Federal Trade Commission
Office of Inspector General

SEMIANNUAL REPORT TO CONGRESS

April 1, 2014—September 30, 2014
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MESSAGE FROM THE INSPECTOR GENERAL

October 31, 2014

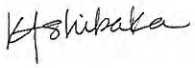
On behalf of the Federal Trade Commission (FTC) Office of Inspector General (OIG), I am pleased to present our Semiannual Report to Congress for the period ending September 30, 2014.

During this reporting period, the OIG has experienced significant transition and challenges. The Inspector General retired at the end of May, and the OIG moved locations from near Union Station to L'Enfant Plaza. In addition, one of the Senate oversight committees proposed to eliminate the FTC OIG, along with several other small OIGs, and to consolidate it into a large OIG of another Department. The OIG spent significant effort this reporting period addressing the committee's proposal and compensating for staffing shortages. At the end of this reporting period, the committee has dropped its proposal, the OIG will fulfill all of its statutory reporting requirements, and the OIG is on track to accomplish nearly all of its strategic plan objectives for the year.

The OIG also is completing a review of the FTC's allocation and management of consumer protection resources within the Bureau of Consumer Protection. The OIG is assessing the BCP's enforcement and non-enforcement strategies, goals, policies and procedures. The OIG also is identifying potential best practices that could be considered to further enhance the effectiveness of the FTC's consumer protection program. In addition, during this reporting period the OIG initiated 3 investigations and processed 354 consumer inquiries and allegations of possible wrongdoing.

The OIG's joint effort with the Executive Director to ensure implementation of OIG recommendations continued with great success this reporting period. In addition to adding a greater degree of management accountability for taking timely and effective actions in response to OIG recommendations, the FTC has successfully closed 8 recommendations that were open last reporting period. The Executive Director's strong support of this initiative has been critical to its success.

I appreciate FTC management's support for the OIG, and I look forward to continuing to work with management in our ongoing efforts to promote economy, efficiency and integrity in all FTC programs and operations.



Kelly C. Tshibaka
Acting Inspector General

About the Office of Inspector General

OIG Mission

To promote economy, efficiency and effectiveness, by detecting and preventing waste, fraud, and abuse in FTC programs and operations.

OIG Vision

Optimize our value to stakeholders through high quality, independent, objective, and timely audits, investigations and reviews.

OIG Strategic Goals

1. Maximize the Value the OIG Adds to FTC Programs and Operations

2. Enhance the Integrity of the FTC

3. Continuously Improve OIG Operations & Services

Introduction and Definitions

The mission of the Office of Inspector General is to promote economy, efficiency, and effectiveness by detecting and preventing waste, fraud, and abuse.

In compliance with the Inspector General Act Amendments of 1988 (5 U.S.C. app.), the Office of Inspector General (OIG) was established in 1989 as an independent and objective organization within the FTC.

Under the Inspector General Act, the OIG is responsible for conducting audits, evaluations and investigations relating to the programs and operations of the FTC. Audits are conducted for the purpose of finding and preventing fraud, waste and abuse and to promote economy, efficiency and effectiveness within the agency. Evaluations are systematic assessments of the FTC's operations, programs or policies. OIG investigations seek out facts related to allegations of wrongdoing on the part of FTC employees and individuals or entities having contracts with or obtaining benefits from the agency.

Individuals who wish to file a complaint about the business practices of a particular company or entity, or allegations of identity theft, deceptive advertising practices or consumer fraud should file a complaint with the FTC Bureau of Consumer Protection's Consumer Response Center (CRC) at 1-877-382-4357.

Complaints to the OIG from the public or from an FTC employee can be made anonymously. The identity of an FTC employee who reports waste or wrongdoing to the OIG will be protected from disclosure consistent with provisions of the Inspector General Act. In addition, the Inspector General Act and the Whistleblower Protection Act prohibit reprisals against employees for filing complaints or cooperating with the OIG.

The OIG is required by law to prepare a semiannual report summarizing the activities of the Office during the immediately preceding six-month period. The report is sent to the FTC Chair, the President of the Senate, the Speaker of the House and the FTC's appropriating and authorizing committees. The OIG has a budget of $1,082,000 for fiscal year 2014.

WE PERFORM THE FOLLOWING SERVICES:

PERFORMANCE AUDITS address the efficiency, effectiveness, and economy of the FTC's programs, activities, and functions; provide information to responsible parties to improve public accountability; facilitate oversight and decision making; and initiate corrective actions as needed.

FINANCIAL AUDITS provide an independent assessment of whether financial statements are presented fairly in accordance with generally accepted accounting principles. Reporting on financial audits in accordance with Government Auditing Standards also includes reports on internal control and compliance with provisions of laws, regulations, and contracts as they relate to financial transactions, systems and processes.

INSPECTIONS AND EVALUATIONS are systematic and independent assessments of the design, implementation, and/or results of the FTC's operations, programs, or policies. They provide information that is timely, credible, and useful for agency managers, policy makers, and others. Inspections or evaluations can be used to determine efficiency, effectiveness, impact, and/or sustainability of agency operations, programs, or policies.

INVESTIGATIONS are conducted based on alleged or suspected fraud, waste, abuse or gross mismanagement, employee and contractor misconduct, and criminal and civil violations of law that have an impact on the FTC's programs and operations. The OIG 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. The OIG also identifies fraud indicators and recommends measures to management to improve the agency's ability to protect itself against fraud and other wrongdoing.

MANAGEMENT ADVISORIES are utilized by the OIG to expeditiously report findings of systemic weaknesses or vulnerabilities, and recommendations to correct them, identified during the course of an investigation or other IG activity.

AUDITS AND RELATED ACTIVITIES

Completed Audits and Reports

During this period, we issued the management letter for the Fiscal Year (FY) 2013 financial statement audit report and the FY 2013 determination of compliance with the Improper Payments Elimination and Recovery Act of 2010 (IPERA).

Management Letter for FTC Audited Financial Statements for FY 2013

Federal law requires that the FTC obtain an annual independent audit of its financial statements, which the OIG oversees. For this audit we contracted with the independent public accounting firm of Brown & Company CPAs, PLLC under a multiyear contract.

When performing an audit of an agency's major financial systems and accounting processes, auditors often detect deficiencies in internal controls that do not rise to a level of seriousness to be reported in the auditor's opinion. These findings and recommendations are communicated to the auditee in a management letter and are intended to improve the FTC's internal controls or result in other operating efficiencies.

The management letter addressed controls in the following areas:

- Federal Acquisition Regulation (FAR) compliance
- Liquidation of obligations
- Redress accounts receivable collections
- Complementary client controls for the Interior Business Center financial system
- Complementary client controls for the Interior Business Center payroll system FPPS
- Improving capitalization procedures
- Improving recording of obligations
- Improving end-of-year closing procedures

In its response, FTC management concurred with all recommendations and described action plans to address each issue. Brown & Company will determine the status of FTC's corrective actions during the FY 2014 financial statement audit.

Improper Payments Elimination and Recovery Act of 2010

IPERA requires the OIG to assess the FTC's compliance with improper payment requirements. The OIG determined that the FTC is compliant with the requirements of IPERA. The FTC reported in its Performance Accountability Report (PAR) that it has not identified any program that constitutes a high risk for improper payments and considers all of its payments to be low risk.

Audit Activities Planned or In-Progress

The OIG will complete two mandatory reviews during the next reporting period that will assess the FTC's financial oversight and information security.

FTC Financial Statements for FY 2014

A financial statement audit is required annually under the Accountability of Tax Dollars Act of 2002. The purpose of the audit is to express an opinion on the financial statements of the FTC for the fiscal year ending September 30, 2014. The audit will also test the internal controls over financial reporting and assess compliance with selected laws and regulations. The audited financial statements will be included in the financial section of the FTC's 2014 Agency Financial Report.

FTC FISMA Implementation for FY 2014

The Federal Information Security Management Act of 2002 (FISMA) requires an annual evaluation of each agency's information security and privacy program and practices to determine their effectiveness. The evaluation is being performed by an independent contractor. It includes evaluating the adequacy of the FTC's information security program and practices for its major systems. This year, the review will include assessments of planning and governance, contractor management and personal identity verification (PIV) card compliance.

Audit Resolution and Corrective Actions

During this semiannual reporting period, the FTC offices and bureaus continued to make progress in implementing open recommendations. Table 1 shows all recommendations open 180 days or more on which corrective actions are still in progress.

Section 5(a)(11) of the Inspector General 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, management did not revise any earlier decisions on OIG audit recommendations.

Inspection and Evaluation Activities

The OIG has begun reviewing the overall effectiveness and efficiency of FTC operations in delivering on its core mission to protect consumers and maintain competition. These reviews will serve to develop a comprehensive baseline for the OIG in determining where to focus future reviews of FTC core mission programs.

Evaluation of FTC's Allocation and Management of Consumer Protection Resources

This reporting period, the OIG continued to evaluate the case selection and management practices within the Bureau of Consumer Protection (BCP). The FTC receives and processes over two million consumer complaints per year. As a result, the agency is constantly challenged to direct its limited resources in a manner that will maximize its desired outcome to protect consumers. A complex marketplace, ever-evolving fraud schemes, declining budgets, and increasing workloads require continuous reassessment of management practices in achieving that objective.

The overall objective of our evaluation is to survey the FTC's policies, procedures and processes for allocating and managing resources for its consumer protection programs focusing specifically on assessing enforcement and non-enforcement strategies, goals, policies and procedures.

INVESTIGATIVE ACTIVITIES

The IG is authorized by the Inspector General 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 354 consumer complaints, inquiries, and reports of possible wrongdoing. This represents a 55% increase in complaints received from the last reporting period. Of the 354 complaints, 259 either fell under the jurisdiction of FTC program components and not the OIG (e.g. identity theft, consumer scams, etc.), or were referred to other federal and local law enforcement agencies. Complaints under the jurisdiction of FTC programs were referred to the appropriate FTC component for disposition.

The OIG initiated three investigations during the reporting period. Of these investigations, two were closed by the end of the reporting period. Of the remaining complaints received, 61 were outside of the OIG's jurisdiction, and 31 resulted in the OIG providing guidance or a written response to the complainant and were closed with no further OIG action.

During the previous reporting period the OIG observed a substantial increase in complaints regarding scams and frauds. The OIG also observed a decrease in the number of FTC employee impersonations. Of the 354 complaints received during this reporting period, 20 were related to FTC impersonations. This represents a 67% decrease in impersonation-related complaints received since the prior reporting period. In five of these complaints, actual FTC employee names were used by the perpetrators of the scams. These complaints were referred to the FTC's Consumer Response Center and the FTC's representative on the multi-agency scams task force led by the Department of Justice. The OIG continually updates its scam alert webpage to inform consumers of common names and numbers used in scams.

In one impersonation investigation conducted by the multi-agency scams task force, two individuals pled guilty to defrauding elderly individuals through a sweepstakes scam based in Costa Rica. The perpetrators told the victims that in order to receive the prize money, they had to send money to Costa Rica for a purported refundable insurance fee. The perpetrators falsely represented themselves to be employees of various U.S. government agencies such as the Federal Trade Commission. The perpetrators are awaiting sentencing.

In another impersonation investigation a dual U.S. - Costa Rican citizen pled guilty for his role in a $1.88 million sweepstakes fraud scheme that defrauded hundreds of elderly Americans. As with the previously mentioned investigation, the perpetrators falsely claimed to represent various U.S. government agencies such as the Federal Trade Commission.

Investigations Closed

During this reporting period, the OIG closed two investigations. They are highlighted below:

Contractor Misconduct

The OIG investigated allegations that an FTC contractor participated in a scam targeting consumers who were contacting the FTC to report complaints. The OIG did not substantiate the allegations and found no wrongdoing on the part of the FTC contractor.

Unauthorized Outside Employment

The OIG investigated an allegation that an FTC employee was engaged in unauthorized outside employment activities. Specifically, the complainant alleged that an FTC attorney was providing legal ghostwriting services in a local court case. The complainant later retracted the allegation. The OIG did not substantiate the allegation, and found no evidence of outside employment on the part of the FTC attorney.

OTHER ACTIVITIES

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 FTC IG is a member of the CIGIE Audit Committee and also participates in periodic meetings designed to address issues common to smaller OIG's.

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

The IG's Audit Manager participates regularly in the monthly meeting of the Financial Statements Audit Network (FSAN), a CIGIE subcommittee. She also teaches the financial statement section of the CIGIE Peer Review training offered to the greater OIG community.

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. For this reporting period, there were no significant management decisions made with which the OIG disagreed.

Review of Legislation

The OIG reviewed legislation proposed by the U.S. Senate Committee on Homeland Security and Government Affairs, Subcommittee on Financial and Contracting Oversight to improve the oversight of agencies by consolidating the FTC OIG into the Department of Commerce OIG.

The OIG communicated to the Subcommittee staff that oversight of the FTC is best performed by an internal IG for these reasons:

a. Consolidating the FTC OIG into a larger OIG will reduce oversight of the FTC, but an internal OIG maximizes oversight of the FTC.

b. Consolidating the FTC OIG into a larger OIG will hinder prevention and deterrence, but an internal OIG maximizes prevention and deterrence within the FTC.

c. The size, appropriation, mission, and risk-level of the FTC necessitates an internal OIG.

d. The FTC OIG is small but effective.

e. Consolidating the FTC OIG into a larger OIG will limit Congress's and FTC management's insight into the FTC, but an internal OIG maximizes insight into the FTC.

f. An internal OIG adds value to the FTC that is critical to advancing its mission and that would be lost if oversight is transferred to another Agency.

g. An internal OIG has a unique relationship with the FTC that cannot be duplicated by an external OIG.

h. FTC management supports having an internal OIG rather than an external OIG.

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 Inspector General 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 a problem in obtaining assistance or access to agency records.

Other Initiatives

The OIG continues to work jointly with FTC management to improve the policy and practice for tracking OIG recommendations. This process includes quarterly meetings between the OIG and FTC management. These meetings facilitate regular communication between the OIG, Executive Director, and FTC bureaus and offices about progress made or impediments encountered in implementing recommendations.

APPENDIX I - PEER REVIEWS

Peer Review Activity	Results
Peer reviews conducted by another OIG	Government Auditing Standards require audit organizations to undergo external peer reviews by independent reviewers every three years. Our most recent peer review, was performed by the U.S. Election Assistance Commission OIG (EAC OIG). In its report issued September 2012, the FTC OIG received a peer review rating of *pass* for its system of quality control for the year ended March 31, 2012. The EAC OIG did not make any recommendations.
Outstanding recommendations from peer reviews of the OIG	There are no outstanding recommendations from peer reviews of the OIG.
Peer reviews conducted by the OIG	The most recent peer review conducted by the FTC OIG was of the Postal Regulatory Commission (PRC) OIG. In its report issued March 2012, the PRC OIG received a peer review rating of *pass* for its system of quality control.
Outstanding recommendations from peer reviews conducted by the OIG	There are no outstanding recommendations from peer reviews conducted by the OIG.

APPENDIX II - AUDIT AND EVALUATION REPORTS WITH CORRECTIVE ACTIONS PENDING

This table shows all recommendations open 180 days or more on which corrective actions are still in progress. Recommendations related to FISMA or financial statement audits may be complete but pending verification during the FY 14 audits. Presented below for each audit are the report number, date, a brief description of the open recommendations, and date management expects to complete final actions.

Report Number and Date	Report Title and Recommendation(s) for which Final Action is Not Complete
AR 12-002 **December 2011**	**Independent Assessment of Implementation of the Federal Information Security Management Act (FISMA) for Fiscal Year 2011**
	FTC agreed to institute a capital planning program for HSPD-12 acquisitions and to continue its efforts to implement an enterprise-focused information security continuous monitoring program. Management expects final action to be completed by September 30, 2015.
AR 13-002 **April 2013**	**Independent Assessment of Implementation of the Federal Information Security Management Act (FISMA) for Fiscal Year 2012**
	FTC agreed to implement a process to leverage existing capabilities to improve analysis of incident reports and to update required documentation of system security plans. Management expects final action to be completed by December 31, 2014.
AR 13-001A **March 2013**	**Financial Statement Management Letter Fiscal Year 2012**
	FTC agreed to formally document policies and procedures that address complementary client controls considerations and capitalization procedures. Management will also strengthen procedures over recording of obligations' contract line item numbers. Management expects final action to be completed by December 31, 2014.
AR 14-002 **February 2014**	**Independent Assessment of Implementation of the Federal Information Security Management Act (FISMA) for Fiscal Year 2012**
	FTC agreed to all recommendations, including continuing implementation of a risk-based governance structure, continuing its efforts to implement an information security continuous monitoring program, and increasing its contingency plan testing. Management expects final actions to be completed October 31, 2015.

APPENDIX III - INSPECTOR GENERAL ISSUED REPORTS WITH QUESTIONED COSTS

			Dollar Value	
		Number	Questioned Costs	Unsupported Costs
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	0	0	0
	Subtotals (A+B)	0	0	0
C.	For which a management decision was made during the reporting period	0	0	0
	(i) dollar value of the disallowed costs	0	0	0
	(ii) dollar value of the cost not disallowed	0	0	0
D.	For which no management decision was made by the end of the reporting period	0	0	0
E.	Reports for which no management decision was made within six months of issuance	0	0	0

APPENDIX IV- 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
	(i) dollar value of recommendations that were agreed to by management	0	0
	- based on proposed management actions	0	0
	- based on proposed legislative action	0	0
	(ii) dollar value of recommendations that were not agreed to by management	0	0
D.	For which no management decision has been made by the end of the reporting period	0	0
E.	Reports for which no management decision was made within six months of issuance	0	0

APPENDIX V - INSPECTOR GENERAL ACT REPORTING REQUIREMENTS INDEX

The Inspector General Act of 1978, as amended, specifies reporting requirements for semiannual reports. The requirements are listed below and indexed to the applicable pages.

IG ACT Reference	Reporting Requirements	Page(s)
Section 4(a)(2)	Review of legislation and regulations	11
Section 5(a)(1)	Significant problems, abuses and deficiencies	7-11
Section 5(a)(2)	Recommendations with respect to significant problems, abuses and deficiencies	7-11
Section 5(a)(3)	Prior significant recommendations on which corrective actions have not been made	13
Section 5(a)(4)	Matters referred to prosecutive authorities	none
Section 5(a)(5)	Summary of instances where information was refused	none
Section 5(a)(6)	List of audit reports by subject matter, showing dollar value of questioned costs and funds put to better use	none
Section 5(a)(7)	Summary of each particularly significant report	7
Section 5(a)(8)	Statistical tables showing number of reports and dollar value of questioned costs	14
Section 5(a)(9)	Statistical tables showing number of reports and dollar value of recommendations that funds be put to better use	15
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	none
Section 5(a)(11)	Significant revised management decisions	none
Section 5(a)(12)	Significant management decisions with which the inspector general disagrees	none
Section 5(a)(14)	Peer reviews conducted by another OIG	12
Section 5(a)(15)	Outstanding recommendations from peer reviews of the OIG	none
Section 5(a)(16)	Outstanding recommendations from peer reviews conducted by the OIG	none

CONTACTING THE OFFICE OF INSPECTOR GENERAL

OFFICE OF INSPECTOR GENERAL
FEDERAL TRADE COMMISSION

HELP PROMOTE INTEGRITY, ECONOMY AND EFFICIENCY

REPORT SUSPECTED FRAUD, WASTE, ABUSE OR MISMANAGEMENT

COMPLAINT MAY BE MADE ANONYMOUSLY

HOTLINE

(202) 326-2800

FAX: (202) 326-2034

EMAIL: OIG@FTC.GOV

OFFICE OF INSPECTOR GENERAL

600 PENNSYLVANIA AVENUE, NW CC-5206

WASHINGTON, D.C. 20580

ANY INFORMATION YOU PROVIDE WILL BE HELD IN CONFIDENCE.

HOWEVER, PROVIDING YOUR NAME AND MEANS OF COMMUNICATING WITH YOU MAY ENHANCE OUR ABILITY TO INVESTIGATE.

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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Email OIG@ftc.gov
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