

Federal Trade Commission

OFFICE OF INSPECTOR GENERAL

December 22, 2023



***Audit of the
FTC's Contractor
Invoice Processes***

IN SUMMARY

Why We Performed This Audit

The current audit arose from issues identified in the fiscal year (FY) 2022 audit of the FTC's financial statements, which highlighted gaps in control measures of the invoice process. During FY 2022 financial statement audit expense testing, auditors discovered instances when vendors either submitted incorrect commercial invoices or failed to include the invoice properly in the Invoice Processing Platform (IPP) system. This lapse was further compounded when the COR approved invoices in the IPP without the correct supporting invoice attachments.

Another motivating factor for conducting this performance audit is the OIG's goal of maintaining sufficient audit coverage across FTC programs and operations. Also, FMO programs have evolved significantly in recent years, undergoing several major changes that could potentially introduce new risks.

We conducted this performance audit to determine whether the FTC's contract invoice processes for time and materials (T&M) and labor hour contracts (i.e., high-risk contracts) is conducted efficiently and in accordance with federal regulations .

What We Found

The audit found that the FTC has not yet refined a complete, structured, program-level process for invoice reviews and payments. During our audit, we discussed with FMO management a FY 2022 financial statement audit finding that highlighted this absence of a structured, regular process (we identified no exceptions in our tests of invoice controls). FMO has undertaken initiatives to address this (e.g., its Acquisitions Division conducts ad hoc reviews, primarily examining invoices when billing discrepancies arise or when specific issues come up with a contract). While such initiatives represent an improvement, it falls short of a formalized, ongoing monitoring system .

What We Recommend

We recommend that the FTC Executive Director, in coordination with the Chief Financial Officer, complete its efforts to implement a formal, structured process for invoice review approval and payment of high-risk contracts, to align with federal standards and guidance, and develop plans to assess the effectiveness of the new process.



Office of
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AUDIT
REPORT

*Audit of the
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AUDIT RESULTS SUMMARY

We conducted a performance audit to determine whether the FTC's invoice process for time and materials (T&M) and labor hour contracts (i.e., high-risk contracts) is conducted efficiently and in accordance with federal regulations. Over the course of our audit, we observed several noteworthy improvements to policies and procedures in the FTC Financial Management Office's (FMO's) contract management program, which have significantly bolstered the program's compliance with regulatory requirements and internal policies.

While these improvements (e.g., updates and enhancement to policy; increased availability of training for contracting officer's representatives, or CORs) have notably added value to the existing invoice program, our audit also identified opportunities for further refinement—specifically, the current review and approval process.

We found that opportunities exist for improvement in implementing a structured process for invoice review, approval, and payment. The FTC has not yet refined a structured, program-level invoice review and payment process. While current FTC invoice program initiatives represent an improvement, it falls short of a formalized, ongoing monitoring system. This finding contains one recommendation for improving the invoice program.

WHY WE PERFORMED THIS AUDIT

Background

The current audit arose from issues identified in the fiscal year (FY) 2022 audit of the FTC's financial statements, which highlighted gaps in control measures of the invoice process. During FY 2022 financial statement audit expense testing, auditors discovered instances when vendors either submitted incorrect commercial invoices or failed to include the invoice properly in the Invoice Processing Platform (IPP) system. This lapse was further compounded when the COR approved invoices in the IPP without the correct supporting invoice attachments.

Another motivating factor for conducting this performance audit is the OIG's goal of maintaining sufficient audit coverage across FTC programs and operations. Regularly scheduled and thorough audits are necessary for ensuring accountability, effectiveness, and efficiency. Also, FMO programs have evolved significantly in recent years, undergoing several major changes that could potentially introduce new risks.

This audit focused specifically on the FTC's T&M and labor hour contracts, due to inherent risk associated with those contract types. A T&M or labor hour contract is commonly used when the project's scope and duration are difficult to determine. These contract types offer flexibility and accommodate changes over the project's duration. However, T&M and

labor hour contracts—which pay a fixed labor rate for the number of hours worked, plus actual materials costs incurred, providing little incentive for contractors to control costs—inherently carry a higher risk compared to fixed-price contracts. These types of invoices present a particularly high risk because they cover contractor costs. While the OIG has not seen evidence of erroneous invoices, the risk is still high: the longer that inattention to unnoticed, erroneous, or excessive amounts in approved contractor billings continues, the more difficult it becomes for the agency to challenge such billings or billing methods.

This uncertainty can produce unforeseen challenges or delays. Because of these resulting risks, these contracts place the responsibility on the government to ensure that contractors employ effective and efficient cost controls—to avoid unnecessary time and materials that lead to cost overruns or otherwise increase the government’s financial burden.

Relevant Recommendations from Prior OIG Products

In December 2021, we issued the report *Audit of the Federal Trade Commission’s COR Program*. The audit’s objective was to determine whether the FTC’s COR program was in compliance with federal requirements and FTC policies and procedures. Our audit revealed opportunities for management to clarify responsibilities within the COR program. Specifically, we concluded that enhancements to and reinforcement of policies and procedures would improve the program and help management coordinate efforts across multiple FTC bureaus and offices.

Our audit report included the following recommendations:

1. We recommended that the FTC Executive Director, in coordination with the Director of the Financial Management Office, update the *FTC Administrative Manual*, Chapter 2: Section 300—Acquisition, to reflect the current process of acquiring and managing FTC contracts.

Status of Finding: Closed

2. We recommended that the FTC Executive Director, in coordination with each FTC operating unit director, develop guidance on the oversight of COR activities and maintenance of COR files.

Status of Finding: Closed

May 2023, we issued an audit report on the FTC’s management of expert witness contracts. Our objective was to determine whether the FTC’s Bureau of Competition (BC) expert witness contracts are administered in accordance with federal requirements.

Our audit report included the following recommendations to the FTC Executive Director, in coordination with the Director of the Financial Management Office:

1. Develop a strategy for establishing a formal training regimen addressing the specific processes entailed in acquiring, managing, and closing out expert witness contracts.

Status of Finding: Closed

2. Develop a process that allows for CORs to receive recognition for and feedback on their COR duties.

Status of Finding: Open as of October 24, 2023

FINDING AND RECOMMENDATION

Opportunities Exist for Improvement in Implementing a Structured Process for Invoice Review Approval and Payment

The FTC has not yet refined a complete, structured, program-level process for invoice reviews and payments. During our audit, we discussed with FMO management a FY 2022 financial statement audit finding that highlighted this absence of a structured, regular process. FMO has undertaken initiatives to address this: for instance, its Acquisitions Division conducts ad hoc reviews, primarily examining invoices when billing discrepancies arise or when specific issues come up with a contract. While such initiatives represent an improvement, it falls short of a formalized, ongoing monitoring system.

For almost 10 years, the U.S. Government Accountability Office (GAO) and Office of Management and Budget (OMB) have directed agencies to adopt controls that achieve more efficient, cost-saving operations, as well as more effective management overall. In 2014, GAO issued the *Standards for Internal Control in the Federal Government* (GAO Green Book), which stated that agency management is responsible for developing and designing appropriate types of control activities for the entity's risk responses to its internal control system. (GAO Green Book 10.03). GAO's framework for appropriate control activities includes (a) reviews by management at the functional or activity level and (b) established and reviewed performance measures and indicators. (GAO Green Book 10.03). According to this standard, agencies are to maintain robust internal control systems through ongoing monitoring and separate evaluations. Such monitoring should be integrated into the agency's regular operations. (GAO Green Book 16.04 and 16.05). With respect to electronic invoicing specifically, OMB, in its July 2015 memorandum M-15-19, directed all federal agencies to transition to electronic invoicing by the end of FY 2018 to increase efficiency and decrease the burden on agencies.

The FTC FMO's implementation of a comprehensive, ongoing monitoring system for labor hour and T&M invoice management is approaching—but still a work in progress. In addition to the ad hoc reviews previously mentioned, FMO management discussed with the OIG how it is developing a system such that a sample of invoices will undergo a thorough review by the contracting officer (CO). While this CO review process is not yet fully implemented, FMO management indicated that it is in the advanced stages of development, almost ready for full-scale implementation.

FMO has also taken steps to improve program compliance and educate the agency's CORs around invoice review. Relevant guidance is now available on the FTC intranet, and FMO has already begun conducting training sessions to review invoice procedures. FMO management's current focus

is on providing targeted assistance for specific CORs who may be facing challenges in following established guidelines. FMO officials, who recognize that some CORs require more guidance than others, have expressed a commitment to ensuring that these CORs receive the necessary support.

A combination of (a) resource constraints and (b) insufficient attention paid to level of contract-type risk appear to be the primary cause for the absence of FMO's fully established and implemented program-level invoice reviews. While the FTC has taken steps to address invoice management concerns identified in prior audits, these efforts have largely been ad hoc in nature and not yet matured and acculturated into a standardized, program-level process. Limited resources, both in terms of staff and technology, may have contributed to the absence of a structured review process.

These constraints, combined with FMO management not differentiating invoice review processes by fixed price (i.e., lower-risk) versus labor hour and T&M (i.e., higher-risk) contracts, can lead to an underestimation of systematic reviews as an important component of effective risk management. The culmination of these factors has led to the current state where the FTC does not conduct program-level invoice reviews in a systematic or structured manner.

The absence of a fully implemented, structured process for invoice review, approval, and payment introduces enterprise risks that could ripple across the agency—affecting not only financial integrity, but also operational effectiveness and compliance with regulatory standards. In the absence of an organized, systematic approach, ad hoc reviews may not promptly identify inefficiencies, inaccuracies, overpayments, or miscommunications between FMO and bureaus or offices. In turn, these interruptions can have cascading effects on the agency's ability to execute its mission effectively. The absence of a fully realized structured process introduces risks to the agency's capacity to manage these interrelated risks effectively. Implementing a comprehensive invoice review system would not only address these risks, but also contribute to a more resilient, effective, and accountable agency.

RECOMMENDATION

We recommend that the FTC Executive Director, in coordination with the Chief Financial Officer, complete its efforts to (1) implement a formal, structured process for invoice review approval and payment of high-risk contracts, to align with federal standards and guidance, and (2) develop plans to assess the effectiveness of the new process.

SUMMARY OF AGENCY RESPONSE AND OIG COMMENTS

In its written response to this report, FTC management concurred with the recommendation and described planned actions in response. The FTC response to our report is included in its entirety in appendix E.

APPENDIX A: OBJECTIVE, SCOPE, AND METHODOLOGY

We conducted a performance audit to determine whether the FTC’s invoice process for T&M and labor hour contracts (i.e., “high-risk” contracts) is conducted efficiently and in accordance with federal regulations. As background for our audit, we reviewed relevant federal laws and regulations, agency guidance, policies, and procedures. These included the Federal Acquisitions Regulations (FAR), OMB Circular A-123, *Management’s Responsibility for Enterprise Risk Management and Internal Controls*; the GAO Green Book; internal FTC policies; and policy memoranda. In addition to relevant criteria, we reviewed prior audit reports issued by other OIGs and GAO.

In planning our audit, we identified the internal control components relevant to our audit objective. We studied the FTC’s invoice process to gain an understanding of key controls, as well as performed preliminary analysis on invoice data. As part of our audit fieldwork, we conducted interviews with FTC FMO officials on the invoice process; examined the roles and responsibilities of staff within the invoice process; performed analysis of available related data; and tested invoices against relevant documentation (e.g., daily job timekeeping records, timesheets, terms of contracts).

The scope of our audit included all invoices generated during the period of October 1, 2022–March 31, 2023, for two specific types of contract vehicles: T&M contracts and labor hour contracts. For our examination of invoices, we selected 40 invoices using judgmental sampling and conducted testing to answer the following questions:

- Is the invoice document in compliance with contract requirements?
- Is the identifying information—such as contract and task order number, Contract Line Item Number (CLIN) or sub-CLIN number—correct?
- Is the invoice dated and numbered?
- Is the billing period correct, with no overlaps with other invoices?
- Is the amount billed mathematically correct?
- Is the invoice billed according to the PO terms?
- Is the invoice billed against the correct PO and/or correct lines of the PO?
- Are prompt pay discounts offered?
- Are all supporting documentation submitted by the vendor correct?

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- Does the invoice include the name and address of the vendor?
- Does the invoice contain name and address of the contractor official to whom payment is to be sent?
- Is the name and address of the contractor official to whom payment is to be sent the same as that in the contract?

We used the following criteria in the performance of our audit:

- *FTC Administration Manual*, Chapter 2: Section 300—Acquisition
- FTC FMO acquisition policy memoranda
- 48 Code of Federal Regulations (CFR) §§ 9.402, 42.1205, 52.209-6
- *GAO Standards for Internal Control in the Federal Government*
- OMB Circular A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control*

We performed the audit work remotely June 2023–October 2023. We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

APPENDIX B: BACKGROUND

The FTC is responsible for the contract invoice payment process, which includes invoice review, approval, and payment. Prior to payment, invoices must meet submission requirements to be processed and paid by the FTC. During the timeframe covered by this audit’s scope, the FTC processed and paid 398 invoices, connected to T&M and Labor contracts, for a total dollar amount of \$19,634,894. See Table 1, below, for greater detail:

Table 1: Invoices Processed Within the Audit Scope (October 1, 2022–March 31, 2023)

Monthly Period	Total Contracts Amount (\$)	Total Invoices	T&M Amount(\$)	T&M Invoices	Labor Hours Amount (\$)	Labor Hours Invoices
Oct 2022	2,468,936	62	2,123,551	54	535,021	18
Nov 2022	2,612,530	50	2,365,705	35	342,789	15
Dec 2022	3,279,810	53	2,866,182	44	370,780	15
Jan 2023	3,957,448	103	3,367,562	72	444,924	20
Feb 2023	3,717,960	61	3,473,964	49	311,261	15
Mar 2023	3,598,209	69	3,082,862	47	350,293	14
Total	19,634,894	398	17,279,826	301	2,355,068	97

Source: the FTC Financial Management Office

Invoice Review, Approval, and Payment Process

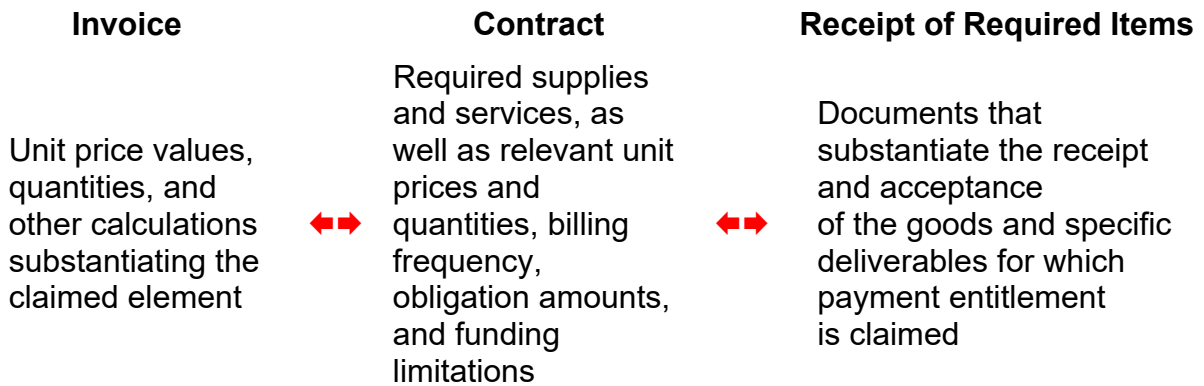
The CO delegates invoice review and approval responsibilities to the COR, or a designated alternative COR, based on the procurement characteristics. The CO is responsible for timely and effective processing of all contractor payment requests, ensuring proper entry of procurement actions into IPP, an integrated, secure, web-based service that simplifies the management of vendor invoices. The CO also identifies the CORs authorized to process and approve invoice payment.

The FTC maintains an agreement with the U.S. Department of the Treasury’s Bureau of the Fiscal Service, Administrative Resource Center (ARC), to award contracts for various goods and services on behalf of the FTC. ARC provides administrative services for FTC contracts, including the approval of invoices and payments.

More specifically, ARC delivers invoice and payment services through IPP. As identified in the contract terms, vendors must submit invoices electronically, using the IPP website. The invoice should specify the basis for all amounts requested—including unit price values, quantities, and other calculations that substantiate the claimed entitlement to payment under the contract.

The review of invoices submitted through IPP under FTC procurement contracts follows a commonly accepted accounting process for accounts payable, known as a “3-way match.” Approving payment of an invoice properly requires verifying relevant information using three unique documents. Refer to Figure 1, below, for additional details:

Figure 1: 3-Way Match Principle for Payment Approval



Source: the FTC Financial Management Office

Proper invoices are essential for timely and accurate payment processing under government contracts. If the invoice does not include the requirements identified in Table 2, below, the designated billing office must return it within the specified timeframe, explaining why it is not considered a proper invoice. The designated payment office must annotate the actual date of receipt of both the invoice and the receiving report, or other government documentation authorizing payment.

Table 2: Required Invoice Contents

Required Invoice Items	Description
<i>Contractor Information</i>	<ul style="list-style-type: none"> Name and address of the contractor
<i>Invoice Details</i>	<ul style="list-style-type: none"> Invoice date and invoice number Contract number or other authorization for supplies delivered or services performed (including order number and line-item number)
<i>Description of Supplies or Services</i>	<ul style="list-style-type: none"> Description, quantity, unit of measure, unit price, and extended price of supplies delivered, or services performed
<i>Shipping and Payment Terms</i>	<ul style="list-style-type: none"> Shipping and payment terms, such as shipment number and date of shipment, discount for prompt payment terms (for shipments on government bills of lading, the bill of lading number and weight of shipment must be shown)

Required Invoice Items	Description
<i>Payment Information</i>	<ul style="list-style-type: none"> Name and address of the contractor official to whom payment is to be sent (must be the same as that in the contract or proper notice of assignment) Name (where practicable), title, phone number, and mailing address of the person to notify in the event of a defective invoice Taxpayer Identification Number (TIN), included on the contractor invoice only if required by agency procedures Electronic Funds Transfer (EFT) banking information, if required by agency procedures, or the contractor must have previously submitted correct EFT banking information as per the applicable solicitation provision, contract clause, or agency procedures
<i>Additional Information</i>	<ul style="list-style-type: none"> Any other information or documentation required by the contract (e.g., evidence of shipment)
<i>Interim Payment Requests</i>	<ul style="list-style-type: none"> An interim payment request under a cost-reimbursement contract for services constitutes a proper invoice if it includes all the information required by the contract

Source: FAR 32.905(b)

The contractor’s payment request must be submitted in IPP, including an attachment of supporting documentation as specified in the contract, and/or otherwise identified by the CO/COR, to substantiate all billed amounts in IPP. Once an invoice is processed into IPP, the COR will receive email notification to complete electronic review and approval for payment.

APPENDIX C: INVOICES EXAMINED

INVOICE NUMBER	AMOUNT (\$)
FTCPPMS005	45,825.20
FTCPPMS001	29,565.88
180809A004	17,650.80
180809A003	46,553.99
180809A001	19,268.79
BHI01FTC01010054	7,205.10
BHI01FTC01010058	3,719.15
BHI01FTC01010055	429.36
1082140	521,252.40
1082888	127,767.15
093022 FTC 022	12,148.11
DUCO202302	5,600.00
1	6,475.00
29FTC119F013541	17,308.80
7881	89,747.50
2824	13,167.76
52008506	66,688.31
H2022 03 02	6,132.25
H2022 03 03	5,795.00
H2022 03 05	6,673.75
HGGW133	242.33
202661632	1,177.22
011U2	4,875.00
014U2	3,147.73
657	393,127.40
869	56,970.07

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INVOICE NUMBER	AMOUNT (\$)
INV0000002739	35,190.49
INV0000002936	51,420.87
INV0000002841	51,371.49
INV0000002961	33,777.73
INV0000002969	19,050.55
102573A	1,080.00
102606A	360
3066	8,133.12
77599NOV1	276.6
1	3,600.00
FY220000005777	3,334.65
3A	4,592.00
SSC3234	126,010.01

Source: the FTC Financial Management Office

APPENDIX D: ACRONYMS AND ABBREVIATIONS

ARC	Administrative Resource Center
BC	Bureau of Competition
CFR	Code of Federal Regulations
CLIN	Contract Line Item Number
CO	contracting officer
COR	contracting officer’s representative
EFT	Electronic Funds Transfer
FAR	Federal Acquisition Regulation
FMO	Financial Management Office
FY	fiscal year
GAO	U.S. Government Accountability Office
<i>Green Book</i>	<i>GAO Standards for Internal Control in the Federal Government</i>
IPP	Invoice Processing Platform
OMB	Office of Management and Budget
PO	purchase order
T&M	time and materials
TIN	Taxpayer Identification Number

APPENDIX E: FTC MANAGEMENT RESPONSE



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

Financial Management Office

Date: December 19, 2023

To: Andrew Katsaros, Inspector General

Thru: David Rebich, Acting Executive Director *for* **DAVID REBICH** Digitally signed by DAVID REBICH Date: 2023.12.19 13:40:42 -05'00'
David Robbins, Executive Director

From: Stephen Laurance, Chief Financial Officer **STEPHEN LAURANCE** Digitally signed by STEPHEN LAURANCE Date: 2023.12.17 13:32:36 -05'00'

Subject: Management’s Response to Draft Report on Audit of the Federal Trade Commission Contractor Invoice Processes

The Federal Trade Commission (FTC) appreciates the Office of the Inspector General’s (OIG) work to identify potential risks and improvement areas for the FTC.

The draft report highlights the need to finalize an ongoing monitoring process for invoice reviews. FTC concurs with the recommendation and proposes the following action.

OIG Recommendation 1: We recommend that the Executive Director in coordination with the Director of the Financial Management Office, complete its efforts to implement a formal, structured process for invoice review approval and payment of high-risk contracts, to align with federal standards and guidance, and develop plans to assess the effectiveness of the new process.

Planned Action: The Executive Director, together with staff in the Acquisition Office, will complete documentation and implementation of a formal invoice review process. Efforts are already underway to conduct periodic invoice reviews, including review of payments for high-risk contracts (Expert Witness Contracts and others designated). The Acquisition Office will document the established processes including their frequency and will implement a reoccurring review that will be assessed for effectiveness and updated accordingly. Planned actions are expected to be completed by March 30, 2024.