

**FEDERAL TRADE COMMISSION**  
**OFFICE OF INSPECTOR GENERAL**



**SEMIANNUAL REPORT TO CONGRESS**

**October 1, 2009 – March 31, 2010**

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**Report No. 43**



OFFICE OF  
INSPECTOR GENERAL

FEDERAL TRADE COMMISSION  
WASHINGTON, D.C. 20580

April 30, 2010

The Honorable Jon Leibowitz  
Chairman  
Federal Trade Commission  
600 Pennsylvania Avenue, N.W.  
Washington, DC 20580

Dear Chairman Liebowitz:

On behalf of the Federal Trade Commission Office of Inspector General (OIG), I am pleased to submit this report summarizing our activities for the semiannual period ending March 31, 2010.

During this semiannual period, we issued the annual audit report on the FTC's FY 2009 financial statements, and the annual FY 2009 FISMA review report. We also received a "clean" opinion on our audit organization's system of quality control in the external peer review performed by the Smithsonian Institution OIG. On the investigative side, we processed 36 consumer inquiries and complaints/allegations of possible wrongdoing during the reporting period. We opened two new criminal investigations of possible wrongdoing and closed five complaints/allegations during the current reporting period. We referred 16 complaints to the appropriate FTC program office and five to other federal agencies. During the reporting period, we did not close any OIG criminal investigations.

We are proud to be part of the federal agency dedicated to protecting consumers and promoting competitive markets in both the United States and around the world. We are pleased to report that as in the past, management has been responsive in working with the OIG to implement all proposed recommendations. I appreciate management's support and I look forward to working with you in our ongoing efforts to promote economy and efficiency in agency programs.

Sincerely,

John M. Seeba  
Inspector General

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# INTRODUCTION

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## Federal Trade Commission Profile

The Federal Trade Commission (FTC) is an independent agency that has two critical goals: protecting consumers and maintaining competition. FTC's mission is to prevent business practices that are anticompetitive or deceptive or unfair to consumers; to enhance informed consumer choice and public understanding of the competitive process; and to accomplish these missions without unduly burdening legitimate business activity.

The FTC's mission is carried out by three bureaus: the Bureau of Consumer Protection, the Bureau of Competition, and the Bureau of Economics. Work is aided by offices including the Office of General Counsel, the Office of Inspector General, the Office of International Affairs, the Office of the Executive Director, and seven regional offices. The FTC is headed by a commission composed of five commissioners, nominated by the President and confirmed by the Senate, each serving a seven-year term.

The FTC seeks to ensure that the nation's markets are competitive, efficient and free from undue restrictions. The FTC also seeks to improve the operation of the marketplace by ending unfair and deceptive practices with emphasis on those practices that might unreasonably restrict or inhibit the free exercise of informed choice by consumers. The FTC relies on economic analysis to support its law enforcement efforts and to contribute to the economic policy deliberations of Congress, the Executive Branch and the public.



FTC Headquarters Building, Washington DC

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## **Office of Inspector General Profile**

The Inspector General Act of 1978, as amended, created the OIG as an independent entity within the FTC to detect and prevent fraud, waste, and abuse; to promote economy and efficiency; and to keep the FTC Chairman and the Congress fully and currently informed about problems and deficiencies involving programs and operations at the agency. The Inspector General reports directly to the Chairman and to the Congress. To aid the FTC in accomplishing its consumer protection and antitrust missions, the OIG has a budget of \$1,102,900 for fiscal year 2010.

### **Audit**

The OIG independently audits the FTC's programs and operations to provide assurance of efficient and effective operations. The OIG monitors the external audit of the FTC's financial statements and contracts out the annual review of the FTC's information security.

### **Investigations**

The OIG investigates allegations of fraud, waste, abuse, gross mismanagement, employee and contractor misconduct, and criminal and civil violations of law that have an impact on FTC's programs and operations. It refers matters to the U.S. Department of Justice whenever the OIG has reasonable grounds to believe there has been a violation of federal criminal law. It also identifies fraud indicators and recommends measures to management to improve the agency's ability to protect itself against fraud and other wrongdoing.

### **Counsel**

The Counsel to the Inspector General provides independent legal advice to the Inspector General and to the audit and investigative staff. The Counsel also serves as the Chief Investigator and oversees the OIG's investigative program under the supervision of the Inspector General.

# AUDIT and RELATED ACTIVITIES

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## Completed Audits

During this period, we issued two reports: the annual financial statement audit report and the annual FISMA report.

### **AR 10-001 – Audit of the FTC Financial Statements - FY 2009**

Federal law requires that the FTC obtain an annual independent audit of its financial statements, which the OIG oversees. We contracted with the independent public accounting firm of Dembo, Jones, Healy, Pennington & Marshall, P.C. (DJHPM) under a multiyear contract for which the OIG serves as the Contracting Officer's Technical Representative (COTR). The oversight ensured that the audit complied with generally accepted government auditing standards.

The audit was performed in accordance with U.S. generally accepted government auditing standards and OMB audit guidance. For the 13th consecutive year the FTC received an unqualified opinion, the highest opinion given by independent auditors. As a result of the audit of FTC's financial statement for the year ended September 30, 2009, DJHPM found:

- the financial statements were presented fairly, in all material respects, in conformity with U.S. generally accepted accounting principles,
- no material weaknesses in internal control over financial reporting (including safeguarding of assets) and compliance with laws and regulations,
- no reportable noncompliance with laws and regulations tested.

## **AR 10-002 – Review of FTC FISMA Implementation - FY 2009**

The Federal Information Security Management Act of 2002 (FISMA) requires an annual review of federal agency information security programs and practices to determine their effectiveness. The objectives of this review were to evaluate the adequacy of the FTC's information security program and its procedures for identifying and protecting Personally Identifiable Information (PII) and other Privacy Act concerns. This information is provided to senior management and others to enable them to determine the effectiveness of overall security programs, to ensure the confidentiality and integrity of data entrusted to the FTC, and to develop strategies/best practices for cost effectively improving information security. The review includes evaluating the adequacy of the FTC's computer security program and practices for its major systems.

A critical component of the FISMA information assurance program monitoring requirements is an independent assessment of program effectiveness by the Inspector General (IG) of the respective federal agency. This assessment is intended to identify weaknesses in agency programs, provide recommendations for corrective actions, and monitor agency success in maintaining the security of agency information assets (hardware, software, data, and system availability).

This year's OIG review found that the FTC security environment continues to evolve to expand its coverage and to address changing threats and requirements. The Information and Technology Management Office (ITMO) has implemented or addressed most of the OIG-identified security vulnerabilities discussed in the prior year's evaluation. Two major areas addressed are: FTC's efforts to continue revising and updating security policies, procedures and guidelines, and contractor oversight. The major efforts for ITMO next year will be its focus on revising security policies, and establishing the FTC in-house data center.

### **Audit Resolution**

As of the end of this reporting period, all OIG audit recommendations for reports issued in prior periods have been resolved. That is, management and the OIG have reached agreement on what actions need to be taken.

## **Audit Activities Planned or In-Progress**

The OIG plans the following audit related activities during the second half of FY 2010:

### **AR 11-001 - Audit of the FTC Financial Statements for FY 2010**

This audit is required annually under the Accountability of Tax Dollars Act of 2002. We contract out this audit to an independent public accountant to perform this work. The OIG will serve as the Contracting Officer's Technical Representative (COTR) and provide oversight on the contract. The purpose of the audit is to express an opinion on the financial statements of the Federal Trade Commission for the fiscal year ending September 30, 2010. The audit will also test the internal controls over financial reporting and assess compliance with selected laws and regulations. The audited financial statements are included in the financial section of the agency's Performance and Accountability Report to be issued on or before November 16, 2010.

### **AR 11-002 – Review of FTC FISMA Implementation for FY 2010**

The Federal Information Security Management Act of 2002 (FISMA) requires an annual evaluation of each agency's information security program and practices to determine their effectiveness. The evaluation shall be performed by the Inspector General or by an independent external auditor, as determined by the Inspector General.

To assist us in conducting this review, we hire an independent consultant to perform this work. The OIG acts as the COTR and performs oversight during the execution of this contract. The review includes evaluating the adequacy of the FTC's computer security program and practices for its major systems. This year, the review will focus on the FTC's revised and updated IT policies and procedures, the general support system infrastructure, NIST Federal Information Processing Standards (FIPS) 199 Security Categorization, the privacy report, and FTC's *Plan of Action and Milestones* to determine the extent to which the agency has implemented previously agreed upon OIG and other internally identified recommendations. This will enable the OIG to provide feedback to management on the results of its efforts to address program weaknesses.

This year's FISMA review has also added a new task order to accommodate the significant changes affecting the FTC IT environment in two areas: OMB's proposed change in reporting metrics that substantially changes the procedures, level of effort, and technical review areas required to complete the FY 2010 FISMA review, and the modernization and revision of the FTC computing and communications architecture.

The OIG continues its work on:

### **FTC Travel Program**

The objective of this audit is to determine compliance with applicable travel regulations: to determine whether internal controls are in place and operating effectively to deter fraud, waste and abuse regarding travel program funds. We are also reviewing the FTC travel card program, the electronic FedTraveler system, and other systems related to the FTC travel program. This audit was originally scheduled to cover the period through March 2008, but has been extended to include data through the end of fiscal year 2009.

### **External Peer Review of the National Endowment for the Arts Office of Inspector General**

During this reporting period, the FTC OIG is scheduled to conduct an external peer review of the National Endowment for the Arts Inspector General Audit Organization for the period ended March 31, 2010. We will conduct our review in accordance with the guidelines established by the Council of the Inspectors General on Integrity and Efficiency.

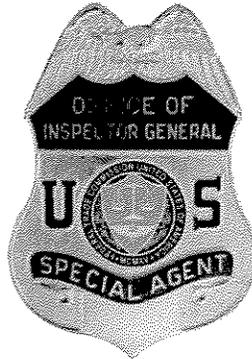
### **Other Potential Reviews**

During the upcoming year we will also conduct research on the following program functions to determine the need for further audit work:

- Review of the purchase cards
- Review of inventory controls over accountable property
- Review of cell phones charges and usage

# INVESTIGATIVE ACTIVITIES

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The Inspector General is authorized by the IG Act to receive and investigate allegations of employee misconduct as well as fraud, waste and abuse occurring within FTC programs and operations. Matters of possible wrongdoing are referred to the OIG in the form of allegations or complaints from a variety of sources, including FTC employees, other government agencies and the general public. Reported incidents of possible fraud, waste and abuse can give rise to administrative, civil or criminal investigations.

## **Investigative Summary**

During this reporting period, the OIG received 36 consumer and other inquiries and reports of possible wrongdoing. Of the 36 complaints, 16 involved issues that fall under the jurisdiction of FTC program components (identity theft, credit repair, etc.). These matters were referred to the appropriate FTC component for disposition.

Of the remaining complaints, the OIG opened two new investigations and five complaints were closed with no further OIG action. Six of the remaining complaints involved a preliminary OIG inquiry that consumed considerable OIG resources but did not result in a full phase OIG investigation. Five complaints to the OIG were referred to another federal or state agency with appropriate jurisdiction. Two allegations are currently being evaluated to determine whether further OIG action is warranted.

During this reporting period, the OIG received nearly 100 complaints from individuals who reported fraudulent misuse of the name of the FTC and/or impersonations of FTC staff as part of a widespread scam. These consumer complaints were tracked by our office in our ongoing work with other federal law enforcement organizations. However, the volume of these complaints is not included in the statistical information above.

Following is a summary of the OIG's investigative activities for the six-month period ending March 31, 2010:

Cases pending as of 9/30/09	2
PLUS: New cases	2
LESS: Cases closed	(0)
Cases pending as of 3/31/10	4

### **Matters Referred for Prosecution**

During this reporting period the OIG did not refer any new matters to the Department of Justice (DOJ) for consideration of potential criminal action. The OIG consulted with DOJ prosecutors regarding two pending OIG investigations.

A matter referred to DOJ during a previous reporting period remains pending at DOJ (Office of Public Integrity), with no final action to date.

## **OTHER ACTIVITIES**

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### **Liaison with Other Agencies**

During this reporting period, our Lead Investigator continued to assist the Legal Services Corporation (LSC) OIG in the prosecution of a matter handled by the Assistant United States Attorney in the Western District of Texas. Our staff member investigated the matter as an employee of LSC OIG prior to joining the FTC OIG.

In conducting criminal investigations, the OIG has sought assistance from, and worked jointly with other law enforcement agencies: other federal OIGs, the Department of Homeland Security Federal Protective Service, the United States Postal Service OIG, the Federal Bureau of Investigation, the U.S. Postal Inspection Service, the U.S. Secret Service, the U.S. Marshals Service, the Internal Revenue Service, the U.S. Capitol Police, as well as state agencies and local police departments.

### **Activities within the Inspector General Community**

The FTC IG is an active participant in the Council of the Inspectors General on Integrity and Efficiency (CIGIE), a council of inspectors general that promotes collaboration on integrity, economy, and efficiency issues that transcend individual agencies. The IG is also the vice-chair of the Audit Committee of the CIGIE.

The FTC Inspector General is also the chair of the audit committee overseeing the audit of the Department of Defense Inspector General's financial statements. In this capacity, the IG along with two other senior government officials provide oversight on the DOD IG's financial statement audit.

The OIG Audit Manager participates regularly in the monthly meeting of the Financial Statement Audit Network, and has joined the Federal Audit Executive Committee Information Technology committee; this working group has analyzed and provided comments to OMB on its proposed metrics for the IG's annual FISMA reporting.

Our IG Counsel participates regularly in the monthly meeting of the Council of Counsel to the Inspectors General (CCIG), as well as contributes to the legal discourse within that Council on matters that are germane to the entire IG community.

Our Lead Investigator is actively participating in an OIG-community working group that is designing a training program for investigators engaged in undercover operations. The training program will be made available through the Inspector General Criminal Investigator Academy in conjunction with the Federal Law Enforcement Training Center.

In addition, our Lead Investigator is actively participating on a Department of Justice (DOJ)-led multi-agency task force addressing crimes related to lottery and sweepstakes scams targeting the elderly. The task force is actively investigating these crimes and moving toward prosecution of those found responsible. This task force received over 800 consumer complaints from many sources, including Lloyds of London, the Department of the Treasury, the FTC Consumer Response Center, and other sources. We are participating in this task force because the fraudsters often identify themselves as employees of the agency. The OIG has posted a scam alert on the OIG website at <http://www.ftc.gov/oig>

## **Significant Management Decisions**

Section 5(a)(12) of the Inspector General Act requires that if the IG disagrees with any significant management decision, such disagreement must be reported in the semiannual report to Congress. Further, Section 5(a)(11) of the Act requires that any decision by management to change its response to a significant resolved audit finding must also be disclosed in the semiannual report. For this reporting period there were no significant final management decisions made with which the OIG disagreed, and management did not revise any earlier decisions on OIG audit recommendations.

## **Access to Information**

The IG is to be provided with ready access to all agency records, information, or assistance when conducting an investigation or audit. Section 6(b)(2) of the IG Act requires the IG to report to the agency head, without delay, if the IG believes that access to required information, records or assistance has been unreasonably refused, or otherwise has not been provided. A summary of each report submitted to the agency head in compliance with Section 6(b)(2) must be provided in the semiannual report in accordance with Section 5(a)(5) of the Act. During this reporting period, the OIG did not encounter any problems in obtaining assistance or access to agency records. Consequently, no report was issued by the IG to the agency head pursuant to Section 6(b)(2) of the IG Act.

## **Review of Legislation**

Section 4(a)(2) of the IG Act authorizes the IG to review and comment on proposed legislation or regulations relating to the agency or, upon request, affecting the operations of the OIG. During this reporting period, the OIG reviewed no legislation.

## **CONTACTING THE OFFICE OF INSPECTOR GENERAL**

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Employees and the public are encouraged to contact the OIG regarding any incidents of possible fraud, waste, or abuse occurring within FTC programs and operations. The OIG telephone number is (202) 326-2800. A confidential or anonymous message can be left 24 hours a day. Complaints or allegations of fraud, waste or abuse can also be emailed directly to [OIG@ftc.gov](mailto:OIG@ftc.gov). OIG mail should be addressed to:

Federal Trade Commission  
Office of Inspector General  
Room NJ-1110  
600 Pennsylvania Avenue, NW  
Washington, D.C. 20580

OIG audit reports can be accessed via the internet at: [www.ftc.gov/oig](http://www.ftc.gov/oig). A visitor to the OIG home page can download recent (1996-2009) OIG semi-annual reports to Congress, the FY 1998 - 2009 financial statement audits, and other program and performance audits issued from FY 1999 to the present. A list of audit reports issued prior to FY 1999 can also be ordered via an e-mail link to the OIG. In addition to this information resource about the OIG, visitors are also provided a link to other federal organizations and Offices of Inspector General.

**TABLE I: SUMMARY OF INSPECTOR GENERAL REPORTING REQUIREMENTS**

<b>IG ACT Reference</b>	<b>Reporting Requirement</b>	<b>Page(s)</b>
Section 4(a)(2)	Review of legislation and regulations	10
Section 5(a)(1)	Significant problems, abuses and deficiencies	n/a
Section 5(a)(2)	Recommendations with respect to significant problems, abuses and deficiencies	n/a
Section 5(a)(3)	Prior significant recommendations on which corrective actions have not been made	n/a
Section 5(a)(4)	Matters referred to prosecutive authorities	8
Section 5(a)(5)	Summary of instances where information was refused	10
Section 5(a)(6)	List of audit reports by subject matter, showing dollar value of questioned costs and funds put to better use	13-14
Section 5(a)(7)	Summary of each particularly significant report	3-4
Section 5(a)(8)	Statistical tables showing number of reports and dollar value of questioned costs	13
Section 5(a)(9)	Statistical tables showing number of reports and dollar value of recommendations that funds be put to better use	14
Section 5(a)(10)	Summary of each audit issued before this reporting period for which no management decision was made by the end of the reporting period	n/a
Section 5(a)(11)	Significant revised management decisions	9
Section 5(a)(12)	Significant management decisions with which the inspector general disagrees	9

**TABLE II: INSPECTOR GENERAL ISSUED REPORTS WITH QUESTIONED COSTS**

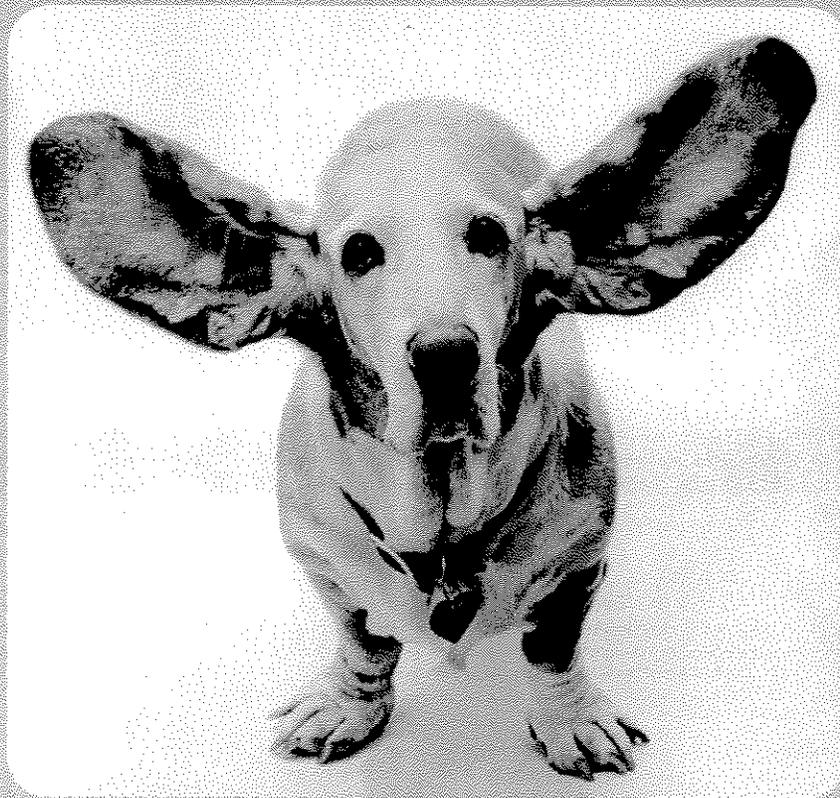
	<u>Number</u>	<u>Dollar Value</u> <u>Questioned</u> <u>Costs</u>	<u>Unsupported</u> <u>Costs</u>
A. For which no management decision has been made by the commencement of the reporting period	0	0	0
B. Which were issued during the reporting period	<u>0</u>	<u>0</u>	<u>0</u>
<b>Subtotals (A + B)</b>	<b><u>0</u></b>	<b><u>0</u></b>	<b><u>0</u></b>
C. For which a management decision was made during the reporting period	0	0	0
<b>(i) dollar value of disallowed costs</b>	<b><u>0</u></b>	<b><u>0</u></b>	<b><u>0</u></b>
<b>(ii) dollar value of cost not disallowed</b>	<b><u>0</u></b>	<b><u>0</u></b>	<b><u>0</u></b>
D. For which no management decision was made by the end of the reporting period	<u>0</u>	<u>0</u>	<u>0</u>
Reports for which no management decision was made within six months of issuance	<u>0</u>	<u>0</u>	<u>0</u>

**TABLE III: Inspector General Issued Reports with Recommendations That Funds Be Put To Better Use**

	Number	Dollar Value
A. For which no management decision has been made by the commencement of the reporting period	0	0
B. Which were issued during this reporting period	0	0
C. For which a management decision was made during the reporting period	0	0
<b>(i) dollar value of recommendations that were agreed to by management</b>	<b>0</b>	<b>0</b>
- based on proposed management action	0	0
- based on proposed legislative action	0	0
<b>(ii) dollar value of recommendations that were not agreed to by management</b>	<b>0</b>	<b>0</b>
D. For which no management decision has been made by the end of the reporting period	0	0
Reports for which no management decision was made within six months of issuance	0	0

The FTC's  
**Office of the  
Inspector General**

We want to hear from you.



OIG. Working to keep the FTC  
efficient, responsible & trustworthy.

Report fraud, waste, abuse and mismanagement to the OIG.

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[ftc.gov/OIG](http://ftc.gov/OIG)