

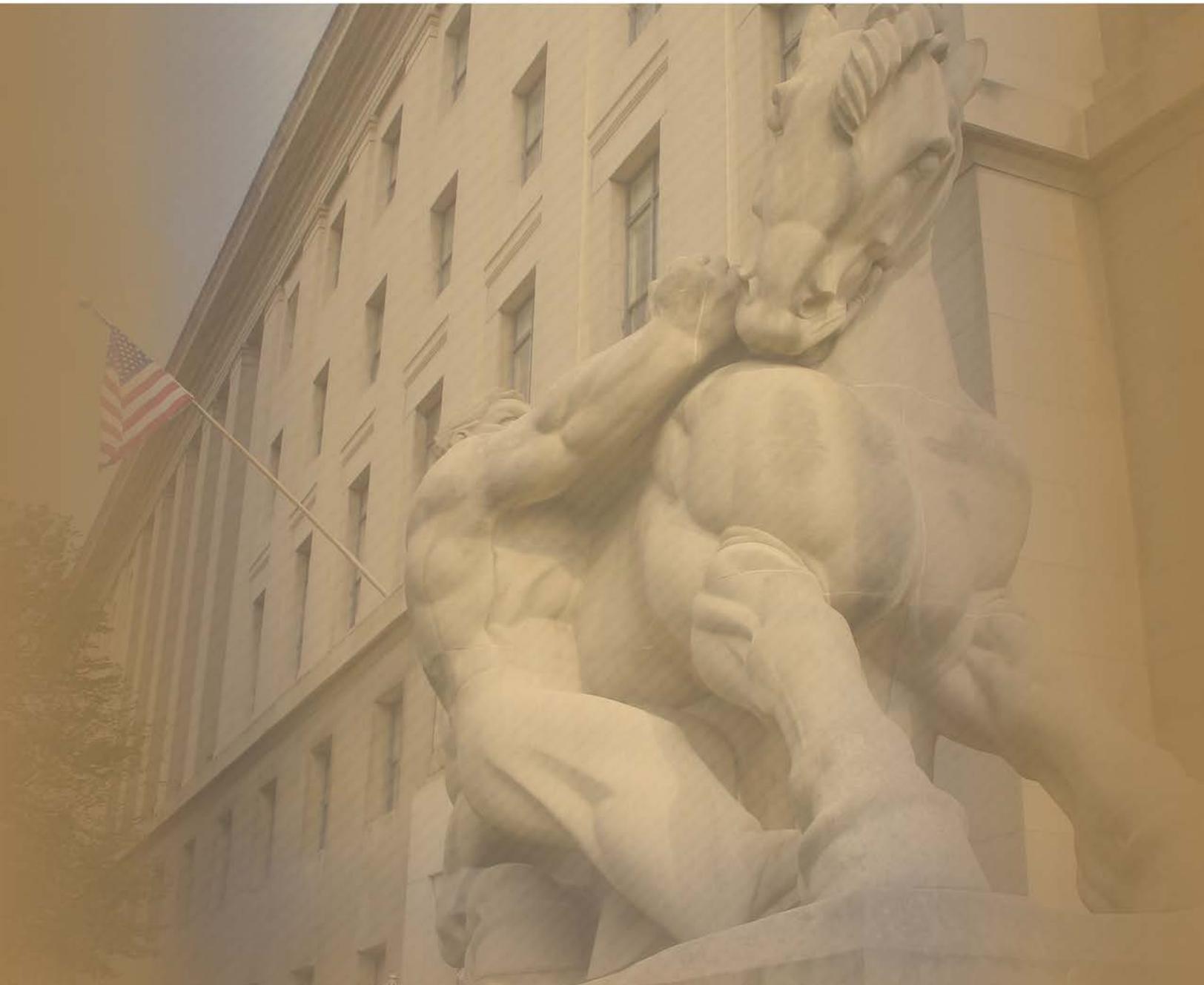
FEDERAL TRADE COMMISSION

OIG

04.01.17

09.30.17

SEMIANNUAL REPORT TO CONGRESS



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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 the Congress. The report summarizes the OIG’s activities and accomplishments from April 1, 2017, through September 30, 2017.

During this reporting period, the OIG identified serious, ongoing concerns with management’s failure to address critical recommendations from the OIG’s reporting pursuant to the Federal Information Security Modernization Act (FISMA) of 2014. While the OIG closed several recommendations from older FISMA reports, it did not close any of the eight recommendations from its 2016 FISMA report and closed only 2 of the 15 recommendations from the OIG’s supplemental September 2016 report, *Opportunities Exist to Accelerate Maturation of the FTC’s Information Technology Governance Practices*. Moreover, several recommendations from earlier FISMA reports designed to address weaknesses in FTC contingency planning and continuous monitoring – two of the five Cybersecurity Framework Functions assessed in FISMA – remain unimplemented. The table below shows the status of these open FISMA-related recommendations:

OPEN OIG RECOMMENDATIONS AS OF 9/30/17		
OIG Report	Issued	Open Recommendations
FY 2014 FISMA	May 2015	3 of 6
FY 2015 FISMA	Feb 2016	6 of 7
IT Governance	Sep 2016	13 of 15
FY 2016 FISMA	Mar 2017	8 of 8

The FTC experienced a Data Center outage in October 2016, an email outage in August 2017, and other less serious lapses in IT services. These lapses seriously affected the availability of information systems to FTC employees and contractors, including those deployed in the agency’s Regional Offices. The OIG assessed that management’s failure to address OIG recommendations on contingency planning, configuration management, and continuous monitoring, among others, contributed to delays in identifying and addressing the root causes of both outages. While FTC data was not compromised in the Data Center and email outages, we are concerned that 1) management’s decision to accept risks associated with FTC’s legacy information systems to focus on moving to cloud services, 2) its poorly written and inconsistently

followed policies and procedures, and 3) the significant turnover in the Office of the Chief Information Officer combine to introduce greater risk to information assets. As we said in our FY 2016 FISMA report, transitioning to new technologies requires mature business processes, planning, and monitoring for both its legacy and future information systems if the FTC is to effectively protect its information assets. We urge FTC leadership to continue to provide the direction, focus, and resources necessary to effectively address these critical OIG recommendations.

The OIG's collaboration with the FTC Bureau of Consumer Protection (BCP) and the larger OIG community to boost OIG investigations of consumer fraud matured during the reporting period. The initiative seeks to promote awareness and use of the Consumer Sentinel Network – a secure online database available to law enforcement that currently houses over 13 million consumer complaints. BCP provided tutorials to the OIGs of the Social Security Administration, the Departments of Health and Human Services and Housing and Urban Development, and the Departments of the Treasury and Veterans Affairs on Sentinel's upgraded tools for searching common schemes, identifying complainants and witnesses, and isolating key fraud indicators, such as provider names and other information used to fraudulently obtain government benefits or perpetrate other consumer scams. The initiative is producing tangible results: since the beginning of CY 2017, the number of consumer complaints filed through an Office of Inspector General increased by 44 percent, and the number of OIG Sentinel users increased by 64 percent.

The OIG was pleased to join [Oversight.gov](http://Oversight.gov) – an initiative by the Council of the Inspectors General on Integrity and Efficiency to enable access to a publicly accessible, searchable website containing the latest public reports from Federal Inspectors General. Many FTC OIG reports are now available on the site. I congratulate CIGIE leadership for bringing this long-planned and important initiative to fruition.

FTC Bureaus and Offices continued to make progress implementing open OIG recommendations identified in previous semiannual reports.

Once again, I express my appreciation for the outstanding dedication of OIG personnel whose work is reflected in this report. As the FTC transitions to new leadership, I thank Acting Chairman Maureen Ohlhausen, Commissioner Terrell McSweeney, agency management and staff, and the Congress for their sustained support to the OIG mission.



A handwritten signature in black ink, reading "Roslyn A. May".

## About the FTC Office of Inspector General

### OIG Mission

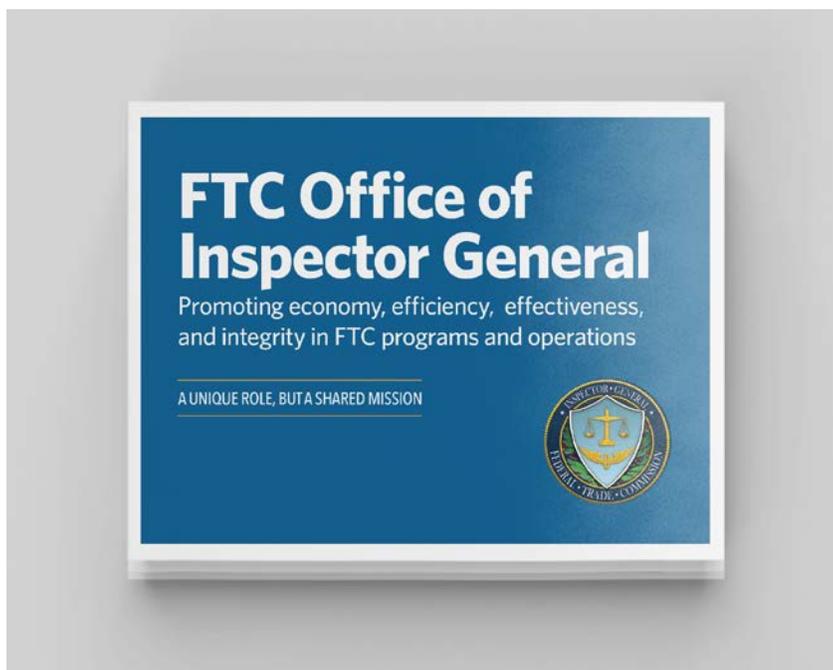
To promote economy, efficiency and effectiveness, and to detect and prevent waste, fraud, abuse, and mismanagement in the agency's operations and programs.

### 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 Federal Trade Commission.

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, 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 fraud and other 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 Consumer Response Center (CRC) at <https://www.ftccomplaintassistant.gov> or 1-877-382-4357. Individuals who wish to file a complaint with the FTC OIG about internal wrongdoing can file a complaint on the OIG website via a specialized link to the [FTC Consumer Response Center](#) or by calling 202-326-2800. 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, fraud, or other wrongdoing to the OIG will be protected from disclosure consistent with provisions of the Inspector General Act and privacy laws. 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 to Congress 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 had an operating budget of \$1,644,000 for FY 2017.

## 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 agency 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 controls and compliance with provisions of laws, regulations, and contracts as they relate to financial transactions, systems, and processes.

**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. 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 or contractor misconduct; or criminal and civil violations of law that affect 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** enable the OIG to expeditiously report findings of systemic weaknesses or vulnerabilities identified in the course of an audit, investigation or other OIG activity. Management advisories typically contain recommendations to address OIG findings.

## Evaluations, Audits, and Related Activities

### Completed Reports

During this period, the OIG issued a review of FTC's compliance with the Improper Payments Information Act of 2002.

### Review of the FTC's Compliance with the Improper Payments Information Act of 2002, as Amended

The OIG assessed the FTC's compliance with improper payment reporting requirements of the Improper Payments Information Act of 2002, as amended. The OIG determined that the FTC is compliant, in all material respects, for FY 2016. The FTC reported in its FY 2016 Agency Financial Report that it performed a risk assessment of the agency's programs and activities; determined that they presented a low risk of improper payments and none of the agency's programs or activities were determined to be susceptible to significant improper payments.

### Related Activities

During this period the OIG established its first Audits and Evaluations (A&E) Team. With the addition of a new auditor, the OIG can now plan its audits and evaluations in an integrated fashion, using best practices of other OIGs and the experience and professional standards for evaluations and inspections promulgated by the Council of the Inspectors General on Integrity and Efficiency (CIGIE). In addition to performing all mandatory audit and evaluation work, the A&E Team updated the OIG's protocol for closing report recommendations and briefed it to management's Senior Assessment Team; established regular meetings with management's Internal Control Manager; assessed management's progress in submitting corrective action plans for OIG recommendations and implementing those plans; conducted risk assessments to inform the OIG's FY 2017 A&E Work Plans; updated its Audit Manual and Evaluations Manual; and determined preparatory steps for conducting CIGIE peer reviews and scheduling peer reviews of our audits and evaluations functions. This concentrated investment in the A&E Team's infrastructure will enable the OIG to conduct its audits and evaluations more efficiently and effectively.

## Ongoing Work

### FISMA Evaluation for FY 2017

The Federal Information Security Modernization Act of 2014 requires an annual evaluation of each agency's information security and privacy program and practices to determine their effectiveness. The evaluation is performed by an independent contractor. Objectives of the FY 2017 evaluation include assessing the maturity of the agency's information security program and practices and risk management efforts and providing additional support to complete extended evaluations and reports; and to provide the OIG with technical assistance related to computer security policies and the FTC's application of computer security controls.

### FTC Financial Statement for FY 2017

A financial statement audit is required annually by the Accountability of Tax Dollars Act of 2002. The purpose of the audit is to express an opinion on the financial statement of the FTC for the fiscal year ending September 30, 2017. The audit will also test the internal controls over financial reporting and assess compliance with selected laws and regulations. The audit is performed by an independent public accountant. The audited financial statement will be included in the financial section of the FTC's FY 2017 Agency Financial Report.

### DATA Act Reporting for FY 2017

The Digital Accountability and Transparency Act of 2014 (DATA Act), P.L. 113-101, expands the reporting requirements pursuant to the Federal Funding Accountability and Transparency Act of 2006 (31 U.S.C. 6101 note) to improve the quality of data submitted to USASpending.gov.

The DATA Act requires OIGs to review a statistically valid sample of the spending data submitted by the FTC and to submit to Congress a publicly available report assessing the completeness, timeliness, quality, and accuracy of the data sampled and the implementation and use of the Government-wide financial data standards by the Federal agency. The audit is performed by an independent public accountant.

### FTC High Risk Contracts Performance Audit

The OIG is conducting a performance audit of the FTC's acquisition planning of procured contracts. The objective of our audit is to determine if the FTC properly plans and awards contracts in accordance with applicable laws, regulations, and policy. We will review applicable federal laws and regulations

pertaining to procurement planning and contract oversight. We will conduct interviews with FTC officials to gain an understanding of the contracting process and review controls over contracting actions.

## Cross-Community OIG Consumer Fraud Initiative

During this reporting period, the OIG continued its collaboration with the FTC Bureau of Consumer Protection and various Offices of Inspector General to identify opportunities to boost OIG investigations of consumer fraud. The initiative focuses on extending the use and value of the FTC's [Consumer Sentinel Network](#) (CSN) – a secure online database currently housing over 13 million consumer complaints dating from calendar year (CY) 2012 through CY 2016.



CSN is a unique investigative cyber tool that provides law enforcement members with access to millions of consumer complaints. Based on the premise that sharing complaint information can make law enforcement even more effective, CSN allows members to access consumer complaints submitted directly to the FTC, as well as to complaints shared by 36 data contributors, including the Consumer Financial Protection Bureau, 20 State Attorneys General, and all North American Better Business Bureaus. Over 2,300 federal, state, local, and international law enforcement users have access to CSN, and hundreds of individual members access the system each week.

The first objective of the initiative is to ensure that the OIG community is aware of and uses Sentinel. During the reporting period, the Sentinel program manager provided tutorials on Sentinel's upgraded tools for searching common schemes, identifying complainants and witnesses, and isolating key fraud indicators, such as provider names and other information used to fraudulently obtain government benefits or perpetrate other consumer scams. Participants included the OIGs for the Social Security Administration and the Departments of Health and Human Services, Housing and Urban Development, Treasury, and Veterans Affairs. In addition, the following additional OIGs joined Sentinel: the City of Chicago OIG, Investigations Section; the General Services Administration, OIG Office of Investigations; the Pension Benefit Guaranty Corporation OIG Investigations Section; and the Amtrak Office of Inspector General, Midwest Region.

The second objective is to identify opportunities to enrich Sentinel's database with consumer complaints lodged with other federal agencies. To that end, since the beginning of CY 2017, the number of consumer complaints filed through an Office of Inspector General was 99, compared with 48 in CY 2016, and the number of OIG Sentinel users increased from 88 to 138 during the same period. The top identifiable trends in these complaints were health care products and government impostor scams.

This cross-OIG community initiative furthers one of the principal objectives of the Inspector General Empowerment Act (IGEA) of 2016 – which was signed into law during this reporting period. Section 4 of the IGEA calls upon the Inspectors General to identify issues that could be better addressed through greater coordination among, and cooperation between, individual Offices of Inspector General, and to identify the best practices that can be employed by OIGs to increase coordination. The OIG looks forward to developing the initiative in coming months by facilitating additional tutorials with other OIGs and identifying opportunities to strengthen the CSN database with information valuable to OIG and other law enforcement personnel conducting consumer fraud investigations.

In June 2017, the FTC launched Sentinel 3.0 – a new and enhanced version of the Consumer Sentinel Network. This version includes key upgrades, such as practical tools to make searching and sorting easier, and further includes new analytical and visualization tools, phrase clouds, recurring reports on areas of particular interest, and graphics that show trending over time.

## Enterprise Risk Management

On July 15, 2016, OMB issued an update to [Circular A-123](#) requiring federal agencies to implement Enterprise Risk Management (ERM) to better ensure their managers are effectively managing risks that could affect the achievement of agency strategic objectives. Circular A-123 identifies sources for agencies in completing their risk profiles, including reviewing and incorporating results from existing documentation such as OIG audit findings and OIG’s Annual Report on Management Challenges.

The FTC’s Senior Assessment Team provides leadership and oversight of the FTC’s internal control program, the goal of which is to ensure that internal controls are commensurate with identified risks and results-oriented management. The Inspector General and OIG staff periodically attend the Senior Assessment Team meetings to understand the agency’s efforts to create risk profiles, and to witness the internal controls’ identification and resolution cycles. Additionally, OIG staff is increasing its proficiency in ERM principles by attending periodic training sessions and webinars. The OIG developed an ERM Framework to guide the identification and use of ERM principles in the OIG’s own planning and operational cycles, and to lay the groundwork for assessing management’s initial ERM efforts in FY 2018.

## Corrective Actions on OIG Recommendations

During this reporting period, FTC Bureaus and Offices continued to make progress in implementing open OIG recommendations. The table in Appendix II identifies significant recommendations described in previous semiannual reports on which corrective action has not been completed. The OIG closed four recommendations during this reporting period. For the listed reports, the OIG closed a total of six

recommendations. The Acting Chairman has devoted time, effort, and additional resources to address legacy FISMA recommendations that the OIG hopes will bear fruit during FY 2018 and beyond.

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 recommendations.

## Investigative Activities

The Inspector General Act of 1978, as amended, authorizes the Inspector General 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

The OIG maintains a toll-free Hotline number and a dedicated email address to enable individuals to bring matters to the attention of the OIG on a confidential basis. The toll-free Hotline number, facsimile, email address, and ground mail services are means by which FTC employees, contractors, and the general public may communicate allegations of fraud, waste, abuse, and mismanagement concerning FTC programs and operations to the OIG.

During this reporting period, the OIG received 151 consumer complaints, inquiries, and reports of possible wrongdoing. The OIG redirected 144 complaints to the FTC's Consumer Response Center (CRC). No complaints were forwarded to the FTC's Freedom of Information Act office. This represents an 4.6% decrease in complaints received from the last reporting period. The OIG referred complaints under the jurisdiction of FTC programs to the appropriate FTC component for disposition. As described in the following discussion of the OIG Hotline, the decrease in consumer complaints during this reporting period reflects more efficient handling of these complaints through an online tool that directs consumers from the OIG's homepage to the CRC, rather than through the OIG Hotline.

### OIG Hotline Complaints

The OIG continued to review FY17 data accumulated from telephone calls and emails to the OIG Hotline:

- ▶ From April 1, 2017 to September 30, 2017, the weekly intake of consumer complaints via voicemail and email methods remained at a consistently low rate of three to five.

As a result of recent modifications to OIG Hotline processes, consumers may quickly access the direct channel for filing consumer complaints with the FTC, thereby also improving OIG office efficiency by drastically reducing consumer complaints the OIG receives via voicemail and email.

## Investigations Closed or Initiated

The OIG closed one investigation during the reporting period, highlighted below:

### **Alleged Violation of the Conversion of Government Property Statute and Violation of the Standards of Ethical Conduct**

The OIG received a referral that an FTC attorney had commercially published a reference manual for profit without the authorization of another federal entity that published the reference material. The attorney's commercial publication of the reference manual was contrary to the explicit restrictions printed on the manual, stating that it was only for the use of the facility's staff and was not to be removed from the facility. The OIG established that the FTC's Designated Agency Ethics Official had previously approved the attorney's outside employment agreement to engage in "legal writing" pursuant to the FTC's supplemental ethics regulation, 5 C.F.R. § 5701.101(a).

The OIG substantiated that the FTC attorney had photocopied and later commercially published the reference manual without the authorization of the federal entity and had offered it for sale online. As a result, the federal entity revoked the attorney's privileges to utilize a segment of its facility based on the employee's conduct.

The investigation determined that the attorney's conduct violated the principles of 5 C.F.R. § 2635.704, thereby constituting a violation of the basic obligation of public service, as prescribed in 5 C.F.R. § 2635.101(b)(9), which states that "[e]mployees shall protect and conserve Federal property and shall not use it for other than authorized activities." By virtue of this violation, we determined that the attorney also violated the certification made in the approved outside employment agreement. Specifically, we determined that the attorney violated the certification to "abide by the outside employment restrictions contained in all applicable Federal laws and regulations, including those found in 18 U.S.C. chapter 11 and those found or referenced in subpart H ("Outside Activities") of 5 C.F.R. Part 2635 (Standards of Ethical Conduct for Employees of the Executive Branch)."

The OIG referred evidence of a potential criminal violation of the conversion of government property statute, 18 U.S.C. § 641, to the Department of Justice, which declined prosecution. The OIG provided a report to management, which disagreed with some of the OIG's legal conclusions. Because it concluded that the federal entity involved had already meted out the appropriate punishment, management advised the OIG that it planned to verbally admonish the employee due to its conclusion that the employee's improper conduct was the result of a "lapse in judgment."

During this reporting period, the OIG initiated one new investigation.

## **Preliminary Inquiries**

The OIG closed four preliminary inquiries during the reporting period. We initiated five new preliminary inquiries.

## **Management Advisories and Referrals**

During this reporting period, the OIG did not issue any management advisories or referrals stemming from investigative activity.

## Other Activities

### Liaison with Other Agencies

During this reporting period, in conducting audits, investigations, and other activities, the OIG sought assistance from and conferred with other federal agencies and OIGs, including the Social Security Administration OIG, the Department of Health and Human Services OIG, the Department of Housing and Urban Development OIG, the Department of the Treasury OIG, the Department of Veterans Affairs OIG, and the Office of Government Ethics.

### Activities within the Inspector General Community

The Inspector General is an active participant in the Council of the Inspectors General on Integrity and Efficiency (CIGIE), an independent entity within the Executive Branch comprised of federal Inspectors General. CIGIE's mission is to address integrity, economy, and effectiveness issues that transcend individual Government agencies; and increase the professionalism and effectiveness of personnel by developing policies, standards, and approaches to aid in the establishment of a well-trained and highly skilled workforce in the Offices of the Inspectors General. The FTC Inspector General currently serves on the CIGIE Integrity Committee, which is charged by the Inspector General Act of 1978, as amended, with receiving, reviewing, and referring for investigation allegations of wrongdoing by Inspectors General or their direct reports.



On October 1, 2017, the Council of the Inspectors General on Integrity and Efficiency (CIGIE) announced the official launch of [Oversight.gov](https://www.oversight.gov). This new website provides a “one stop shop” to follow the ongoing oversight work of all Inspectors General that publicly post reports.

The FTC OIG, like the other OIGs, will continue to post reports to its own website. But with the launch of Oversight.gov, users can now sort, search, and filter the site's database of public reports from all of CIGIE's member OIGs to find reports of interest. In addition, the site features a user-friendly map to find reports based on geographic location, and contact information for each OIG's whistleblower hotline. Users can receive notifications when new reports are added to the site by following CIGIE's new Twitter account, [@OversightGov](https://twitter.com/OversightGov).

## Other CIGIE Engagements

The Counsel to the Inspector General is an active member on the CIGIE Council of Counsels to the Inspectors General and the Investigations Committee, and he contributes to the legal and investigative discourse on matters germane to the entire OIG community. During this reporting period, he also participated on a working group tasked with identifying wasteful government processes ripe for improvement via cross-OIG collaboration, which developed several project proposals for consideration by the entire OIG community.

The OIG's Audit Manager is an adjunct trainer for the CIGIE Peer Review training offered to the greater OIG community.

The OIG's Program Analyst participates in the bimonthly meetings of the Inspection and Evaluation Roundtable, a subcommittee of the CIGIE Inspections and Evaluations Committee, and contributes to the discourse involving evaluation developments and best practices.

The OIG's Audit and Evaluation Team participates in the monthly Federal Audit Executive Council Data Act Working Group meetings.

The OIG also participates in CIGIE's Data Analytics Options Working Group, which is reviewing options to achieve comprehensive data analytics across the IG Community.

The OIG worked with FTC management to enable the OIG to host CIGIE Integrity Committee meetings. The OIG appreciates management's support for these efforts.

## Significant Management Decisions

Section 5(a)(12) of the Inspector General Act of 1978, as amended, requires that if the Inspector General 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 Inspector General disagreed.

## Review of Legislation

Section 4(a)(2) of the Inspector General Act of 1978, as amended (IG Act), authorizes the OIG to review and comment on existing and proposed legislation or regulations relating to the agency or, upon request, affecting the operations of the OIG. During this reporting period, the OIG also provided responsive information in response to direct requests from Congress.

## Access to Information

Inspectors General must have ready access to all agency records, information, or assistance when conducting an investigation or audit. Section 6(c)(2) of the Inspector General Act of 1978, as amended, requires the Inspector General to report to the agency head, without delay, if the Inspector General 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(c)(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 problems or delays in obtaining assistance or access to agency records.

## Other Initiatives

In furtherance of our efforts to educate the FTC workforce on the whistleblower protection laws, the OIG continued to collaborate with management with respect to the Office of Special Counsel's (OSC) Section 2302(c) certification program. This program assists agencies in meeting their statutory requirements to inform employees of their rights and remedies under 5 U.S.C. § 2302. Management continues to take the necessary steps towards becoming "OSC certified," including educating employees on their whistleblower protections and providing FTC supervisors with interactive whistleblower training.

The OIG continues to work with management to improve the policy and practice for tracking OIG recommendations. The OIG periodically meets with the Senior Assessment Team (SAT) in order to facilitate regular communication between the OIG, the Executive Director, and FTC Bureaus and Offices about progress made or impediments encountered in implementing OIG recommendations.

## Appendix I – Peer Reviews

Peer Review Activity	Results
Peer Reviews conducted by another OIG	There were no peer reviews conducted by another OIG during this reporting period.
Outstanding recommendations from peer reviews of the FTC OIG	There are no outstanding recommendations from peer reviews of the FTC OIG.
Peer Reviews conducted by the FTC OIG	The FTC OIG did not conduct any peer reviews during this reporting period.
Outstanding recommendations from peer reviews conducted by FTC OIG	There are no outstanding recommendations from peer reviews conducted by the FTC OIG.

## Appendix II – Significant OIG Recommendations Described in Previous Semiannual Reports with Corrective Actions Pending

### Independent Assessment of Implementation of the Federal Information Security Modernization Act (FISMA) for Fiscal Year 2016 (Report Issued: 03/2017) ([Link to Report](#))

Recommendations	Total	8
	Mgmt. concurs	8
	Mgmt. non-concurs	--
Status of Recommendations	Closed <sup>1</sup>	0
	Open	8

#### Recommendations

##### ◀ FY 2016 – 01: Complete the System Inventory

The FTC should document its system inventory management system and validate the system, database, and management procedures, at least on an annual basis, as a trusted FTC Information Security Continuous Monitoring (ISCM) component under configuration control.

##### ◀ FY 2016 – 02: Review Application Classification

The FTC should complete its evaluation of its system boundaries as it completes its Department of Justice Cyber Security Assessment and Management implementation. FTC should eliminate use of the Minor Application designation and document leveraged/common controls in accordance with National Institute of Standards and Technology (NIST) Risk Management Framework guidance and ensure that all FTC systems are covered by an FTC Authority to Operate (ATO), either specific to the system or under a related system.

##### ◀ FY 2016 – 03: Document Risk-Based Decisions

The FTC should implement a formal procedure for documenting risk-based decisions as part of the FTC risk management program.

<sup>1</sup> A recommendation is closed if the OIG determines that (1) the corrective action has been taken, or (2) the recommendation is no longer applicable. A recommendation is open if FTC management agrees with the recommendation and is in the process of taking corrective action. Some corrective actions may have been completed by management and are awaiting verification by the OIG.

◀ **FY 2016 – 04: Develop Risk Analyses for FTC’s IT Modernization Initiative**

The FTC should implement a formal risk management program that addresses the requirements of OMB Circulars A-123 and A-130 and the guidance contained in NIST Special Publications 800-30, 800-37, and 800-39. The FTC should conduct risk analyses for its IT Modernization Initiative.

◀ **FY 2016 – 05: Segment Modernization Activities Into Useful Segments**

The FTC should structure modernization activities for acquiring major IT investments as useful segments that can be independently planned, acquired, and monitored.

◀ **FY 2016 – 06: Implement an Information Security Continuous Monitoring**

The FTC should implement a fully compliant ISCM as described in its ISCM Plan in FY 2013 and its ISCM Strategy, dated November 2014.

◀ **FY 2016 – 07: Revise the Plan of Action and Milestones Process**

The FTC should revise its Plan of Action and Milestones (“POA&M”) process and content to ensure it meets OMB information requirements (e.g., all security weaknesses found, and in need of remediation, during any assessment done by, for, or on behalf of the agency, including Government Accountability Office audits, financial system audits, and critical infrastructure vulnerability assessments) and can be an effective, authoritative, agency-wide management tool.

◀ **FY 2016 – 08: Develop Contingency Plans for the FTC HQ data center**

The FTC should develop viable contingency plans for the headquarters data center and hosted applications. Plans should be tested to ensure viability and ensure staff are trained to execute them. Contingency plans should clearly define actions to be performed, and individuals responsible for plan activation and other critical decisions should be identified.

**Financial Statement Audit for Fiscal Year 2016 Management Letter (Issued: 12/2016) ([Link to Report](#))**

<b>Recommendations</b>	<b>Total</b>	2
	<b>Mgmt. concurs</b>	2
	<b>Mgmt. non-concurs</b>	--
<b>Status of Recommendations</b>	<b>Closed</b>	0
	<b>Open</b>	2

**Recommendation**

◁ **Improved Accounting and Controls Needed Over Disbursements**

During testing, an invoice was identified that did not clearly define the Contract Line Item Line Numbers (“CLINs”) to be billed for services and the amounts did not agree with the invoice or receiving report. Management identified the discrepancies and determined the correct allocations for the disbursement, however lacked proper documentation for the revision. We recommend that FTC management implement written procedures to ensure an invoice will not be processed for payment unless it is properly invoiced, accurate, and in compliance with contract terms and ensure any changes to the receiving report are clearly documented prior to processing disbursement for payment.

◁ **FTC Improved Accounting and Controls are Needed over Interest Receivables**

Although FTC had implemented a process for calculating the interest receivable for redress judgements, the agency did not estimate and report the interest receivable of \$408,627.00 as of June 30, 2016, resulting in an increase in the overall calculated balance. We recommend that FTC management follow and improve the approved process policy and procedures to ensure that the interest receivable balance is reconciled quarterly.

**Management Advisory: Strengthening the FTC Ethics Program by Extending Mandatory Annual Ethics Training to Employees at or Below the GS-13 Grade Level Who Occupy High Risk Positions (Issued: 09/2016) ([Link to Report](#))**

<b>Recommendations</b>	<b>Total</b>	3
	<b>Mgmt. concurs</b>	3
	<b>Mgmt. non-concurs</b>	--
<b>Status of Recommendations</b>	<b>Closed</b>	0
	<b>Open</b>	3

**Recommendation**

◀ **FTC Employees at the GS-13 Grade Level and Below in High Risk Positions**

Certain employees at the GS-13 grade level and below who occupy “high risk” positions do not receive annual ethics training. To address an area of vulnerability and risk, annual ethics training should be mandatory for such employees.

◀ **FTC Employees at the GS-13 Grade Level Hired Prior to 2000**

Certain employees at or below the GS-13 grade level hired prior to 2000 likely have never received new employee ethics training, regardless of their position risk designations. This is due to the fact that the regulatory requirement to provide new employee ethics training went into effect in March 2000. Therefore, the OIG recommended the provision of a one-time training to those employees at or below the GS-13 grade level hired prior to 2000 who never received mandatory ethics training at new employee orientation, regardless of their position risk designations.

◀ **Inform FTC Work Force of the Modification to the OGC Ethics Program**

We recommend that Office of General Counsel (OGC) use its Intranet web site, the FTC Daily, the Ethicist, and other work force communications to inform the work force of the modification to the OGC Ethics Program.

## Opportunities Exist to Accelerate Maturation of the FTC's Information Technology Governance Practices (Report Issued 09/2016) ([Link to Report](#))

<b>Recommendations</b>	<b>Total</b>	15
	<b>Mgmt. concurs</b>	15
	<b>Mgmt. non-concurs</b>	--
<b>Status of Recommendations</b>	<b>Closed</b>	2
	<b>Open</b>	13

### Recommendations

#### ◀2: Capital Planning and Investment Controls

Accurately and consistently capture Information Technology Governance Board planning decisions related to business needs and supporting rationales for those decisions. Information documenting Board decisions may be included in separate documentation or meeting minutes.

#### ◀3: Project Management (SOPs and Project Monitoring)

Develop and institute standard operating procedures with associated work instructions to support acquisition proposals and decisions, including workflows, milestones, escalation criteria, and project monitoring and tracking procedures.

#### ◀4: Project Management (Cost Estimating)

Issue guidance for developing and documenting reliable cost and workload estimates used to support acquisitions. The guidance should include selection and documentation of cost and workload models, development of a basis of estimate that documents procedures used to develop the estimates, and factors affecting estimate reliability.

#### ◀5: Risk Management

Require the development of FTC Information Technology and security organizational priorities to guide Governance Board review and approval of projects and investments by identifying and ranking topic areas where information systems or processes need improvement to reduce costs or improve performance; establish risk thresholds by identifying the level of risk of a system failure or data breach that the FTC is willing to tolerate; and periodically review and revise organizational priorities and risk thresholds.

#### ◀6: Project Management (Project Escalation)

Implement an escalation process that promotes, through FTC's continuous monitoring processes, identification of potential performance problems or opportunities for improvement; identifies organizations with the skills and skill levels necessary to research and resolve project issues by problem area and skill level; implements problem tracking from identification to resolution; and establishes

timelines for problem resolution and for routine (e.g., weekly, monthly, quarterly) monitoring of compliance with those timelines.

◁ **7: Contract Management**

Terminate efforts to remedy deficiencies in the current e-Discovery Support System (eDSS) product, except those actions necessary to continue support for cases in progress; prepare an After Action Report that documents the problems encountered with the current software for use as input for the acquisition of a replacement contract; and initiate a new acquisition to obtain a follow-on contract using lessons learned under the current contract to avoid similar problems.

◁ **8: Requirements Development**

Develop an eDSS functional requirements document that specifies the required capabilities (including security, privacy, and performance monitoring controls), acceptance criteria, or performance characteristics of the supplies or the performance standards for the services being acquired and state how they are related to the business need; identifies requirements for compatibility with existing or future systems or programs; describes any known cost, schedule, and capability or performance constraints; and associates requirements with acceptance criteria and performance standards.

◁ **9: Application Documentation/Testing**

Require maintenance of an eDSS traceability matrix that identifies authorized functions and how they have been implemented and successfully tested. The traceability matrix should be scaled to acquisition complexity, allowing required functions to be tracked from the functional requirement document, through solicitation and acceptance testing.

◁ **10: Systems Testing**

Maintain a set of comprehensive benchmarks that can perform acceptance testing whenever the eDSS is changed; maintain a test database that will support eDSS workload analysis and troubleshooting; and use benchmark testing to establish performance baselines that can be validated throughout the eDSS contract life. Identify approaches that may be used to support stress testing analysis on a limited basis without the need to maintain a hosting facility.

◁ **11: Contract Management**

Align an eDSS follow-on contract period of performance to allow cases/matters to proceed from initiation to completion with little or no disruption from a transfer to a new system or hosting facility.

◁ **13: System Security Plan**

Develop a System Security Plan for the mobile device project based on NIST Special Publication 800-53, Revision 4, *Security and Privacy Controls for Federal Information Systems and Organizations*. The plan should leverage the existing Data Center ATO and Maas360 PATO as appropriate.

◁ **14: Contract Management**

Provide training in best practices for establishing and managing project schedules; ensure project schedules contain milestones for evaluating project performance; allow slack time for resolution of unintended events; and ensure that critical tasks are completed or justification is provided if project tasks or schedules are not to be completed or are delayed.

◁ **15: Controlled Unclassified Information (CUI)**

Identify systems that may include CUI using FTC policy effective on the date a project is submitted for approval. Include control requirements of the CUI program as identified in NIST security Special Publications in FTC planning for systems, information inventories, and information protection controls. Monitor ongoing National Archives and Records Administration and NIST CUI program activities to ensure FTC remains current with the direction and status of CUI program requirements.

## Independent Assessment of Implementation of the Federal Information Security Modernization Act (FISMA) for Fiscal Year 2015 (Report Issued: 02/2016) ([Link to Report](#))

Recommendations	Total	7
	Mgmt. concurs	7
	Mgmt. non-concurs	--
Status of Recommendations	Closed	1
	Open	6

### Recommendations

#### ◀ FY 2015 – 01: Security Management and Governance Structure

FTC should continue to evolve FTC Continuous Monitoring Management practices through improvements in governance practices and providing improved documentation and estimating guidance.

#### ◀ FY 2015 – 02: FTC Security Policies and Procedures/System Accreditation Borders

FTC should continue its review of Accreditation Boundaries for Minor Applications, re-designating those systems that are significant resource investments or have special security considerations as Major Applications.

#### ◀ FY 2015 – 03: Certification and Accreditation

To support FTC Authority to Operate decisions, FTC should provide staff applicable NIST guidance, including risk assessment criteria, for reviewing security artifacts provided by other federal organizations that are using the same software or services.

#### ◀ FY 2015 – 05: Configuration Management (CM)

FTC should review its CM strategy to ensure that it is addressing CM from the agency perspective and not a single system level approach.

#### ◀ FY 2015 – 06: Identity and Access (I&A) Management

FTC should focus on achieving full compliance with Personal Identity Verification (PIV) enabled I&A so that compliance is not subject to continuing delay and PIV compliance is maintained as new technologies and contracting approaches are added as part of FTC’s modernization efforts.

#### ◀ FY 2015 – 07: Contractor Systems

FTC should implement user focused metrics for the FTC Datacenter and determine whether the monitoring approach or similar approach should be expanded to other FTC systems.

**Independent Assessment of Implementation of the Federal Information Security Management Act for Fiscal Year 2014 (Report Issued: 5/2015) ([Link to Report](#))**

<b>Recommendations</b>	<b>Total</b>	<b>6</b>
	<b>Mgmt. concurs</b>	<b>6</b>
	<b>Mgmt. non-concurs</b>	<b>--</b>
<b>Status of Recommendations</b>	<b>Closed</b>	<b>3</b>
	<b>Open</b>	<b>3</b>

**Recommendations**

◀ **FY 2014 – 03: Infrastructure Documentation**

FTC should take appropriate action to ensure completion of an appropriate CM plan and ensure that it is effectively applied to the FTC and across all FTC systems.

◀ **FY 2014 - 04: Certification and Accreditation**

FTC should revise its process for determining Minor Applications and documenting security controls.

◀ **FY 2014 - 06: Contingency Plan**

FTC should develop a disaster recovery strategy and implementation plan.

## Appendix III – Inspector General Issued Reports with Questioned Costs

	Number	Questioned Costs (dollar value)	Unsupported Costs(dollar value)
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 costs 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 the 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 was 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

## Appendix V – Summaries of each Audit, Inspection, and Evaluation Report Issued before Commencement of the Reporting Period<sup>2</sup>

Fiscal Year	Number of Reports with Unimplemented Recommendations	Number of Unimplemented Recommendations	Dollar Value of Aggregate Potential Cost Savings
FY 2017	2	10	0
FY 2016	3	22	0
FY 2015	1	3	0
<b>TOTAL for All Fiscal Years</b>	<b>6</b>	<b>35</b>	<b>0</b>

<sup>2</sup> Per section 5(a)(10) of the Inspector General Act of 1978, as amended, there are no reports for which a management decision had not been made, nor for which establishment comment was not returned within 60 days of providing the report to the establishment. Additionally, there are no cost savings associated with the recommendations in this table.

Links to completed audit and evaluation reports are provided in Appendix II and are available on the FTC OIG website at <https://www.ftc.gov/about-ftc/office-inspector-general/oig-reading-room/reports-correspondence>.

## Appendix VI – OIG Investigative Activity During this Reporting Period<sup>3</sup>

	Number
A. Number of Investigative reports issued	1
B. Number of persons referred to DOJ for criminal prosecution	1
C. Number of persons referred to State and Local authorities for criminal prosecution	0
D. Number of criminal indictments and criminal informations resulting from any prior referrals to prosecutive authorities	0

<sup>3</sup> These statistics are based on the number of investigative reports issued during this semiannual reporting period; the number of persons referred to federal, state, or local authorities for criminal prosecution during this semiannual reporting period; and the number of criminal indictments/informations that occurred during this semiannual reporting period resulting from referrals made during the current and previous reporting periods.

## Appendix VII – Completed OIG Investigations Involving a Senior Government Employee Where Allegations of Misconduct Were Substantiated<sup>4</sup>

### Number of Investigations Involving a Senior Government Employee where Allegations of Misconduct were Substantiated

There was one investigation involving a senior government employee where allegations of misconduct were substantiated.

	Detailed Description
A. Facts and Circumstances of the investigation	See page 13
B. Status and disposition of the matter, including, if referred to DOJ, the date of referral; and, if declined by DOJ, the date of declination	On November 28, 2016, the OIG referred to DOJ evidence that a senior FTC employee potentially violated the conversion of government property statute, 18 U.S.C. § 641. DOJ declined prosecution on December 1, 2016. The OIG provided a report of investigation to management substantiating a violation of 5 C.F.R. § 2635.101(b)(9), <i>Basic Obligation of Public Service</i> , and the employee's outside employment agreement entered pursuant to the FTC's supplemental ethics regulation, 5 C.F.R. § 5701.101(a). The matter is now closed.

<sup>4</sup> The Inspector General Empowerment Act of 2016 defines “senior government employee” as –“(A) an officer or employee in the executive branch (including a special Government employee as defined in section 202 of title 18, United States Code) who occupies a position classified at or above GS–15 of the General Schedule or, in the case of positions not under the General Schedule, for which the rate of basic pay is equal to or greater than 120 percent of the minimum rate of basic pay payable for GS–15 of the General Schedule; and (B) any commissioned officer in the Armed Forces in pay grades O–6 and above.”

## Appendix VIII – Substantiated Instances of Whistleblower Retaliation

### Number of Substantiated Instances of Whistleblower Retaliation

There were no substantiated instances of whistleblower retaliation.

	Detailed Description
A. Information about the official found to have engaged in retaliation	N/A
B. Any consequences the agency imposed to hold the official accountable	N/A

## Appendix IX – Attempts by the Agency to Interfere with the Independence of the OIG

Number of Attempts by the Agency to Interfere with the Independence of the OIG	
The FTC OIG encountered no attempts to interfere with OIG independence.	
	Detailed Description
A. Attempts to interfere with budget constraints designed to limit OIG capabilities	N/A
B. Incidents where the agency has resisted or objected to OIG oversight or restricted or significantly delayed OIG access to information, including the justification of the agency for such action	N/A

## Appendix X – Closed OIG Matters Not Disclosed to the Public

	Detailed Description
<p>A. Inspections, evaluations, and audits conducted by the OIG that are closed and were not publicly disclosed</p>	<p>0</p>
<p>B. Investigations conducted by the OIG involving a senior government employee that are closed and were not publicly disclosed</p>	<p>0</p>

## Appendix XI – Inspector General Act Reporting Requirements Index

IG Act Reference	Reporting Requirements	Pages(s)
Section 4(a)(2)	Review of legislation and regulations	16
Section 5(a)(1)	Significant problems, abuses and deficiencies	None
Section 5(a)(2)	Recommendations with respect to significant problems, abuses and deficiencies	7-14
Section 5(a)(3)	Prior significant recommendations on which corrective actions have not been completed	19-27
Section 5(a)(4)	Matters referred to prosecutive authorities	13
Section 5(a)(5)	Summary of instances where information or assistance was unreasonably refused or not provided	None
Section 5(a)(6)	List of 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	7-11
Section 5(a)(8)	Statistical tables showing number of reports and dollar value of questioned costs	28
Section 5(a)(9)	Statistical tables showing number of reports and dollar value of recommendations that funds be put to better use	29
Section 5(a)(10)	Summary of each audit, inspection, and evaluation report issued before the commencement of the reporting period (A) for which no management decision has been made by the end of the reporting period; (B) for which no establishment comment was returned within 60 days of providing the report to the establishment; and (C) for which there are any outstanding unimplemented recommendations, including the aggregate potential cost savings of those recommendations	30
Section 5(a)(11)	Significant revised management decisions	None

Section 5(a)(12)	Significant revised management decisions with which the Inspector General disagrees	None
Section 5(a)(14)	Peer reviews conducted by another OIG	18
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
Section 5(a)(17) and (18)	OIG Investigative Activity during this Reporting Period	31
Section 5(a)(19)	OIG Investigations involving Senior Government Employees Where Allegations of Misconduct Were Substantiated	32
Section 5(a)(20)	Substantiated Instances of Whistleblower Retaliation	33
Section 5(a)(21)	Attempts by the Agency to Interfere with OIG Independence	34
Section 5(a)(22)	Closed OIG Matters Not Disclosed to the Public	35

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