

**Federal Trade Commission  
Office of Inspector General**



**SEMIANNUAL  
REPORT TO CONGRESS**

**October 1, 2014— March 31, 2015**

**Report No. 53**

Federal Trade Commission — Office of Inspector General  
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## MESSAGE FROM THE INSPECTOR GENERAL

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 March 31, 2015.

During this reporting period, the OIG continued its focus on the top management challenges facing the FTC:

- Securing the Agency's Information Systems and Networks from Destruction, Data Loss, or Compromise
- Leveraging the Value of Investments and Work Performed
- Recruitment, Retention, and Staff Size
- Ensuring Compliance with Digital Records Management Requirements

During this reporting period the OIG issued a report on the FTC's Bureau of Consumer Protection, issued the management letter for the Fiscal Year 2014 Audited Financial Statements, closed one investigation, and initiated four new investigations. FTC offices and bureaus also continued to make progress in implementing significant open OIG recommendations identified in previous semiannual reports.

There are several significant audits and reviews underway, including several mandatory audits as well as evaluations of the Bureau of Economics and the Office of the Chief Information Officer.

As the newly appointed Inspector General, I want to express appreciation for the significant contributions and leadership provided by Kelly C. Tshibaka, the OIG's Chief Investigator and Counsel, for her service as the Acting Inspector General, and for the contributions of the entire staff of the OIG during the recent period of transition. 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 FTC programs and operations. I also wish to express my appreciation to Congress for its sustained support to the OIG's vital mission.



Roslyn A. Mazer  
Inspector General  
April 30, 2015

## ABOUT THE OFFICE OF INSPECTOR GENERAL

### OIG MISSION

*To promote economy, efficiency and effectiveness and to detect and prevent waste, fraud, abuse, and mismanagement in the agency's operations and programs.*

### 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 and Services*

## INTRODUCTION AND DEFINITIONS

**THE MISSION OF THE OFFICE OF INSPECTOR GENERAL IS TO PROMOTE ECONOMY, EFFICIENCY, AND EFFECTIVENESS AND TO DETECT AND PREVENT WASTE, FRAUD, ABUSE, AND MISMANAGEMENT IN THE AGENCY'S OPERATIONS AND PROGRAMS.**

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 of 1978, as amended, 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 detecting and preventing fraud, waste, abuse, and mismanagement, 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 \$1,259,400 for fiscal year 2015.

**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.

## EVALUATIONS, AUDITS, AND RELATED ACTIVITIES

### COMPLETED REPORTS

During this period, we issued a report on the FTC's Bureau of Consumer Protection.

#### Evaluation of the FTC's Bureau of Consumer Protection (BCP)

The OIG performed an evaluation of the FTC's allocation and management of consumer protection resources within the BCP. This review focused on assessing the BCP's enforcement and non-enforcement strategies, goals, policies and procedures.

The evaluation found that the BCP's strategic planning is a best practice in comparison to other agencies the OIG examined. The evaluation also identified opportunities, if implemented, that could further advance the FTC's consumer protection mission and enhance an already strategic and successful program, including those highlighted below:

- Utilizing a more structured methodology for strategic planning, consumer protection enforcement, and education initiatives.
- Periodically realigning or "right sizing" BCP resource allocations by taking a baseline approach for determining how staff resources should be assigned in each division based on alignment to the strategic and annual planning processes.
- Continuing to build out the Management Data Dashboard (MDD) to integrate disparate management information systems, including disparate data on the costs of enforcement and non-enforcement activities.
- Where they do not currently exist, creating timeliness goals and budgets for investigations, including goals for common deliverables and milestones, such as the go-no go decision.
- Establishing general written "rule of thumb" guidelines for making enforcement decisions on

cases, which provides general guidance on the types of enforcement activities to pursue and when.

- Surveying the users of the Consumer Sentinel cyber tool to determine if the value it provides is commensurate with the associated cost.
- Developing additional tools to systematically collect enforcement and outreach outcomes for planning and management purposes.
- Re-evaluating the role of the Bureau of Economics in BCP consumer protection activities and determining if joint longer-term planning and coordination on consumer protection goals and strategies would be beneficial.

The FTC accepted all recommendations made in the report and has taken significant steps to implement corrective action that will improve the programs and operations of the BCP.

#### FY2014 Financial Statement Audit Management Letter



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 an independent public accounting firm under a multi-year contract, Brown & Company, CPAs, PLLC.

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 auditee's internal controls or result in other operating efficiencies.

The management letter addressed the FTC's controls in the following areas:

- Timeliness of delivery of documents requested
- Expenditure exceeded the obligation
- Lodging costs exceeded the lodging *per diem*
- The physical access control plan was not updated and finalized
- Accounts receivable are not recorded in the correct fiscal year quarter

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 2015 financial statement audit.

## ONGOING WORK

### Evaluation of the FTC's Bureau of Economics

The OIG is completing a review of the Bureau of Economics' (BE) to determine the BE's performance of core mission execution and strategic support among its programs, processes, and coordination functions in accordance with established agency policies and procedures. This evaluation also is examining whether the BE optimizes agency resources to efficiently and effectively accomplish its mission. The OIG is reviewing each FTC Bureau to develop a comprehensive baseline in determining where to focus future reviews of FTC core mission programs.

### Evaluation of the FTC's Office of the Chief Information Officer

The OIG is conducting a review of the Office of the Chief Information Officer (OCIO) to determine if the OCIO has the authority resources, structure, and organizational support to accomplish current priorities and successfully realize its mission. Furthermore,

the OIG will identify best practices in federal information technology management, staffing, and oversight they may assist the OCIO in more efficiently realizing its mission.

### FISMA Evaluation 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 includes assessments of planning and governance, contractor management and personal identity verification (PIV) card compliance.



## CORRECTIVE ACTIONS ON OIG RECOMMENDATIONS

During this semiannual reporting period, the FTC offices and bureaus continued to make progress in implementing open recommendations. The table in Appendix II identifies significant recommendations described in previous semiannual reports on which corrective action has not been completed.

Section 5(a)(11) of the Inspector General Act of 1978, as amended, requires a description and explanation of the reasons for any significant revised management decision made during the reporting period. For this reporting period, management did not change its response to any earlier decisions on OIG audit recommendations.



## INVESTIGATIVE ACTIVITIES



The IG is authorized by the Inspector General Act of 1978, as amended, to receive and investigate allegations of employee misconduct as well as fraud, waste, abuse, and mismanagement 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, abuse, or mismanagement can give rise to administrative, civil, or criminal investigations.

### Investigative Summary

During this reporting period, the OIG received 449 consumer complaints, inquiries, and reports of possible wrongdoing. This represents a 27% increase in complaints received from the last reporting period. Complaints under the jurisdiction of FTC programs were referred to the appropriate FTC component for disposition.

### Investigations Closed or Initiated

The OIG initiated three investigations into allegations of inappropriate use of computers, systemic time and attendance fraud, and contract improprieties. The OIG closed one investigation during the reporting period, as highlighted below:

#### Allegation of Mishandled FOIA Release

The OIG investigated allegations that the FTC's Freedom of Information Act (FOIA) office mishandled a request for surveillance footage. The complainant alleged that FOIA employees purposefully released incorrect or incomplete footage in response to the complainant's first FOIA request, pressured him to drop his second FOIA request, and then purposefully failed to disclose the correct and complete footage in retaliation for his decision to preserve his second request.

The OIG did not substantiate the allegations, finding no evidence that the FTC had the surveillance footage requested by the complainant, nor evidence that the FOIA office negligently or purposefully failed to disclose requested records to the complainant.

## OTHER OIG ACTIVITIES

### Liaison with Other Agencies

In conducting investigations, the OIG has sought assistance from, and worked jointly with, other federal law enforcement agencies including the Department of Justice, Federal Bureau of Investigation, U.S. Postal Inspection Service, as well as state and local law enforcement agencies and other Federal OIGs.

### 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'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 of 1978, as amended, 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 IG disagreed.

### Review of Legislation

Section 4(a)(2) of the Inspector General Act of 1978, as amended, authorizes the OIG 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 provided comments to CIGIE on proposed legislation to strengthen the OIGs' authority, S. 579, *The Inspector General Empowerment Act of 2015*.

### 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 of 1978, as amended, 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 OIG report recommendations.

## APPENDIX I - PEER REVIEWS

| Peer Review Activity   | Results  |
|--|--|
| <b>Peer review conducted by another OIG</b>                              | The most recent audit peer review of the FTC OIG was performed by the U. S. Election Assistance Commission OIG (EAC OIG). In its report issued September 7, 2013, the FTC OIG received a peer review rating of <i>pass</i> for its system of quality control for the year ended March 31, 2013. The EAC OIG did not make any recommendations.  |
| <b>Outstanding recommendations from peer review of the OIG</b>           | There are no outstanding recommendations from peer review of the OIG.  |
| <b>Peer review conducted by the OIG</b>                                  | The most recent peer review conducted by the FTC OIG was of the Equal Employment Opportunity Commission (EEOC) OIG. In its report issued December 8, 2014, the EEOC OIG received a modified peer review that determined EEOC OIG's established policies and procedures for the audit function as of March 31, 2014 were current and consistent with applicable professional standards. |
| <b>Outstanding recommendations from peer review conducted by the OIG</b> | There are no outstanding recommendations from peer reviews conducted by the OIG.   |

## APPENDIX II - AUDIT AND EVALUATION REPORTS WITH CORRECTIVE ACTIONS PENDING

This table identifies each significant OIG recommendation described in previous semiannual reports on which corrective action has not been completed.

| Report Number and Date     | Report Title and Recommendations for which Final Action is Not Complete  |
|----------------------------|--|
| AR 12-002<br>December 2011 | <b>Independent Assessment of Implementation of the Federal Information Security Management Act (FISMA) for Fiscal Year 2011</b>  |
|                            | <b>Implement HSPD 12</b> FTC needs to institute a capital-planning program on an accelerated basis and include acquisitions currently in process. Management expects final action to be completed in fiscal year 2015.   |
| AR 13-001A<br>March 2013   | <b>Financial Statement Management Letter Fiscal Year 2012</b>  |
|                            | <b>Capitalization Policy</b> FTC should review and strengthen capitalization policies and procedures to ensure that capitalization determinations are being made by individuals designated to do so, they are versed in the capitalization standards, and they document their determinations. Management expects final actions to be completed in fiscal year 2015   |
| AR 14-001A<br>May 2014     | <b>Financial Statement Management Letter Fiscal Year 2013</b>  |
|                            | <b>Liquidation of Obligations</b> FTC should review and determine the validity of undelivered orders on a semi-annual basis, and develop policy requiring certification for all open obligation balances that are inactive for more than 12 months. Management expects final actions to be completed in fiscal year 2015   |
| AR 14-002<br>February 2014 | <b>Independent Assessment of Implementation of the Federal Information Security Management Act (FISMA) for Fiscal Year 2013</b>  |
|                            | <b>Identity and Access Management</b> FTC should revise its infrastructure access procedure to restrict access until background screening is completed per FTC policy.<br><br><b>Incident Response</b> FTC should define development of its Security Information and Event Management (SIEM) as an information technology (IT) investment subject to oversight by the FTC IT governance boards. Management expects final actions to be completed in fiscal year 2015 |

## APPENDIX III - INSPECTOR GENERAL ISSUED REPORTS WITH QUESTIONED COSTS

|           |  |   | Dollar Value |                  |
|-----------|--|---|--------------|------------------|
|           |  |   | Number       | Questioned Costs |
| <b>A.</b> | For which no management decision has been made by the commencement of the reporting period | 0 | 0            | 0                |
| <b>B.</b> | Which were issued during the reporting period  | 0 | 0            | 0                |
|           | Subtotals (A+B)  | 0 | 0            | 0                |
| <b>C.</b> | 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                |
| <b>D.</b> | For which no management decision was made by the end of the reporting period               | 0 | 0            | 0                |
| <b>E.</b> | 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 |
|-----------|--|--------|--------------|
| <b>A.</b> | For which no management decision has been made by the commencement of the reporting period | 0      | 0            |
| <b>B</b>  | Which were issued during this reporting period   | 0      | 0            |
| <b>C.</b> | 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            |
| <b>D.</b> | For which no management decision has been made by the end of the reporting period          | 0      | 0            |
| <b>E.</b> | 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) |
|-------------------------|---|---------|
| <b>Section 4(a)(2)</b>  | Review of legislation and regulations   | 10      |
| <b>Section 5(a)(1)</b>  | Significant problems, abuses and deficiencies   | 7-10    |
| <b>Section 5(a)(2)</b>  | Recommendations with respect to significant problems, abuses and deficiencies   | 7-10    |
| <b>Section 5(a)(3)</b>  | Prior significant recommendations on which corrective actions have not been made  | 12      |
| <b>Section 5(a)(4)</b>  | Matters referred to prosecutive authorities   | none    |
| <b>Section 5(a)(5)</b>  | Summary of instances where information was refused  | none    |
| <b>Section 5(a)(6)</b>  | List of reports by subject matter, showing dollar value of questioned costs and funds put to better use                                 | none    |
| <b>Section 5(a)(7)</b>  | Summary of each particularly significant report   | 7       |
| <b>Section 5(a)(8)</b>  | Statistical tables showing number of reports and dollar value of questioned costs   | 13      |
| <b>Section 5(a)(9)</b>  | Statistical tables showing number of reports and dollar value of recommendations that funds be put to better use                        | 14      |
| <b>Section 5(a)(10)</b> | Summary of each report issued before this reporting period for which no management decision was made by the end of the reporting period | none    |
| <b>Section 5(a)(11)</b> | Significant revised management decisions  | none    |
| <b>Section 5(a)(12)</b> | Significant management decisions with which the inspector general disagrees   | none    |
| <b>Section 5(a)(14)</b> | Peer reviews conducted by another OIG   | 11      |
| <b>Section 5(a)(15)</b> | Outstanding recommendations from peer reviews of the OIG  | none    |
| <b>Section 5(a)(16)</b> | Outstanding recommendations from peer reviews conducted by the OIG  | none    |

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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

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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.

**We want to hear from you.**



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efficient, responsible & trustworthy.

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