject or witness) is represented by an attorney with regard to the matter under investigation. If the individual is represented, all communication with the individual must take place through, or with the consent of, his or her attorney. The investigator should seek guidance from the Counsel to the IG with regard to communications with a represented party.

E. CIGIE Standards on External Impairments

FTC OIG and its investigators shall be free from impairments external to OIG that would adversely affect the conduct of independent and objective investigations and the projection of factual reports. Any such impairments shall be reported to the Inspector General as soon as practicable after the occurrence.

VII. Coordination with the Department of Justice

A. The Federal Bureau of Investigation (FBI)

FTC OIG investigators do not have statutory law enforcement authority. Therefore, they are not authorized to make arrests, serve search or arrest warrants, or carry a firearm while on duty unless deputized by DOJ. Also, the FTC OIG does not have authority to engage in certain investigative techniques such as nonconsensual audio or video surveillance, undercover operations, or the payment of confidential informants.

The FBI has jurisdiction to investigate allegations of criminal misconduct on the part of any Federal employee, as well as allegations of fraud by any individual or entity doing business with or obtaining benefits from the Federal government.

³ Federal law provides that attorneys employed by the Federal Government are subject to referrals to state bar associations for alleged violations of rules of professional conduct (1) in the jurisdiction in which they are licensed, and (2) in the jurisdiction in which they are practicing law. (28 U.S.C. § 530B). A state bar also may sanction an attorney if he or she directs or ratifies action by another that, if taken by the attorney, would violate a bar rule of professional conduct.

In any criminal investigation in which it becomes necessary to utilize authorities that are unavailable to the OIG, the OIG will seek the assistance of the FBI or another Federal law enforcement agency with statutory law enforcement authority. Where the assistance of the FBI or other agency is obtained, the investigating agency may take over the investigation or investigate the matter jointly with the OIG.

B. The United States Marshals Service

The United States Marshals Service has authority to deputize OIG investigators on a case-by-case basis. As a Deputy United States Marshal, the OIG investigator is vested with law enforcement authority and may serve search and arrest warrants, make arrests, and carry a firearm while on duty. All requests for deputation must be approved by the IG. The status of Deputy United States Marshal does not authorize an OIG investigator to engage in nonconsensual audio or video surveillance, undercover operations, or the payment of confidential informants. Where such techniques are required in a criminal investigation, the OIG will seek the assistance of the FBI or another Federal law enforcement agency with statutory law enforcement authority.

C. Department of Justice Prosecutors

When an OIG investigation uncovers evidence that a Federal crime may have occurred, the OIG investigator should advise the local United States Attorney's Office or the appropriate section of the Department of Justice (including, but not limited to, the Criminal Division, Civil Rights Division, or Public Integrity Section) so that a prosecutor can coordinate the investigation to assure that the OIG gathers the evidence necessary to obtain an indictment and conviction.

VIII. Obtaining Assistance or Resources within the FTC

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IX. Receiving and Processing Complaints

A. Receipt of Complaints

The OIG receives complaints through the OIG Hotline, e-mail, mail, fax, in-person referrals, and the

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Consumer Sentinel Network. The investigative staff will keep the IG informed of all incoming complaints. All complaints received by the office are processed, as described below.

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Complaints that are not within the jurisdiction of the OIG or the CRC are referred to the appropriate component of the FTC or another government agency. The complainant is informed by letter or e-mail that the matter has been so referred.

When complaints are referred to management for review and action as deemed appropriate, the OIG will provide the referral to the appropriate management officials at the IG's discretion, which may include the Chief of Staff, the appropriate Bureau or Office senior manager (e.g., Bureau front office, etc.), and the subject's director supervisor.

E. OIG Investigations

Complaints to the OIG that warrant further action by the OIG are processed in accordance with the procedures set forth in Section XI.

X. Rights of Complainants/Witnesses

A. Confidentiality

Section 7(b) of the IGA provides that the IG shall not disclose the identity of an agency employee who makes a complaint or provides information to the OIG without the consent of the employee, unless the IG determines that such disclosure is unavoidable in the course of an investigation. An OIG investigator who believes that it is necessary to disclose the identity of such an employee, regardless of whether the employee has requested confidentiality, should seek the employee's consent for such disclosure. Such consent typically should be documented in writing. A determination for the need to disclose the identity of an agency employee without that individual's consent shall be made by the IG and documented in writing.

B. Protection from Retaliation

Federal law prohibits governmental personnel from retaliating against an employee who acts as a whistleblower by reporting suspected waste, fraud or abuse to the OIG, unless the complaint was made with knowledge that the information provided was false or otherwise intentionally misleading (5 U.S.C. App. §7(c), 5 U.S.C. § 1201 et. seq.). Under the Federal law against prohibited personnel practices, agency officials may not "take or fail to take, or threaten to take or fail to take, a personnel action with respect to any employee or applicant for employment" because the person has disclosed information which he or she reasonably believes is evidence of (1) a violation of any law, rule, or regulation, or (2) gross mismanagement, a gross waste of funds, an abuse of authority, or a substantial and specific danger to public health or safety, so long as the disclosure is not specifically prohibited by law or Executive Order.

"Whistleblower retaliation" is personnel action in response to a protected disclosure of information and includes actions that could adversely affect the whistleblower such as:

- A non-promotion
- A disciplinary action
- A detail, transfer, or reassignment
- An unfavorable performance evaluation
- A decision concerning pay, benefits, or awards
- A significant change in duties, responsibilities or working conditions

For disclosures to be protected, the individual making the disclosure must have a reasonable belief that the allegations are truthful. There are five types of protected disclosures:

- A violation of law, rule, or regulation
- Gross mismanagement

- Gross waste of funds
- A substantial and specific danger to public health or safety
- An abuse of authority

Any assertion that a complainant was subject to retaliation for complaining or providing information to the OIG will be promptly investigated. The OIG will typically refer whistleblower retaliation complaints to the U.S. Office of Special Counsel (OSC), which will conduct a preliminary review and refer back to FTC management for investigation if OSC believes it is warranted. However, resources permitting, the OIG will not refer complaints to OSC and instead investigate whistleblower retaliation complaints that involve senior-level FTC officials, are or may be of interest to Congress or the media, or involve particularly egregious disclosures or acts of retaliation. Such investigations can be closed if the OIG finds insufficient evidence to warrant a full investigation after conducting a preliminary inquiry.

The OIG may also request that management delay any proposed adverse personnel action against a complainant until the investigation of alleged retaliation is completed.

XI. Case Management

A. Opening an Investigation

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E. Right to Counsel

The subject of a criminal investigation has a right to be represented by an attorney. Upon request, the OIG investigator will suspend the interview for a reasonable period to allow the subject to arrange for his or her attorney to be present. The attorney can only provide advice, not debate with the investigator or respond for his or her client. The investigator is entitled to responses from the subject of the interview. If the attorney interferes with the interview at any point, the investigator can request the attorney leave the room and can suspend the interview until the attorney leaves or stops interfering.

Subjects of administrative investigations and witnesses in investigations do not have a right to be represented by an attorney. However, the IG can permit such representation and will generally default to doing so.

Attorneys who attend an OIG interview will be provided with a notice of rights and warnings in advance of the interview.

F. Right to Have a Union Representative Present

An FTC employee has a right to have a union representative present during an OIG criminal or administrative interview if all three of the following conditions are met:⁴

- (1) the employee is employed in a component that has a bargaining unit agreement with a union;
- (2) the employee has a reasonable belief that the information provided in response to questions posed by the OIG investigator may lead to the employee being the subject of disciplinary action; and
- (3) the employee asks to have a union representative present.

The OIG investigator is not required to advise an employee of his or her rights regarding union representation. The OIG investigator will provide the union representative with applicable warnings at the start of the interview.

Upon request, the OIG investigator will suspend the interview for a reasonable period to allow the employee to arrange for his or her union representative to be present.

The union representative's role is advisory and the investigator is entitled to responses only from the subject of the interview. If the union representative interferes with the interview at any point, the investigator can request the union representative leave the room and can suspend the interview until the union representative leaves.

⁴ NLRB v. Weingarten, Inc., 420 U.S. 251 (1975)

G. Interview Warnings

In general, all employees and contractors interviewed pursuant to an OIG investigation will be provided a warning form, informing them of their rights and legal obligations. In some circumstances, warnings may not be given to an employee or contractor if authorized by OIG legal counsel in consultation with the IG.

1. Miranda Warning

This warning is used in a criminal investigation where an interviewee is under arrest or subject to "custodial interrogation." The specific warnings that must be given are that: (1) the interviewee has the right to remain silent and cannot be discharged simply for exercising his or her right to remain silent; (2) any statement made by the interviewee may be used as evidence against the interviewee in a criminal prosecution; and (3) the interviewee has the right to an attorney, either retained by the individual or appointed. (Miranda v. Arizona, 384 U.S. 436 (1966)). In determining whether the individual is subject to custodial interrogation, the inquiry is whether a reasonable person in the interviewee's position would believe that he or she was not free to leave or was subject to a restraint on movement equivalent to formal arrest (*e.g.*, presence or use of a gun, handcuffs, or a guard at the door). (*See* Attachment A for a Miranda Warning).

2. Garrity Warning

This warning is used for voluntary interviews of FTC employees or contractors who are the subjects or witnesses in an investigation, and it will be the default warning given by FTC OIG investigators. Garrity warnings must be provided in a criminal interview where the subject of an investigation is an FTC employee or contractor who is not under arrest because it preserves law enforcement's right to prosecute the employee later if necessary. In a voluntary interview, the employee or contractor is not under arrest or subject to custodial interrogation (*i.e.*, the employee or contractor reasonably believes he or she is free to leave). The employee or contractor is advised that (1) you have the right to remain silent; (2) anything you say may be used as evidence in an administrative proceeding or future criminal proceeding; (3) if you refuse to answer the questions presented to you on the grounds that your answer may tend to incriminate you, you cannot be discharged from the agency solely for remaining silent. The OIG investigator should specifically inform the interviewee that s/he is free to leave the interview. (Garrity v. New Jersey, 385 U.S. 493 (1967)); (*See* Attachment B for a Garrity Warning).

3. Kalkines Warning

This warning is used to compel an FTC employee (not contractor) to speak with the OIG. It typically is used in an investigation of administrative misconduct, (*i.e.*, when prosecution has been declined or the IG has determined that the matter does not meet the standard for referral

for prosecution). The warning advises the employee that the interview is part of an administrative investigation, that the employee is required to participate in the interview, and that the employee may be disciplined for failing to respond to questions posed by the OIG investigator. The warning also advises the employee that the information provided may not be used in a criminal action against the employee. (Kalkines v. United States, 473 F.2d 1391 (Ct. Cl. 1973); Uniformed Sanitation Men Ass'n v Commissioner of Sanitation, 392 U.S. 280 (1968)).

If an employee refuses to respond to questions posed by an OIG investigator in an administrative interview, the OIG investigator may request the employee's supervisor compel the employee to cooperate. Failure to cooperate with an OIG investigation can be grounds for adverse personnel action against the employee. (*See* Attachment C for a Kalkines Warning).

4. Warning to Presidential Appointee

Because presidential appointees serve at the pleasure of the President, they may be discharged for failure to cooperate in an OIG investigation. Therefore, the standard language in the Miranda and Garrity Warnings, which assures the subject he or she will not be discharged for refusing to answer questions, may not be applicable. So when interviewing a presidential appointee who is the subject of a criminal investigation, the Warning for Presidential Appointees should be used. (*See* Attachment D for a Warning for Presidential Appointee form.)

H. Signed Sworn Statements

The OIG investigator may request a subject or witness to furnish a signed sworn statement. The investigator does not have authority to force an FTC employee or any other individual to provide a sworn statement.

A signed sworn statement provides an accurate account of the oral testimony of the complainant, subject, or witness. It also memorializes admissions or confessions; renders less likely a change of testimony on the part of the interviewee; and provides a permanent record of what was said by an individual, who may be unavailable to provide testimony later in the investigation or at trial.

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The investigator is responsible for assuring that the signed sworn statement is clear and accurate. The statement may be a narrative recitation prepared by the interviewee or drafted by the investigator and confirmed by the interviewee. Alternatively, the statement may take the form of responses to

questions asked by the investigator.

If the investigator plays an active role in preparing the statement, he or she should help the interviewee express his or her statements in the first person and use language readily understandable to the person making the statement. The statement should be factual and the investigator should avoid any shading or coloring of the narrative. The investigator must ensure that the interviewee's statement covers all essential issues. Prior to the signing of the statement, the interviewee should be informed that he or she is free to include any additional information, revise the statement or include explanatory remarks. The interviewee should be asked to initial any addition or correction and to initial each page of the statement.

If counsel represents the interviewee during the interview, he/she should be given the opportunity to review the statement and should be asked to sign it as counsel. The original signed sworn statement shall be scanned and maintained in the electronic investigative file. An interviewee will be provided a copy upon request.

A union representative represents the union not the employee. The OIG will not provide a copy of the employee's statement to a union representative.

I. Oral Acknowledgment of Statement

An interviewee may be unwilling to swear to and sign a statement but willing to orally acknowledge that the written statement accurately reflects his or her testimony. In such cases, the last page of the statement should include language that attests that the interviewee acknowledges that the facts contained within are true and accurate. The investigator should sign acknowledging that he or she read the statement to the interviewee and the interviewee verbally acknowledged its accuracy.

J. Polygraph Examinations

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XIII. Obtaining Information from Federal Agencies

A. From the FTC

Pursuant to §6(a)(1) of the IGA, the OIG has access to all records, reports, documents or other material available within the agency. If an investigator encounters resistance on the part of an FTC employee to produce an agency document, the investigator should immediately advise the IG. Whenever information or assistance requested under subsection (a)(1) is, in the judgment of an Inspector General, unreasonably refused or not provided, the Inspector General shall report the circumstances to the full FTC Commission, as well as to Congress in its semiannual report.

B. From Another Federal, State, or Local Government Agency

Pursuant to §6(a)(3) of the IGA, the IG may request information or assistance as necessary to carry out its duties from a Federal, state, or local government agency, or unit thereof. Whenever information or assistance requested under subsection (a)(3) is, in the judgment of an Inspector General, unreasonably refused or not provided, the Inspector General shall report the circumstances to the head of the establishment involved without delay.

XIV. OIG Subpoenas

A. Authority

Section 6(a)(4) of the IGA provides that the Inspector General “may require by subpoena the production of all information, documents, reports, answers, records, accounts, papers, and other data and documentary evidence necessary in the performance of the functions assigned by this Act, which subpoena, in the case of contumacy or refusal to obey, shall be enforceable by order of any appropriate United States district court.”

B. Scope

IG subpoenas may be issued to parties having no direct relationship with the agency either by privity, contract, or otherwise. An IG subpoena may be used to obtain information from a state, but not from a federal agency. (IGA §6(a)(4) and (b)). Except in limited circumstances (such as a subpoena for personal bank records), the OIG is not required to provide notice to the subject of an investigation when a subpoena is issued to a third party.

The subpoena authority of the IG authorizes the compelled production of books, records, and other documents, but not the compulsion of testimony. An auditor or investigator serving an IG subpoena may, however, request that a subpoenaed party provide a statement verifying the authenticity and completeness of the documents produced. Such a statement is ancillary to the subpoena of documents and thus not considered compelled testimony. A certificate of compliance is included

in the material served with the subpoena.

C. Issuance and Enforcement Criteria

The following three criteria must be met for the issuance and enforcement of an IG subpoena:

1. The audit or investigation for which the subpoena is sought must be within the jurisdiction of the OIG.
2. The documents requested must be relevant to the audit or investigation.
3. The request may not be unduly burdensome.

The OIG investigator must prepare a request for the issuance of an OIG subpoena. The request must demonstrate that the three criteria set forth above have been met and that the information cannot be obtained voluntarily. The request should be reviewed and approved by the Counsel to the IG. (*See Attachment G*).

D. Authority to Approve and Sign

IG subpoenas must be authorized and signed by the Inspector General. If the Inspector General is unavailable, then he/she may authorize an individual to sign the IG subpoena in his/her absence.

E. Service

Personal service is the preferred means of service of an IG subpoena. Where personal service is not practicable, a subpoena may be served by certified mail with a return receipt. In all cases, the subpoena will include a return of service form that must be signed by the party upon which the subpoena was served.

F. Subpoena Package

Every OIG Subpoena should include:

- Cover Letter
- Subpoena with Subpoena Number
- Return of Service Form and Acknowledgment of Receipt
- Privacy Act Statement and
- Certificate of Compliance

G. Use of IG Subpoena After Referral of Case for Prosecution

IG subpoenas may be issued to gather information in civil, administrative, or criminal investigations. Prior to the formal referral of a case to the Department of Justice for civil litigation or criminal prosecution, the only limitations on the use of the IG's subpoena power are the IG's

statutory authority over the subject matter of the investigation, the relevance of the information sought, and the lack of undue burden on the person or entity subpoenaed.

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H. Subpoenas for Personal Financial Information

1. General Requirements

The Right to Financial Privacy Act (RFPA), 12 U.S.C. §§ 3401-3422, provides that financial records may be obtained from a financial institution by administrative subpoena. However, absent a court order, the statute requires prior written notice to the customer that his or her financial records have been subpoenaed and that he/she has the right to challenge the subpoena in Federal district court. The financial institution may provide the requested information upon being notified by the OIG that the customer has either consented in writing or has failed to challenge the subpoena in court within 10 days from the date of personal service or 14 days from the date of mailing of the subpoena.

2. Scope

Financial institutions include, but are not limited to banks, credit unions, credit card issuers, and issuers of consumer credit. The RFPA does not apply to financial records subpoenaed from a source other than a financial institution (*i.e.*, another individual or an accounting firm). The RFPA only applies to the financial records of individuals and partnerships of five or fewer individuals. It does not afford any protection to the financial records of a corporation.

Basic account identifying information such as the name of the customer, the customer's address, the account number, and type of account may be obtained from a financial institution by an OIG subpoena without implicating the provisions of the RFPA.

3. Reimbursement of Costs of Compliance

A financial institution has the right to be reimbursed by the requesting agency for the costs incurred in searching for, reproducing, and transporting requested records. (*See* 12 C.F.R. 219 for payment schedule).

4. Delay of Notice

A financial institution may provide information covered by the RFPA without notice being provided to the customer if a court orders delay in such notice. Notice to the customer may be delayed by court order if, in addition to showing a legitimate law enforcement purpose for disclosure, the agency demonstrates that there is reason to believe that notice will result in any of the following:

- endangering the life or safety of any person;
- flight from prosecution;
- destruction or tampering with evidence;
- intimidation of a potential witness; or
- risk that disclosure will otherwise seriously jeopardize an investigation.

The court may initially enter an *ex parte* order delaying notice for no longer than 90 days, but may extend such delay upon application of the OIG. Upon expiration of the court ordered delay of notice, the OIG must notify the customer that his or her records were supplied to the government.

5. Civil Penalties

An agency of the United States or a financial institution that violates the RFPA may be liable to the customer for \$100, any actual damages sustained by the customer, any punitive damages the court may allow upon a finding of willfulness and the customer's court costs, and attorney's fees in the prosecution of a successful action for damages. An agency employee found by the court to have willfully or intentionally violated the Act will be subject to disciplinary proceedings by the Office of Personnel Management.

6. Right to Financial Privacy Act Subpoena Package Sample

- Cover Letter and Notice to Financial Institution
- RFPA Subpoena
- Customer Notice Letter
- Privacy Act Notice

- Certificate of Compliance
- Customer Consent Form and Authorization for Access
- Statement of Customer Rights under RFPA
- Instructions for Filing a Challenge under RFPA
- Draft Customer Motion to Challenge under RFPA
- Draft Customer Sworn Statement to Challenge under RFPA
- Certificate of Compliance with RFPA

I. Subpoenas for Credit Reports

Pursuant to the Fair Credit Reporting Act (FCRA), a government agency seeking a full credit history as part of an investigation must obtain a court order requiring that the credit reporting service provide such information. (15 U.S.C. §161b (a)(1)). A government agency that is seeking credit history information for purposes other than an investigation, such as an employee background check, may do so without a court order. An OIG investigator may not ask another part of the agency, such as the Human Capital Management Office, to obtain a credit report as a pretext for avoiding the requirements of the FCRA.

J. Subpoenas for Personal Medical Information

Pursuant to the Health Insurance Portability and Accountability Act of 1996, the Secretary of the U.S. Department of Health and Human Services (HHS) has promulgated a regulation pertaining to the privacy of medical records. (45 C.F.R. 160, 164). Protected information under the regulation includes records relating to treatment, payment, and health care operations. Covered entities include: (1) health care providers; (2) health plans; and (3) health clearinghouses.

Generally, the regulation prohibits disclosure of individually identifiable medical records without the written consent or authorization of the individual to whom the records pertain. However, such information may be obtained with an administrative subpoena without the patient's consent if: (1) the information sought is relevant and material to a legitimate law enforcement inquiry; (2) the request is specific and limited in scope to the extent reasonably practicable in light of the purpose for which the information is sought; and (3) de-identified information could not reasonably be used. (45 C.F.R. § 164.512(f)).

The regulation further requires that such medical records be safeguarded and protected from additional disclosure except as specifically authorized in the C.F.R. Individual medical records pertaining to a victim, witness, or subject of an OIG investigation must be protected from unauthorized disclosure and may be shared only with other personnel who have a need to know, such as the case agent's supervisor, the prosecutor handling the case, or agents assisting in the investigation. When not in use, such records should be stored separately from the relating case file in a locked storage container. If this is not practicable, then the outside of the investigative case folder, or the title of the electronic folder, must be clearly marked that it contains

“individual health information” as defined in HIPAA:

- (1) Personal medical information stored in electronic media may not be commingled with other data or information and should be safeguarded in the same manner as paper records.
- (2) Before the case is closed, personal medical information should be destroyed or returned to the originator. Destruction must be by burning or shredding. If destruction is carried out by an OIG contractor, the destruction must be witnessed by OIG personnel, or the destruction may be certified by the contractor if the contractor meets the required standards for safeguarding protected medical information.

K. Subpoenas for the Content of Electronic Communications

The Electronic Communications Privacy Act (ECPA) limits the disclosure of the contents of wire or electronic communications pertaining to subscribers or customers of a provider of electronic communication service or remote computing service.

A provider shall disclose the following account information in response to an administrative subpoena issued without notice to the customer: name, address, local and long distance telephone connection records; or records of times and durations; length of service (including start date) and types of services utilized; telephone or instrument number or other subscriber number or identity, including any temporarily assigned network address; and means and source of payment for such service (including any credit card or bank account numbers). (18 U.S.C. 2703 (c)(2)).

A warrant is required to obtain the contents of a wire or electronic communication that has been stored for 180 days or less. (*Id.* at §2703(a)).

An IG subpoena may be used to obtain the contents of an electronic communication stored for more than 180 days. (*Id.* at §2703(b)). The OIG must notify the subscriber that the contents of his or her communications have been subpoenaed, unless a court order is obtained to delay customer notification. Such a court order may be based upon written certification by a supervisory official that timely notice may have an “adverse result.” “Adverse result[s]” may include: (1) endangering the life or physical safety of an individual; (2) flight from prosecution; (3) destruction of or tampering with evidence; (4) intimidation of potential witnesses; or (5) otherwise seriously jeopardizing an investigation or unduly delaying a trial. (*See id.* at § 2705).

With certain limited exceptions, a governmental entity that obtains the contents of communications is required to reimburse the provider of the information for costs associated with searching for, assembling, reproducing, or otherwise providing such information.

(b) (7)(E)

L. Other Special Circumstances

Special requirements for the issuance of OIG subpoenas are also applicable to subpoenas issued for:

- Substance abuse and medical health information (42 U.S.C. §290dd-2)
- Cable subscriber information (47 U.S.C. §551)
- Educational records (20 U.S.C. §1232g(b))
- Video tape rental or sale records (18 U.S.C. §2710(b))
- Taxpayer return information may be subpoenaed from a taxpayer or tax preparer but there are strict limitations on obtaining such information from the Internal Revenue Service (26 U.S.C. §6103)

The OIG investigator should consult with the Counsel to the IG for guidance in complying with statutory requirements when any of the forgoing information is needed in connection with an OIG investigation.

M. Responding to Requests for Information on Open Investigations

The OIG sometimes receives requests from individuals, groups, or organizations requesting information on an open investigation. Our policy is to respond to these requests by stating that the OIG does not ordinarily confirm or deny the existence or status of an investigation.

We note, however, that the receipt of a request to open an investigation may be publicly acknowledged. In these instances, care should be taken to avoid any implication that the referral will necessarily lead to an investigation.

XV. Searches

(b) (7)(E)

(b) (7)(E)

(b) (7)(E)

XVI. Grand Jury Investigations

A grand jury has the power to issue an indictment that results in an individual being subject to criminal prosecution. The grand jury has both documentary and testimonial subpoena authority. The individual under investigation is required to provide testimony under oath to the grand jury and is not allowed to be represented by counsel.

Because of the enormous power of the grand jury, strict rules apply to its proceedings. One such rule is the prohibition on disclosing matters occurring before a grand jury, set forth in Rule 6(e) of the Federal Rules of Criminal Procedure. Courts have ruled that matters occurring before a grand jury include witness testimony, statements made by a government attorney, documents that summarize any action taken by the grand jury, documents obtained by grand jury subpoena (as well as the existence and contents of such subpoena) and information identifying a target or a witness before the grand jury. Information obtained prior to the convening of a grand jury is not covered by grand jury secrecy, even if it is presented to the grand jury. However, the fact that the information was so presented may not be disclosed. An individual who violates the rules associated with grand jury proceedings is subject to criminal sanctions for being in contempt of court.

OIG investigators may be asked to participate in investigations that involve the presentation of evidence to a grand jury. Under Rule 6(e)(3)(A)(ii), matters occurring before the grand jury may be disclosed to the investigator in his or her role as a government employee assisting the prosecutor in enforcing federal criminal law.

Generally, information or evidence obtained through the federal grand jury process may not be used in administrative, disciplinary, or other noncriminal proceedings. OIG investigators should consider this limitation when deciding whether to seek information via grand jury or OIG (administrative) subpoena. Any expanded use of grand jury information requires a court order that is based on a motion filed by the U.S. Attorney's Office. OIG investigators must assure that any documents obtained in connection with a grand jury investigation are clearly marked as grand jury material and maintained in a secure location.

Only OIG employees in receipt of a Rule 6(e) letter from the United States Attorney (U.S. Attorney) shall have access to grand jury information. In most circumstances, the cognizant Assistant U.S. Attorney shall be advised that, in addition to the investigating agents assigned to a matter that is before a grand jury, the investigating agent's supervisor and the IG should be included among those individuals with authorized access to the grand jury information. In some cases, other individuals, such as clerical support personnel, auditors, or the Counsel to the IG may also need to be designated for access to grand jury material.

Only individuals identified on the 6(e) list for a particular case may have access to those grand jury documents. The information obtained by the investigator may be disclosed only to those individuals who have been expressly authorized to have access to matters occurring before the grand jury and may only be used in connection with the enforcement of federal criminal law. Accordingly, the OIG investigator may not share grand jury information with the IG or other OIG employees unless they are included on a list of individuals whom the prosecutor has identified to the court as having access to matters occurring before the grand jury.

Whenever grand jury information is obtained, the responsible agent shall ensure that it is safeguarded at all times from improper disclosure and shall consult with the prosecutor on proper custody and maintenance of the records. This may require keeping direct physical control over the material, ensuring that material in use is protected when persons without authorized access are present and ensuring that grand jury material not in use is stored separately from other case material in a combination locked container or similar General Services Administration approved secure storage container clearly marked "Grand Jury." Access to the secured container, including safe combinations, must be limited to persons whose names appear on the grand jury access list (i.e., 6(e) letter) relating to the matter under investigation.

When grand jury information is transmitted to authorized users in other offices, the material must be sent via registered mail and double enveloped. The inner sealed envelope must be clearly marked to show it contains grand jury information. The OIG case file number and case title must also be noted on the inner envelope. Grand jury information also can be transmitted securely via other means (*e.g.*, encrypted e-mail or password-protected fax) upon consultation with the prosecutor. Documents containing grand jury information created by the OIG investigator on his or her computer must be protected from those not authorized to have access to grand jury information.

At the conclusion of the investigation, grand jury documents must be returned to the prosecutor or disposed of as instructed by the prosecutor. However, if requested by the prosecutor, such material may be destroyed by OIG personnel or returned to the supplier/originator. In any case, the ultimate method of disposal will be cleared through the prosecutor. A record of such disposal should be maintained by the investigator.

Rule 6(e) also prohibits the OIG investigator from disclosing grand jury information to FTC management in connection with administrative disciplinary proceedings or to FTC or DOJ civil litigators unless the Court authorizes such disclosure under Rule 6(e)(3)(E). If, after the conclusion of the criminal case, it is deemed necessary to disclose grand jury information in connection with administrative or civil proceedings, a motion under Rule 6(e)(3)(E) will be filed seeking the court's authorization for such disclosure.

XVII. Report of Investigation

Upon completion of each investigation, the investigator will draft the report of investigation (ROI) to be sent to the appropriate management officials for their review and any action they deem appropriate. At the IG's discretion, these management officials may include the Chief of Staff, the appropriate Bureau or Office senior manager (e.g., Bureau front office, etc.), and the subject's direct supervisor. The ROI will describe the initial allegation that precipitated the investigation, the investigative activity conducted by the OIG, evidence of wrongdoing or misconduct that the investigation revealed, as well as any exculpatory and incriminating information found during the investigation. The report should accurately, clearly, and concisely reflect the relevant results of the investigator's efforts. Evidence outlined in the report should be supported by documentation in the investigative case file. The report will not include the opinions or personal views of the investigator; unsupported assessments, conclusions, observations, or recommendations; or any recommendations regarding administrative action. The ROI also must be written in a way that keeps the identity of the complainant confidential (Source A, Source B...), unless the OIG has the source's consent to disclose his/her identity or the IG otherwise deems it necessary to disclose his/her identity (IGA §7(b)). The report will be submitted to the IG for final approval.

In limited circumstances and with the approval of the IG, draft ROIs also may be shown to select individuals outside the OIG for advanced review. Unless otherwise authorized by the IG, the cover of a draft ROI will inform the recipient that the report may not be photocopied or otherwise distributed without the prior written approval of the IG.

Draft ROIs containing findings of violations of the Standards of Ethical Conduct for Executive Branch Employees, the FTC Standards of Conduct, and violations of Federal criminal law prohibiting conflicts of interest on the part of Federal employees typically will be reviewed by the Designated Agency Ethics Official prior to finalization.

The report of investigation and all copies thereof shall be retained in the investigative case file.
(b) (7)(E)

If the report contains grand jury information, that fact will be clearly noted on the cover of the report along with a warning that grand jury information may only be reviewed by those persons included on the prosecutors grand jury disclosure list or those authorized by the court to review grand jury information. Grand jury material will be redacted from the report prior to its distribution to individuals who are not authorized to have access to grand jury information.

XVIII. Referral or Release of Findings

A. To FTC Management

1. Employee Misconduct

Under 5 U.S.C. §7513(b)(1), an employee against whom action is proposed is entitled to “at least 30 days’ advance written notice, unless there is reasonable cause to believe the employee has committed a crime for which a sentence of imprisonment may be imposed, stating the specific reasons for the proposed action.” This provision commonly is interpreted by OIGs to mean that employees are entitled to the evidence that the agency relied upon in proposing disciplinary action. In addition, under the Privacy Act System of Records Notices published by the FTC, the OIG can disclose ROIs, and related records and evidence, to FTC management for consideration of disciplinary action against employees.

Providing the ROI to the subject employee is a Constitutional requirement if management wants to use the report to support taking a disciplinary action. Federal employees essentially have a property interest in their employment. The link below is to a Merit System Protection Board (MSPB) study that explains this result (p. 13-22).

<http://www.mspb.gov/netsearch/viewdocs.aspx?docnumber=1166935&version=1171499&application=ACROBAT>

Given this property interest, employees are entitled to Constitutional due process before being administratively disciplined or removed from Federal employment. The two most important cases about employee due process are: (1) *Ward v. U.S. Postal Service*, 634 F.3d 1274 (Fed. Cir. 2011); and (2) *Stone v. Federal Deposit Insurance Corporation*, 179 F.3d 1368 (Fed. Cir.1999). These cases set forth a common legal concept –if a deciding official is exposed to information affecting the outcome of his decision-making process without the employee being told of the information and given the opportunity to present a defense against it, then any opportunity to respond is fundamentally flawed and will fail to meet constitutional requirements.

Therefore, the OIG allows management to disseminate the ROI not only to the subject, but also to any offices or officials (e.g., MSPB, OSC, EEOC, etc.) related to the proposed administrative action against the subject.

Some OIGs require subjects to sign a Non-Disclosure Agreement (NDA) before they receive a copy of the ROI regarding them. However, the FTC OIG does not require an NDA because they are unenforceable, the party can get essentially the same record under the Freedom of Information Act (FOIA) without an NDA, and there already is a warning on the front page of the ROI that covers the elements of the NDA.

Findings of employee misconduct that do not constitute criminal activity will be reported to the appropriate management officials for consideration of disciplinary action. These officials will typically include the subject's immediate supervisor, Principal Deputy General Counsel and the Director of the Human Capital Management Office, with a copy to the Chief of Staff. The OIG will seek follow-up communication from management about the outcome or result of the investigation so that the OIG can record it and evaluate trends and consistency in disciplinary actions. Most ROIs will be provided electronically. In limited circumstances, however, ROIs may be controlled by being produced only in hard copy (*e.g.*, numbered and assigned to individuals, allowed to read in OIG offices only, etc.).

When ROIs do not substantiate allegations of misconduct, they also may be provided to FTC management for informational purposes and to clear employees of wrongdoing, and thus preclude disciplinary action.

All ROIs will include a cover sheet with this advisory about the sensitivity of the material contained within:

IMPORTANT NOTICE: This Office of Inspector General Report is intended solely for the official use of the Federal Trade Commission or component thereof, or any agency or organization receiving a copy directly from the Office of Inspector General. No secondary distribution may be made outside the Federal Trade Commission, or component thereof, by it or by other agencies or organizations, in whole or in part, without prior authorization by the Inspector General. Public availability of the document will be determined under the U.S. Code, 5 U.S.C.552.

Transmittal of the ROI to management will be accompanied with a cover memorandum or e-mail that informs management that the ROI and any supporting evidence or records are the property of the OIG, not the FTC or the employee. So, in the event of an ensuing FOIA request, the agency would treat these records as OIG records. The transmittal memorandum or e-mail also will advise FTC management to consider informing the employee that because the ROI is an OIG report, his/her use of the ROI is restricted to the disciplinary proceeding and any appeals/grievances following and should only be further disclosed to his or her representative for such proceedings.

In general, the OIG will not disclose investigation notes, work papers and communications to FTC management since they are deliberative or unfinished work product. Other "finished" evidence, however, can and should be released to the FTC if it helps the agency determine what disciplinary action, if any, to take against an employee.

2. Contractor Misconduct

Findings of contractor misconduct that do not constitute criminal activity will typically be

reported to the Principal Deputy General Counsel, Chief Acquisitions Officer, and the Executive Director, with a copy to the Chief of Staff. The OIG will seek follow-up communication from management about the outcome or result of the investigation so that the OIG can record it and evaluate trends and consistency in disciplinary actions. All ROIs will include a cover sheet with advisories about the sensitivity of the material contained within (see (1) above). Most ROIs will be provided electronically. In limited circumstances, ROIs may be controlled in hard copy (*e.g.*, numbered and assigned to individuals, allowed to read in OIG offices only, etc.)

3. Ethical Violations and Conflicts of Interest

Findings of violations of the Standards of Ethical Conduct for Executive Branch Employees, the FTC Standards of Conduct, and violations of Federal criminal law prohibiting conflicts of interest on the part of Federal employees (See 18 U.S.C. § § 201-209) shall be reported to the FTC's Designated Agency Ethics Officer, as well as the employee's immediate supervisor, Principal Deputy General Counsel, and the Director of the Human Capital Management Office, with a copy to the Chief of Staff.

4. Wrongdoing or Fraud Affecting Agency Programs or Operations

Findings of wrongdoing or fraud by an individual or entity outside of the agency that has affected the agency's programs and operations will be reported to the Executive Director and to the FTC's Chief Financial Officer for consideration of remedial action and possible suspension or debarment pursuant to the Program Fraud Civil Remedies Act (31 U.S.C. 3801, et. seq.).

Findings of systemic weaknesses or areas needing improvement that are identified during the course of an investigation may be reported via a Management Advisory or may result in an audit or evaluation, depending on the seriousness of the matter. This determination will be made by the IG. Management Advisories will be provided to the Chief of Staff, Deputy General Counsel, and, where applicable, the bureau or office to which the advice or recommendations are directed.

B. To the Department of Justice

1. Criminal Violations

Any time the IG has reasonable grounds to believe there has been a violation of Federal criminal law, the violation will be reported to the Department of Justice Criminal Division, Civil Rights Division, and/or the appropriate United States Attorney's Office for a determination of whether to prosecute. If prosecution is declined, the ROI will be provided to FTC management in accordance with (A) above.

2. Matters Involving Civil Fraud

All findings of fraud that have resulted in significant monetary loss to the FTC will be reported to the Fraud Section of the Civil Division of the Department of Justice and/or the appropriate United States Attorney's Office.

C. To State or Local Authorities

All findings of violations of state or local law will be reported to the appropriate official having authority to prosecute individuals or entities for such violations. In addition, complaints more effectively investigated by state or local law enforcement (*e.g.*, fraudulent phone calls from FTC impersonators) can be referred accordingly.

D. To Professional Boards and Licensing Authorities

Findings of wrongdoing on the part of an FTC employee or an individual or entity doing business with or obtaining benefits from the agency that may impact that individual's or entity's qualification to continue to participate in a particular activity or profession will be reported to the appropriate professional board or licensing authority.

E. To Congress

Final copies of the ROI can be transmitted to members of Congress at their request. Unless otherwise authorized by the IG, ROIs sent to Congress will be produced only in hard copy and assigned to specific individuals.

F. Investigations Conducted by Other OIGs

Unless otherwise stated in a memorandum of understanding, when the FTC OIG enters into an arrangement with another OIG to conduct an investigation on behalf of the FTC OIG, then the investigative file, evidence, and ROI will belong to the FTC OIG. As such, decisions about disclosure of the ROI also will rest exclusively with the FTC OIG.

XIX. Case Closing Procedures

After completion of all investigative activity or, where applicable, after the referral of the OIG findings or the conclusion of prosecutorial activities, the investigator shall draft a closing memorandum and/or ROI. A closing memorandum will be submitted to the IG for review and approval. The closing memorandum shall briefly summarize the initial OIG allegation, results of the investigative activity and the disposition of the investigation, including whether the matter was referred for administrative action or prosecution. Following IG approval, the investigation will be closed and the closing memo and/or ROI will be included in the investigative case file.

The OIG investigative case log shall be updated to reflect the date on which the matter was closed.

Where there has been no finding of wrongdoing (for both investigations and preliminary inquiries), the IG may authorize the investigator to notify the complainant, the subject of the OIG investigation, and/or agency management that the investigation has closed and has not resulted in a finding of misconduct.

Regardless of whether there has been a finding of misconduct or wrongdoing, whenever it is deemed lawful and appropriate, the IG may use his or her discretion to notify a subject or complainant that his/her case has been closed. Following the closure of an OIG investigation, if the complainant or others request a copy of the ROI, the requester will be notified of his/her right to request the final ROI by filing a FOIA request.

XX. Disclosure of Investigative Records

Any request for the disclosure of OIG investigative records, including requests made as part of discovery in a legal proceeding, must be reviewed by the Counsel to the IG and approved by the IG. Disclosure of OIG investigative records to individuals or Federal or state governmental entities will be made in compliance with the OIG's Routine Uses of Records published at 70 FR 43431 (July 27, 2005), the Privacy Act, and/or the Freedom of Information Act.

When ROIs are requested through the FTC's FOIA process, the OIG will work with the FOIA office to determine disclosure of the ROI. Some or all of the ROI may be exempt from disclosure under FOIA exemptions, including exemption 7(E), which protects law enforcement information that would disclose techniques and procedures for law enforcement investigations when its disclosure could risk circumvention of the law.

OIG investigative records relied upon by a management official in connection with the imposition of discipline may be provided to the employee who is the subject of such discipline or to his or her legal representative.

XXI. Periodic Inventory of Accountable OIG Property

The OIG Chief Investigator and/or Counsel to the IG shall be responsible for conducting an annual inventory of (1) investigative credentials and (2) specialized investigational equipment owned by the OIG, if any. Access keys and/or other equipment provided to the FTC OIG should also be included in this annual inventory. Specialized investigative equipment shall include, *inter alia*, recording equipment and photography equipment.

XXII. Congressional Reporting Requirements

Pursuant to the IGA, as amended, the OIG will prepare semiannual reports summarizing the activities of the Office during the immediately preceding six-month periods ending March 31 and September 30. These reports will be furnished to the FTC Chairperson not later than April 30 and October 31 of each year, and then transmitted by such head to the appropriate committees or subcommittees of the Congress within thirty days after receipt of the report, together with a report by the head of the establishment containing the information required by the IGA.

Attachments

1. [Miranda Warning](#)
2. [Garrity Warning](#)
3. [Kalkines Warning](#)
4. [Warning to Presidential Appointee](#)
5. [Warning to Union Representative](#)
6. Warning to Legal Counsel (pending)
7. Subpoena Request Memorandum (pending)
8. [Subpoena Package](#)
9. Certificate of Compliance (pending)
10. [Right to Financial Privacy Act Subpoena Sample](#)
11. [Privacy Act Notice](#)