

**FEDERAL TRADE COMMISSION**

**OIG**

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**10.01.15**

**03.31.16**

**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 October 1, 2015 through March 31, 2016.

During this reporting period, the OIG completed its evaluation of the Office of the Chief Information Officer (OCIO). The OIG performed this evaluation to determine whether the Chief Information Officer (CIO) has the authority, resources, structure, and organizational support needed to accomplish its current priorities and to assist the agency in realizing its mission. We found that the CIO's subordinate role on the FTC's Information Technology (IT) governance boards has diminished the CIO's ability to advance the CIO's authority and hampered the ability of the CIO to execute the agency's information security and IT mission. Moreover, significant turnover in the CIO's position in recent years has hampered the agency's ability to align IT investments and initiatives with enterprise-level priorities. We identified confusion among OCIO employees and customers about the responsibilities of OCIO employees and branches, and a general lack of communication and transparency about its projects. We also found deficiencies in contract administration that increase the agency's risk for poorly performing contractors and vendors, undelivered or delayed capabilities and functionality, protracted litigation, and challenges for mission success. With a new CIO having joined the agency in July 2015, management is addressing these challenges and has already implemented or is planning to implement OIG recommendations, including adding the CIO as a full voting member of the governance boards in November 2015.

We issued the FTC's Information Security Modernization Act (FISMA) evaluation for Fiscal Year (FY) 2015. The evaluation shows that FTC security and privacy programs are robust, demonstrating their ability to protect FTC assets while undergoing significant organizational, physical, and technological change. The FTC continues to evolve its information security program toward the risk-based model established by the National Institute of Standards and Technology by chartering IT governance boards to monitor IT planning, matching information security control measures to the FTC's unique threat profile, and allocating resources to mitigate vulnerabilities. Using for the first time the maturity model developed by the Council of the Inspectors General on Integrity and Efficiency, the evaluation shows opportunities to improve security control planning, the quality of security documentation, and the consistency of program implementation. The evaluation makes recommendations to improve information security planning and monitoring; program operations; the security of technology support provided from outside sources; and improved performance measurement techniques.

We issued the Financial Statement Audit for FY 2015, in which the FTC received an unmodified opinion – the highest opinion given by independent auditors – for the 19<sup>th</sup> consecutive year. We issued the associated Management Letter, which contains findings and recommendations to improve the agency’s internal controls and operating efficiencies.

We identified what the OIG considers to be the agency’s most important management challenges in FY 2016:

1. Securing the Agency’s Information Systems and Networks from Destruction, Data Loss, or Compromise
2. Maturing the Agency’s Information Technology Governance Process
3. Improving Contract Management
4. Stabilizing the Agency’s eDiscovery Support System
5. Ensuring Compliance with Digital Records Management Requirements

There are several significant audits and evaluations underway, including follow-on evaluations from our FISMA reporting assessing whether the FTC’s governance practices are continuing to show improvement in their ability to operate as a mature, risk-based decision support structure. The OIG continues to lean forward to embrace the Office of Management and Budget’s initiative to integrate enterprise risk management into agency internal control efforts, including risks outside the financial management area.

FTC Bureaus and Offices continued to make significant progress implementing open OIG recommendations identified in previous semiannual reports, including the closing of all recommendations in our June 2015 evaluation of the Bureau of Economics.

Once again, I express my appreciation for the outstanding dedication of OIG personnel whose work is reflected in this report. I also express my appreciation to the Commission, agency leadership and staff, and to Congress for their sustained support to the OIG mission.



A handwritten signature in black ink, reading "Roslyn A. Mazer". The signature is fluid and cursive, with a long horizontal line extending to the right.

Roslyn A. Mazer  
Inspector General  
April 30, 2016

## 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 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 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 via a specialized link to the [FTC Consumer Response Center \(CRC\)](#) 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 or 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 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 an operating budget of \$1,314,000 for FY 2016.

## 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.

**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 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 IG activity. Management advisories typically contain recommendations to address OIG findings.

## Evaluations, Audits, and Related Activities

### Completed Reports

During this period, we issued two evaluations: an evaluation of the FTC's Office of the Chief Information Officer and the evaluation of the FTC's Information Security Modernization Act Program and Practices (FISMA) for Fiscal Year 2015. We issued two audit reports: the Financial Statement Audit for FY 2015 and the associated Management Letter.

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

The Chief Information Officer (CIO) occupies a critical position within the FTC and with external stakeholders, whose sensitive information is stored in FTC's databases and repositories. The CIO heads the Office of the Chief Information Officer (OCIO), which executes and manages the agency's information technology and information security responsibilities. The FTC's stewardship of its IT investments and the safeguarding of its sensitive nonpublic holdings are uniquely important, given the FTC's leading role in monitoring merger and acquisition activities, advocating for protection of consumer information and consumer privacy, and hosting a national repository of consumer complaints. We found that:

- **A disconnect between authority and responsibility diminishes the CIO position.** The agency's organizational and IT governance body structures limit the CIO's ability to reject a customer request for immediate assistance or to stop or modify an IT investment. Further, while the CIO is represented and plays an important role on all three IT governance bodies, the CIO was a non-voting, ex-officio member of the two highest bodies – the IT Governance Board (ITGB) and the IT Business Council (ITBC). The CIO's subordinate role on the FTC's IT governance boards had diminished the CIO's ability to advance the CIO's authority and hampered the ability of the CIO to execute the agency's information security and IT mission. As the FTC moves to incorporate the principles of enterprise risk management for managing IT investments and establish a common structure for project management, the CIO should be empowered to help the FTC realize strategic IT priorities for the agency and fulfill the CIO's information security responsibilities.
- **High turnover in the CIO position hampers short-term and long-term planning efforts.** Since 2000, the FTC has had five permanent CIOs who served an average tenure of 2.8 years or 34 months, and seven acting CIOs. Consequentially, OCIO employees have lacked consistent direction and clear focus, with each CIO having his own agenda and approach. While previous CIOs undertook formal planning and modernization efforts, the strategic planning process has been hampered by leadership turnover, leaving the emphasis on "putting out fires." When combined with insufficient resources, the absence of strategic focus means that the OCIO's priorities and objectives do not align with the agency's enterprise-level priorities, but rather with maintaining and enhancing existing infrastructure. Long-term IT planning is

difficult when an IT unit's base budget cannot fund its current operations and must rely on unfunded requirements (UFRs) for new, multi-year investments. The consequent absence of enterprise-level strategic IT planning leaves the FTC more vulnerable to increased costs, outdated technologies, duplication of effort, poor or degraded performance of its IT systems, and potential data breaches and cyberattacks. To mitigate these risks and help the agency accommodate future leadership transitions, the FTC should develop and implement an IT strategic plan and provide increased transparency through communication of IT project priorities and status to OCIO staff, customers, and stakeholders. Other essential priorities for the OCIO's new leadership are measures to ensure the OCIO staff is right-sized and right-skilled, strengthen the OCIO's mid-level leadership, and provide training for IT planning and modernization efforts.

- **Lack of clear delineation and understanding of OCIO employees' roles and responsibilities creates confusion and limits accountability.** Our review identified confusion among OCIO employees and customers as to OCIO responsibilities and a general lack of communication and transparency about its projects. Lack of role clarity stems from 1) unclear, outdated, and frequent discrepancies in OCIO employee position descriptions; 2) lack of skilled personnel in key positions, resulting in high-performing OCIO employees gravitating to complete work outside their branch's area of responsibility; and 3) an antiquated organizational structure that does not promote matrixed management. The current OCIO organizational structure also lacks a central planning unit or individual tasked with coordinating all planning endeavors, along with research and development capability, leaving the agency behind the curve in optimizing its information security and IT infrastructure. The agency's relatively immature governance process for IT acquisitions does not ensure full stakeholder participation in IT planning or development of user-focused metrics to measure the OCIO's contribution to the agency's mission.
- **Poor contract management compromises the OCIO's mission.** Agency stakeholders reported adverse ramifications from poor requirements gathering, drafting, and oversight of IT contracts by OCIO personnel. The OIG found that 1) some OCIO employees who serve as Contracting Officer's Representatives (COR) lack project and contract management skills even though they serve as CORs on as many as 15 separate contracts; 2) OCIO does not correctly capture end user requirements in initial contract solicitations; 3) end users' initial needs sometimes expand beyond the initially defined contract boundaries; and 4) IT contracts do not specify proper performance metrics or define the process for measuring objectives. Taken together, these shortfalls increase the agency's risk for poorly performing contractors and vendors, undelivered or delayed capabilities and functionality, protracted litigation, and, ultimately, challenges for mission success.

To address these findings, we recommended that the FTC:

1. Extend voting rights to the CIO on the FTC IT Governance Board and the IT Business Council.
2. Identify the current OCIO core competencies and determine how they align with stakeholder needs, and identify performance shortfalls and gaps and their root causes (e.g., personnel, policy, business processes, resources, or technology).

3. Using the data developed through the core competency assessment, the FTC's Quadrennial Strategic Plan, and other agency priorities and initiatives, develop an IT Strategic Plan. The IT Strategic Plan should establish goals and objectives to serve both a) internal customers (operations and infrastructure) and b) external stakeholders (including federal partners, litigants, contractors, and consumers) that incorporate principles of enterprise risk management, performance-based metrics, and change management.
4. Assign ongoing responsibility to staff for conducting a) strategic planning, b) enterprise architecture planning that accommodates the Federal enterprise architecture<sup>1</sup> relevant to the FTC mission, c) prototypes of emerging technology activities, and d) agency IT acquisition strategy to help anticipate and plan for the agency's future IT and information security requirements.
5. Update all OCIO employees' position descriptions to delineate current job descriptions, correct grade and promotion potential, and supervisory status; ensure position descriptions for OCIO managers include review of COR performance in collecting and drafting contract requirements and monitoring contractor performance.
6. Using established Office of Management and Budget, Federal Acquisition Regulation, Federal Acquisition Institute training, and other guidance, and in coordination with the development of the IT Strategic Plan, develop an acquisition strategy that reduces the complexity of current procurements and increases stakeholder visibility into contractor performance.
7. Publish IT services that align with stakeholder requirements and the FTC Quadrennial FTC Strategic Plan, service levels, and corresponding levels of resources required to provide these service levels, and post this data on the FTC Intranet.
8. Using the core competency assessment and published IT services, and in coordination with the development of the IT Strategic Plan, develop a recruitment, hiring, and training plan to acquire and sustain personnel needed for improved contract management, program management, and oversight within OCIO and in the FTC's Bureaus and Offices, and for IT service delivery across the FTC.

The FTC concurred with these recommendations and has taken significant steps to implement corrective action that will improve the agency's IT systems and program, including making the CIO a full voting member of the FTC's governance boards in November 2015.

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<sup>1</sup> Federal enterprise architecture essentially attempts to align technology and managerial resources to provide a more unified, strategic outcome and performance.

## **FY 2015 Evaluation of the Federal Trade Commission's Information Security Program and Practices**

The Federal Information Security Modernization Act of 2014 (FISMA) requires federal agencies, including the FTC, to develop, document, and implement agency-wide information security programs. FISMA also requires Inspectors General to conduct independent evaluations of their agencies' information security program and practices.

The OIG contracted with Allied Technology Group Inc. to perform the independent FISMA evaluation. The objective was to provide an assessment of the effectiveness of the FTC's information assurance and privacy programs and compliance with Office of Management and Budget (OMB) and National Institute of Standards and Technology (NIST) guidance. This evaluation is provided to senior management and others to enable them to determine the effectiveness of overall security programs, ensure the confidentiality and integrity of data entrusted to the FTC, and develop strategies and best practices for cost-effectively improving information security.

The evaluation determined that the FTC has established an information security program that is in substantial compliance with applicable security and privacy requirements. As required, this report uses an assessment approach that focuses on program effectiveness instead of compliance. For the first time, it also uses the maturity model developed by the Council of Inspectors General on Integrity and Efficiency (CIGIE).

FTC efforts to accelerate modernization of its IT capabilities and the increasing volume and sensitivity of FTC information assets will stress FTC systems when preventing cyber-attacks. Accordingly, continuing improvement while maintaining effective security will require increased emphasis on planning, Configuration Management, and attention to detail. We recommended that the FTC continue to evolve its governance practices, take appropriate action to ensure completion of an appropriate Configuration Management plan, and apply its revised governance process to the implementation of its Personal Identity Verification ("PIV") program so that compliance is not subject to continuing delay.

The FTC concurred with the evaluation's seven recommendations and has taken steps to implement corrective action that will improve the agency's information security program and practices.

## **FY 2015 Audit of the FTC's Financial Statements**

Federal law requires that the FTC obtain an annual independent audit of its financial statements, which the OIG oversees. We contracted with the independent public accounting firm of Brown & Company CPAs, PLLC under a multi-year contract for which the OIG serves as the Contracting Officer's Representative (COR).

For the 19<sup>th</sup> consecutive year, the FTC received an unmodified opinion, the highest opinion given by independent auditors. As a result of the audit of the FTC's financial statements for the year ended September 30, 2015, Brown & Company found the following:

- The financial statements were presented fairly, in all material respects, in conformity with U.S. generally accepted accounting principles
- No deficiencies in internal control were identified as material weaknesses
- No reportable instances of noncompliance with applicable provisions of laws regulations, and contracts tested

Our oversight of the contractor ensures that the audit complies with generally accepted government auditing standards and meets contract requirements. The audit was performed in accordance with U.S. Generally Accepted Government Auditing Standards and Office of Management and Budget (OMB) audit guidance.

### **Management Letter from the FY 2015 Financial Statement Audit**

When performing an audit of an agency's major financial systems and accounting processes, auditors often detect issues in internal controls that do not rise to a level of seriousness that render them necessary to report 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:

- The FTC did not adequately document the basis for a Small Business Administration (SBA) Sole Source Award.
- The timing of FTC's search for unrecorded liabilities and subsequent expense resulted in not properly accruing for one transaction tested.

Management concurred with these recommendations and provided detailed steps to implement corrective actions.

We commend management for addressing previous recommendations that enabled the OIG to close six of the seven open recommendations made in connection with prior financial statement audits.

## Ongoing Work

### Enterprise Risk Management

In FY 2016, the Office of Management and Budget (OMB) is updating Circular A-123, *Management's Responsibility for Internal Control*, to provide implementation guidance to assist federal agencies in employing Enterprise Risk Management (ERM) principles and practices to improve operational and support accountability. To prepare for these revisions, the FTC Inspector General and agency management have been discussing and defining their respective ERM roles. The OIG has increased its proficiency in applying ERM principles and techniques by attending events sponsored by OMB, the Government Accountability Office, and the Association for Federal Enterprise Risk Management; attending small agency working groups; and meeting with federal agencies with well-established ERM programs to identify best practices. The OIG is developing a methodology to identify and assess agency risks, focusing on risks affecting core mission areas that will not duplicate the areas that FTC management will address in FY 2016.

### FISMA Follow-on Evaluations

The OIG continues with the following evaluations that augment our FY 2014 and 2015 FISMA evaluations:

- The OIG is evaluating whether the FTC's governance practices are continuing to show improvement in their ability to operate as a mature, risk-based decision support structure to effectively address investment and risk management challenges. The review will determine whether, in the face of increasing threats and greater public awareness that protecting information is a critical FTC role, the agency's governance practices have sufficiently matured to address the challenges resulting from a workforce requesting rapid availability of new technologies.
- Availability of reliable electronic discovery and litigation support (eDSS) capabilities is critical to the FTC's performance of its missions. The OIG will identify areas of weakness that can be corrected to ensure the eDSS provides the functionality to effectively support FTC litigation and to identify systemic issues that may be corrected to avoid similar problems in subsequent eDSS and other FTC IT acquisitions.
- As the FTC moves rapidly to make expanded mobile computing capabilities (e.g., smart phones, tablets, and "bring your own device") available to its workforce, new practices and procedures will be needed to identify and address the physical and logical risks that accompany the technological changes. The OIG is assessing whether the FTC's planning and monitoring practices are adequate to ensure that mobile computing can be safely implemented.
- The OIG is assessing FTC efforts to manage and reduce its holdings of Personally Identifiable Information (PII); how the agency has integrated its Privacy Program into its Information Security Program, and how the agency monitors performance of its PII reduction program. The review will

also assess risks associated with the collection, storage, sharing, retention, and disposal of various categories of nonpublic information held in FTC repositories that, if disclosed, compromised, or misused, pose significant risks to the FTC mission.

## 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 all of the remaining recommendations contained in the OIG evaluation report of the Bureau of Economics issued in June 2015, and one of eight recommendations contained in the evaluation report of the Office of the Chief Information Officer, issued in December 2015.

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 456 consumer complaints, inquiries, and reports of possible wrongdoing. The OIG redirected 400 complaints to the FTC's Consumer Response Center (CRC) and three complaints to the FTC's FOIA office. This represents an 86% 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 a direct online tool from the OIG's homepages to the CRC, rather than through the OIG Hotline itself.

#### Fake FTC Website

According to the 2015 FTC Consumer Sentinel Network Data Book, the number of government imposter complaints that the FTC received has increased from 159,000 in 2014 to over 353,000 in 2015, including imposters who claim they are with the FTC. During the last reporting period, the OIG described its referral of an FTC imposter scam involving at least 17 consumers who purportedly lost a total of \$ 388,000 from this and related sweepstakes scams. During this reporting period, the United States Postal Service OIG continued to work with prosecutive authorities in developing its investigation.

#### Streamlining OIG Hotline Complaints

In FY 2015 the OIG reviewed the data accumulated from calls and emails to the OIG Hotline. The results

indicated opportunities to streamline this process to quickly forward the inquiries and complaints that come to the OIG Hotline that should be handled by the CRC, rather than by the OIG. The solution was to develop a business process improvement to streamline the consumer complaint collection process, with the following revisions:

- ▶ In collaboration with the FTC Bureau of Consumer Protection’s Division of Consumer Response Operations, the OIG developed a specialized link on the OIG’s Internet and Intranet OIG homepages that points complainants to the FTC Complaint Assistant. The link enables staff to quickly segregate the FTC OIG complaints in the Consumer Sentinel Network. All 18 complaints received during this reporting period via our specialized link concerned general FTC fraud matters, such as government imposters and automobile financing, rather than complaints within the OIG’s jurisdiction.
- ▶ The OIG monitored all incoming Consumer Sentinel Network complaints submitted via the specialized link and removed the ones that concern internal FTC OIG matters. All removed complaints were tracked, logged, and maintained on an OIG log. At the end of this reporting period, only one complaint was removed using this procedure.
- ▶ The OIG revised the OIG Hotline voicemail and email greetings to promote the FTC Complaint Assistant link as the best complaint avenue. By the end of this reporting period, intake via voicemail and email methods fell from about 20 weekly complaints to one or two.
- ▶ The OIG revised the relevant OIG homepages to direct consumers to the specialized link, placing it as the first point of contact.

As a result of these modifications to OIG Hotline protocols, 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 coming into the OIG’s voicemail and email.

## Investigations Closed or Initiated

The OIG closed three investigations during the reporting period, two of which are highlighted below:

### **Allegation of Time and Attendance Fraud**

The OIG received an allegation that an employee engaged in time and attendance fraud by working fewer hours than reported on his time sheets. The complaint further alleged that the employee’s managers were aware of the abuse, but failed to take any action to correct the behavior. The OIG did not substantiate the allegation that the employee engaged in time and attendance fraud. The OIG also did not substantiate the allegation that the employee’s supervisors were aware of time and attendance fraud allegations but failed to address them.

## Allegation of Contractor Forgery

The OIG received an allegation a former FTC contractor forged the signature of an FTC contracting officer on a contract modification. It was further alleged that the contracting officer advised a supervisor that the contracting officer's signature was forged, but that the supervisor failed to notify the OIG. The OIG did not substantiate the allegation that the former contractor forged the signature of an FTC contracting officer on a contract modification. However, the OIG did find that the contracting officer reported the alleged forgery to the supervisor, but neither that supervisor nor a higher-level supervisor reported the allegation to the OIG, as required.

During this reporting period, the OIG opened three preliminary inquiries and one new investigation into allegations of employee misconduct or wrongdoing. The OIG also closed three investigations.

## Preliminary Inquiries

The OIG initiated and closed a preliminary review of allegations that an FTC supervisor retaliated against a subordinate for bringing matters to the attention of management and the OIG. Based on a preliminary review of the evidence, the OIG did not find sufficient evidence to open an investigation.

## Management Advisories and Referrals

During this reporting period, the OIG issued three management advisories or referrals stemming from investigative activity. These advisories identified potential internal control weaknesses and provided recommendations for improvement. We highlight two of them.

## Contract Administration and Oversight

As the OIG recognized in its FY 2015 Management Challenges, the FTC obligated \$104.9 million – approximately one-third of its operating budget in FY 2014 – on contracts for goods and services. The agency continues to face challenges with aspects of contract management, including guidance and oversight, execution of sound contracting techniques and approaches, and the current procurement application. As the agency continues its multi-year process to address this challenge, the OIG identified immediate opportunities to strengthen contract management and oversight.

- The FTC must manage its emails in accordance with the Federal Records Act, the Federal Acquisition Regulations System, other federal statutes, and agency policy. In so doing, the agency must ensure that Contracting Officers' Representatives and contractors archive relevant emails pertaining to the administration of FTC contracts. The OIG management advisory identified opportunities to reinforce these

responsibilities through training, contract drafting protocols, and policy clarification. Once implemented, these measures will improve both managerial oversight of FTC contracts and support of the OIG's mission to prevent and detect fraud, waste, and abuse. Management identified steps it is taking to address these recommendations.

- The OIG referred to management another matter involving contract administration and oversight growing out of the contractor forgery investigation referenced above. The OIG identified potential internal control issues that could result in unauthorized commitments or other actions during contract administration. Management identified steps it is taking to mitigate these concerns.

## OTHER ACTIVITIES

### Liaison with Other Agencies

During this reporting period, in conducting audits, investigations, and other activities, the OIG has sought assistance from and conferred with other federal agencies, including the following: the Government Accountability Office, the Farm Credit Administration, the Office of Government Ethics, the Department of Justice, and the Securities and Exchange Commission.

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

The OIG's Audit Manager participates regularly in the monthly meeting of the Financial Statements Audit Network, a CIGIE subcommittee. She also teaches the financial statement section of 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 CIGIE subcommittee, and contributes to the discourse involving evaluation developments and best practices.

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 Inspector General co-moderated a panel at the annual CIGIE-GAO Coordination meeting in March 2016 on Enterprise Risk Management, highlighting the varied approaches within the OIG community for promoting risk-based analyses and decisions within their agencies while maintaining the OIG's independent role and mission.

The OIG worked with FTC management to provide facilities for CIGIE training sessions at FTC Headquarters. The OIG is pleased to offer this convenient venue for CIGIE training and appreciates management's support for future planned training sessions.

## 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. The OIG also provides responsive information in response to direct requests from Congress.

During this reporting period, the OIG expressed support for the Council of the Inspectors General on Integrity and Efficiency's (CIGIE) October 6, 2015, letter to the Chairman and Ranking Member of the U.S. Senate's Committee on Homeland Security and Governmental Affairs, urging support for the bipartisan substitute amendment to Senate bill S.579, *the Inspector General Empowerment Act of 2015*. The bill addresses the Department of Justice (DOJ) Office of Legal Counsel's (OLC) July 20, 2015, opinion stating that Section 6(a) of the IG Act does not give the DOJ OIG independent access to all records available to DOJ that are needed to perform its oversight functions. Recognizing that the OLC interpretation of the IG Act could have a profound negative impact on the entire OIG community, the FTC OIG continues to support CIGIE efforts to urge Congress to immediately pass legislation affirming the authority of Inspectors General under the IG Act to access independently and without delay all information in an agency's possession that the Inspector General deems necessary to conduct oversight functions.

## Access to Information

Inspectors General must have 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 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(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 problems or delays in obtaining assistance or access to agency records.

## Other Initiatives

The Inspector General participated in several meetings with Office of Management and Budget (OMB) officials and representatives of the OIG community to discuss OMB objectives and plans for revising Circular A-123, *Management's Responsibility for Risk Management and Internal Control*. In the first update to the circular in over ten years, the revision will incorporate principles of enterprise risk management in the federal government.

In furtherance of our efforts to educate the FTC workforce on the whistleblower protection laws, the OIG collaborated with agency management to register the FTC in the Office of Special Counsel's 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. The FTC's enhanced program will be fully implemented within the next reporting period.

The OIG continues to work 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, 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	No other agency OIG conducted peer reviews of the FTC 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 Review 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 Management Act (FISMA) for Fiscal Year 2014 (Report Issued: 05/2015)

<b>Recommendations</b>	<b>Total</b>	7
	<b>Mgmt. concurs</b>	7
	<b>Mgmt. non-concurs</b>	--
<b>Status of Recommendations</b>	<b>Closed*</b>	4
	<b>Open*</b>	3

#### Recommendations

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

FTC should take appropriate action to ensure completion of an appropriate Configuration Management (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 Plans**

FTC should develop a disaster recovery strategy and implementation plan.

\* 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.

**Independent Assessment of Implementation of the Federal Information Security Management Act (FISMA) for Fiscal Year 2013 (Report Issued: 03/2015)**

<b>Recommendations</b>	<b>Total</b>	5
	<b>Mgmt. concurs</b>	5
	<b>Mgmt . non-concurs</b>	--
<b>Status of Recommendations</b>	<b>Closed</b>	4
	<b>Open</b>	1

**Recommendation**

◀ **FY2013–07: Identity and Access Management**

FTC should revise its infrastructure access procedure to restrict access until background screening is completed per FTC policy.

**Financial Statement Audit for Fiscal Year 2013 Management Letter (Report Issued: 05/2014)**

<b>Recommendations</b>	<b>Total</b>	5
	<b>Mgmt. concurs</b>	5
	<b>Mgmt . non-concurs</b>	--
<b>Status of Recommendations</b>	<b>Closed</b>	4
	<b>Open</b>	1

**Recommendation**

◀ **ML-13-2**

We recommend FTC perform the following:

1. Review and determine the validity of undelivered orders on a semi-annual basis;
2. Develop policy requiring certification for all open obligation balances that are inactive for more than 12 months.

## 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 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 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
E. Reports for which no management decision was made within six months of issuance	0	0

## Appendix V – Inspector General Act Reporting Requirements Index

IG Act Reference	Reporting Requirements	Pages(s)
Section 4(a)(2)	Review of legislation and regulations	18
Section 5(a)(1)	Significant problems, abuses and deficiencies	none
Section 5(a)(2)	Recommendations with respect to significant problems, abuses and deficiencies	6-16
Section 5(a)(3)	Prior significant recommendations on which corrective actions have not been made	21-22
Section 5(a)(4)	Matters referred to prosecutive authorities	13-16
Section 5(a)(5)	Summary of instances where information was refused	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	6-10
Section 5(a)(8)	Statistical tables showing number of reports and dollar value of questioned costs	23
Section 5(a)(9)	Statistical tables showing number of reports and dollar value of recommendations that funds be put to better use	24
Section 5(a)(10)	Summary of each report 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 revised management decisions with which the Inspector General disagrees	none
Section 5(a)(14)	Peer reviews conducted by another OIG	20

IG Act Reference	Reporting Requirements	Pages(s)
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

# Contact the OIG

Promote integrity, economy & efficiency.  
Report suspected fraud, waste,  
abuse or mismanagement.

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**Complaints may be made anonymously.**

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.