

UNITED STATES OF AMERICA
FEDERAL TRADE COMMISSION
WASHINGTON, D.C. 20580

FEDERAL TRADE COMMISSION

OFFICE OF INSPECTOR GENERAL



SEMIANNUAL REPORT TO CONGRESS

April 1, 2007 - September 30, 2007

Report #37



October 24, 2007

The Honorable Deborah Majoras
Chairman
Federal Trade Commission
600 Pennsylvania Avenue, N.W.
Washington, D.C. 20580

Dear Chairman Majoras:

The attached report covers the Office of Inspector General's (OIG) activities for the first half of fiscal year 2007 and is submitted according to Section 5 of the Inspector General Act of 1978, as amended.

During the six-month reporting period ending September 30, 2007, the OIG completed a review of the FTC's Implementation of the Federal Information Security Act for FY 2006, issued Management Challenges for inclusion in the FTC's FY 2007 Performance and Accountability Report and issued an audit of the FTC's Consumer Response Center.

In addition, the OIG processed 42 consumer inquiries and complaints/allegations of possible wrongdoing during the period, opened four new investigations into wrongdoing and referred one matter to the Department of Justice for prosecutorial consideration.

As in the past, management has been responsive in attempting to implement all OIG recommendations. I appreciate management's support and I look forward to working with you in our ongoing efforts to promote economy and efficiency in agency programs.

Sincerely,

Howard L. Sribnick
Inspector General

INTRODUCTION

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

To aid the FTC in accomplishing its consumer protection and antitrust missions, the Office of Inspector General (OIG) was provided five work years and a budget of \$917,500 for fiscal year 2007.

AUDIT ACTIVITIES

During the six-month reporting period ending September 30, 2007, the OIG completed a review of the FTC's Implementation of the Federal Information Security Act for FY 2006, issued Management Challenges for inclusion in the FTC's FY 2007 Performance and Accountability Report and issued an audit of the FTC's Consumer Response Center.

Detailed information regarding these audits and reviews completed during the reporting period is provided below.

Completed Audits

<u>Audit Report Number</u>	<u>Subject of Audit</u>
AR 07-003	Audit of the Federal Trade Commission's Consumer Response Center
AR 07-004	The FTC's Implementation of the Federal Information Security Act for FY 2007

Summary of Audits and Reviews Issued During the Current Period

AR 07-003, Review of the FTC Consumer Response Center

The objective of our review was to evaluate pertinent policies and procedures regarding the operation of the Consumer Response Center, assess the kind of information obtained from consumers, and determine how consumer complaints are categorized.

The CRC receives approximately 30,000 to 40,000 contacts per week from consumers, law enforcement agencies, and other consumer advocate groups. Approximately 10,000 to 12,000 of

those contacts are consumer complaints. Consumer complaints are entered into the Consumer Information System database (CIS). In addition to FTC personnel, external agencies can enter complaints into CIS or provide complaints in bulk to the CRC for uploading into CIS.

Our review found that consumer complaints received by CRC and the call center contractor were accurately entered into the Consumer Information System and Consumer Sentinel. However, we found that not all complaints uploaded from external reporting agencies are correctly identified under the appropriate product service code (PSC) in Consumer Sentinel. BCP advised that this occurred when the service codes used by outside entities, such as the Better Business Bureau, did not match up with the codes used by the agency. BCP will attempt to address this issue in upcoming follow-on call center contract.

AR 07-004, Review of Federal Trade Commission Implementation of the Federal Information Security Management Act (FISMA) For Fiscal Year 2007

The objectives of the independent evaluation of the FTC information security program were to: (1) assess compliance with FISMA and related information security policies, procedures, standards, and guidelines, (2) determine the effectiveness of information security policies, procedures, and practices as implemented at Headquarters and the Western Regional Office in San Francisco, CA., (3) perform a network scan of the FTC Infrastructure network to identify vulnerabilities in the agency's security controls and patch management program, (4) assess FTC's government equipment usage process, (5) assess FTC's disaster recovery and contingency planning capability, and (6) evaluate security controls protecting FTC applications.

This years OIG review found that the FTC security environment is strong and robust and continues to evolve to expand its coverage and to address changing threats and requirements. FTC management recognizes that continued vigilance, and resource investment is required to continue to protect the data entrusted to its care and secure the availability and integrity of the information technology (IT) systems that are critical to the agency's ability to successfully complete its missions.

The FTC Office of Information Technology Management (ITM) is presently updating its security policies and procedures. This effort is integrated with its deployment of the FTC Privacy Program. Integration of the FTC Information and Privacy programs will result in stronger protection than if the programs were established as independent efforts.

The OIG analysis of the current FTC security/privacy control environment identified 19 findings (13 assessed as LOW and 6 as MEDIUM severity) relative to Headquarters activities and 8 findings (4 assessed as LOW and 4 as MEDIUM severity) at the San Francisco Regional Office. ITM has already initiated action that will mitigate all of the Headquarters and Regional Office findings.

Other Activity

Other activity relating to that audit function of the OIG during this reporting period included revising the OIG Audit Manual to comply with July 2007 revisions to government audit standards and participation in a peer review conducted by the Smithsonian Institution OIG.

Planned Audits

Audit Report Number

Subject of Review

AR 08-001

Audit of the FTC's Financial Statements for Fiscal Year 2007 The purpose of the audit is to express an opinion on the financial statements of the Federal Trade Commission for the fiscal year ending September 30, 2007. The principal statements to be audited include the (a) Balance Sheet; (b) Statement of Net Cost; (c) Statement of Changes in Net Position; (d) Statement of Budgetary Resources; (e) Statement of Financing; (f) Statement of Custodial Activity, and notes to the financial statements. The OIG will also test the internal controls associated with the movement of transactions through the FTC's financial system and assess compliance with selected laws and regulations.

The OIG will follow guidance contained in OMB Bulletin No. 01-02, *Audit Requirements for Federal Financial Statements*, in performing this audit.

The audited financial statements are required to be included in the financial section of the agency's Performance and Accountability Report to be issued on or before November 15, 2007.

AR 08-002

Review of the Redress Administration Office (RAO) Tracking of Judgements and Collections in Bureau of Consumer Protection Cases

In the past, the OIG found that accounting and reporting on judgments, collections and redress distributions by the Bureau of Consumer Protection Redress Office contained errors and omissions.

In response to these findings, the Bureau of Consumer Protection has launched a new Redress/Enforcement database that incorporates data about orders, defendants, receivers, redress distributions, and other

financial data for redress matters. The OIG will undertake a follow-up review of the tracking and reporting of judgments and collections by the Redress Office to assure that the goals of this important management challenge are achieved.

Other Potential Reviews

Because a new Audit Manager will be joining the OIG at the end of October, 2007, the decision as to what additional audits of agency programs should be initiated is being deferred until this individual has an opportunity to review the Audit Work Plan developed by her predecessor.

INVESTIGATIVE ACTIVITIES

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

In conducting criminal investigations during the past several years, the OIG has sought assistance from, and worked jointly with, other law enforcement agencies, including other OIG's, the Federal Bureau of Investigation, the U.S. Postal Inspection Service, the U.S. Secret Service, the U.S. Marshal's Service, the Internal Revenue Service, U.S. Capitol Police, Federal Protective Service as well as state agencies and local police departments.

Investigative Summary

During this reporting period, the OIG received 42 consumer and other inquiries and reports of possible wrongdoing. Of the 42 complaints 17 involved issues that fall under the jurisdiction of FTC program components (identity theft, credit repair, etc.). These matters were referred to the appropriate FTC component for disposition. One complaint was referred to a state agency for appropriate action. Of the remaining complaints, the OIG opened four new investigations and twenty complaints were closed with no further OIG action.

Following is a summary of the OIG's investigative activities for the six-month period ending September 30, 2007:

Cases pending as of 3/31/07

4

PLUS: New cases	4
LESS: Cases closed	(2)
Cases pending as of 9/30/07	6

Investigations Closed

The OIG closed an investigation, opened during the prior reporting period, involving alleged unauthorized access to sensitive information in Lexis/Nexis databases by a former FTC student intern. The allegation stemmed from an internal audit conducted by the agency's Office of Information Technology Management. The audit revealed that a former FTC unpaid college student intern had accessed sensitive databases on Lexis/Nexis after his four-month internship with the agency had ended. Because Lexis/Nexis had built-in safeguards, the former intern could only see the access names, addresses and partially-redacted social security numbers germane to his search queries.

The unauthorized access was possible because an FTC administrative officer failed to adhere to established agency procedures for "checking out" employees (including unpaid interns) who resign from the FTC. Our investigation uncovered no evidence that the procedural breach was deliberate. Rather, the administrative officer did not believe that the routine check-out procedure (including obtaining signatures on the "check out" form from various organizations within the agency) applied to short-term unpaid interns. This procedural lapse prevented the organization within the agency that is responsible for terminating Lexis/Nexis password authorizations from terminating the intern's authorization to the sensitive databases.

Throughout the OIG investigation, the OIG kept the agency's Chief Privacy Officer and breach notification response team apprised of the progress of the investigation in order that notifications to affected individuals could be made, if appropriate. Because no sensitive personally identifiable information was disclosed as a result of the unauthorized access, the breach notification response team determined that no individual notifications were necessary. Because the former intern no longer worked for the agency and the administrative officer who failed to adhere to procedures did so out of ignorance rather than an intent to violate regulation, the matter was closed with no OIG referral. However, management was advised to assure adherence to "checking out" procedures in the future.

The OIG also closed an investigation involving an employee's misuse of the agency's information technology resources. Our investigation revealed that a senior FTC attorney submitted a Freedom of Information Act request to a District of Columbia agency and had multiple email exchanges with that DC agency while using his FTC email account. The employee's conduct was found to have violated the agency's policy on appropriate use of information technology resources. The OIG transmitted an administrative referral to agency management for appropriate action.

Matters Referred for Prosecution

During this reporting period the OIG did not refer any new matters to the Department of

Justice (DOJ) for consideration of potential criminal action. We consulted with DOJ regarding the unauthorized access to Lexus-Nexus databases investigation described above. Both the OIG and DOJ agreed that a declination for prosecution was appropriate, based on the facts presented.

A matter referred to DOJ during the previous reporting period remains pending at DOJ, with no final action to date.

OTHER ACTIVITIES

Management Advisories

The OIG issued no new Management Advisories during this reporting period.

Significant Management Decisions

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

Access to Information

The IG is to be provided with ready access to all agency records, information, or assistance when conducting an investigation or audit. Section 6(b)(2) of the IG Act requires the IG to report to the agency head, without delay, if the IG believes that access to required information, records or assistance has been unreasonably refused, or otherwise has not been provided. A summary of each report submitted to the agency head in compliance with Section 6(b)(2) must be provided in the semiannual report in accordance with Section 5(a)(5) of the Act.

During this reporting period, the OIG did not encounter any problems in obtaining assistance or access to agency records. Consequently, no report was issued by the IG to the agency head in accordance with Section 6(b)(2) of the IG Act.

Audit Resolution

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

Review of Legislation

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

Contacting the Office of Inspector General

Employees and the public are encouraged to contact the OIG regarding any incidents of possible fraud, waste, or abuse occurring within FTC programs and operations. The OIG telephone number is **(202) 326-2800**. To report suspected wrongdoing, employees may also call the OIG's investigator directly on **(202) 326-2618**. A confidential or anonymous message can be left 24 hours a day. Complaints or allegations of fraud, waste or abuse can also be emailed directly to chogue@ftc.gov. OIG mail should be addressed to:

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

OIG reports can be accessed via the internet at: www.ftc.gov/oig. A visitor to the OIG home page can download recent (1996-2006) OIG semiannual reports to Congress, the FY 1998 - 2006 financial statement audits, and other program and performance audits issued beginning in FY 1999. A list of audit reports issued prior to FY 1999 can also be ordered via an e-mail link to the OIG. In addition to this information resource about the OIG, visitors are also provided a link to other federal organizations and Office of Inspectors General.

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

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

TABLE II
INSPECTOR GENERAL ISSUED REPORTS
WITH QUESTIONED COSTS

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

TABLE III

**INSPECTOR GENERAL ISSUED REPORTS
WITH RECOMMENDATIONS THAT FUNDS BE PUT TO BETTER USE**

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