

FEDERAL TRADE COMMISSION

OFFICE OF INSPECTOR GENERAL



SEMIANNUAL REPORT TO CONGRESS

October 1, 2005 - March 31, 2006

Report #34

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

Summary of Findings for Reviews Issued During the Current Period

In AR 06-069, *Audit of the Federal Trade Commission's Financial Statements for the Fiscal Year Ending September 30, 2005*, the objective was to determine whether the agency's financial statements present fairly the financial position of the agency. The statements audited were the Balance Sheets as of September 30, 2005 and 2004 and the related Statements of Net Cost, Statements of Changes in Net Position, Statements of Budgetary Resources, Statements of Financing and Statements of Custodial Activity for the years then ended. This was the ninth consecutive year that the FTC prepared financial statements for audit. The agency received an unqualified opinion, the highest opinion given by independent auditors.

The FY 2005 audited statements provide insight into the mission and operations of the Federal Trade Commission. The FTC had total assets of \$259 million and \$252 million as of September 30, 2005 and 2004, respectively. Approximately \$132 million and \$145 million of the 2005 and 2004 assets, respectively, were funds collected or to be collected and distributed through the consumer redress program, under the agency's Consumer Protection mission.

Revenue and financing sources received in fiscal years 2005 and 2004 totaled \$212 and \$193 million, respectively. Exchange revenue, classified as earned revenue on the financial statements, was received from three sources; the collection of premerger notification filing fees, Do-Not-Call (DNC) user fees, and reimburseme

In addition to exchange revenue, other financing sources were realized through a direct appropriation from the General Fund of the Treasury, and other non-expenditure transfers, in the amount of \$87 million in fiscal year 2005 and \$88 million in fiscal year 2004. Direct appropriation and transfers represent 41 percent and 46 percent of total funding sources received

The OIG found that the agency made significant strides in preparing multi-year strategic plans that convey the general goals of the agency, an annual performance plan (as part of the performance budget or budget request) which lays out mission objectives and performance measures, and a performance and accountability report which effectively communicates agency progress in meeting its objectives. The OIG noted that performance management staff continued to develop and refine objectives and measures to best present the accomplishments of the agency in protecting consumers.

On the other hand, the OIG noted areas where some improvements could be made by performance staff. For example, performance measures developed by the FTC tended to be output, rather than outcome, measures. As a result, the performance measures do not fully demonstrate how the agency is meeting its strategic goals and objectives and how consumers benefit from the activity being measured. Further, we did not identify a “bridge” that explained the relationship between output and outcome measures. In addition, the agency is not routinely performing program evaluations as described in the agency’s strategic plan. These evaluations are meant to assist staff to better identify how data (complaint totals, internet hits) is being used to address agency goals and objectives.

To address these weaknesses, the OIG recommended that the agency ensure that the evaluation methods for objectives (which are included in the Strategic Plan) are verified, used and monitored by the agency. The agency should also determine the measures needed/or those that must be revamped to provide a balance of output, outcome, and effectiveness that properly support goals and objectives. As a way to tie performance measures back to goals and objectives, the agency should include accomplishments identified in budget overview statements in the performance measurement section of the performance report to help explain how the measure relates to achievement of the objectives.

In AR 06-071, *Audit of FTC Redress Administration Performed by Analytics, Inc.*, the OIG responded to a request by Redress Administration Office (RAO) managers to audit claims administration activities performed on behalf of the FTC by the contractor, Analytics, Inc. of Chanhassen, MN, for fiscal year 2005. The objectives of the audit were to evaluate financial controls in place at Analytics over the redress process and to assess the RAO’s oversight of contractor-administered redress. The audit encompassed eight redress accounts totaling \$63.5 million in claims paid by this contractor to 702,725 consumers.

The audit identified many effective management controls in place at the contractor and at the RAO to prevent fraud. For example, consumers who attempt to alter check amounts have been identified by an internal control program called "positive pay." Further, the Analytics’ controller monitors each FTC account daily to identify irregularities and to ensure that sufficient funds are available to cover all outstanding checks. Analytics has integrated “best practices” to its redress distribution activities and has improved its oversight of redress distribution with staff additions. For its part, the RAO approves the transfer and disbursement of all funds on account. RAO also monitors monthly reports prepared by Analytics detailing account transactions (deposits, interest earnings, disbursements) for each case, and performs audit checks as a deterrent to fraud.

The audit also identified areas where improvements are possible. While electronic monitoring is performed to identify variances, Analytics does not routinely review the resulting reports. In one example, we found a double payment to a claimant that was “flagged” on an exception report, but the report was not reviewed by Analytics staff. On another distribution, we identified one consumer who, due to errors by FTC staff and the contractor, still had not received her \$3,000 redress check months after Analytics closed the account. Analytics should also negotiate higher interest rates on the tens of millions of dollars in consumer redress on deposit in commercial banks, thus reducing the amount of principal needed to pay contractor expenses.

At RAO, the OIG identified processes in place to prevent and/or detect fraud. RAO simply needs to expand current procedures to audit more checks and should consider computer-assisted techniques to increase its audit capacity. We also noted that on two of eight sampled cases, RAO did not maintain complete original claimant lists. Without these lists, contractor employees could add names to claimant lists and issue checks to themselves or third parties with little fear of detection, although there was no evidence to suggest that this has occurred.

Planned Audits

Audit Report Number

Subject of Review

AR06-XXX

Review of the Federal Trade Commission Implementation of the Federal Information Security Management Act for Fiscal Year 2006 The Federal Information Security Management Act of 2002 (FISMA) requires an independent assessment of federal agency information security programs and practices to determine their effectiveness. The OIG will evaluate the adequacy of the FTC’s computer security program and practices for its major systems. This year, the OIG will again focus its review on the FTC’s *Plan of Action and Milestones* to determine the extent to which the agency has implemented previously agreed-to OIG and other internally-identified recommendations. This will enable the OIG to provide more timely feedback to management on the results of its efforts to address weaknesses. In addition, the OIG will visit an FTC regional office to assess information security there.

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, Capitol Hill Police, Federal Protective Service as well as state agencies and local police departments.

Investigative Summary

During this reporting period, the OIG received 66 consumer inquiries and reports of possible wrongdoing.¹ Of the 66 complaints, 30 involved issues that fall under the jurisdiction of FTC program components (identity theft, credit repair, etc.). Consequently, the OIG referred these matters to the appropriate FTC component for disposition. Another 9 complaints were referred to other government and/or law enforcement agencies for ultimate disposition.

Of the remaining complaints, the OIG opened 7 new investigations plus two preliminary inquiries. Another complaint remained ongoing at the end of the reporting period. Finally, the OIG closed the 17 remaining complaints without any further action

Following is a summary of the OIG's investigative activities for the six-month period ending March 31, 2006:

¹ The FTC is an independent agency with consumer protection law enforcement authority. Because the OIG contact information is prominent on the Agency's web site, consumers frequently misdirect their consumer protection complaints to the OIG, with the belief that the OIG's statutory authority to investigate allegations of fraud, waste and abuse includes the authority to investigate allegations of consumer fraud. During this semi-annual reporting period, the OIG received roughly 600 misdirected complaints.

In prior Semi-Annual Reports to Congress, the OIG has included all consumer complaints that were misdirected to the OIG (rather than going directly to the FTC's Consumer Response Center, the appropriate agency program office for processing consumer p

Cases pending as of 9/30/05	6
PLUS: New cases	7
LESS: Cases closed	(10)
Cases pending as of 3/31/06	3

Investigations Closed

The OIG closed the following nine investigations during this reporting period:

The OIG closed a file, opened during a prior reporting period, that resulted in a prosecution by the Department of Justice during this reporting period. The case involved a former FTC attorney who retired pending our investigation into allegations that he misused the FTC's Federal Express account number. The attorney allegedly operated a business from his FTC office and misappropriated the agency's Fed Ex account number in making nearly 200 shipments related to his business over a 14 month period. He plead guilty to felony theft charges in connection with these activities. At sentencing, he was ordered to pay restitution in the amount of \$4,078 and perform 100 hours of community service. He is on probation for two years and must satisfy other requirements. The OIG investigated the matter and referred the case to the District of Columbia United States Attorney for prosecution during a prior fiscal year.

Our office closed six investigations involving Government-issued travel cards and purchase cards. Four of the investigations stemmed from employee misuse of travel cards and the remaining two investigations focused on fraudulent use of Government travel and purchase cards, as described below. In the four misuse investigations, the affected employees did not deny personal responsibility for the transactions in question. However, the two fraudulent matters involved employees who denied any responsibility for the unauthorized transactions. As a result of these travel card abuse matters, agency management has undertaken diligent efforts to monitor travel card and purchase card use by agency employees. During this reporting period, the responsible agency program office initiated a procedure to review transactions appearing on Government-issued credit card statements.

The OIG investigated separate allegations that four agency employees had misused their Government travel credit cards for personal purchases and cash advances. Some of these investigations arose from agency management's closer scrutiny into the agency's travel card program (following an earlier OIG investigative referral during the preceding reporting period involving an employee's travel card misuse). The OIG transmitted separate investigative referrals to management describing our investigative findings respecting three of the employees. One of the three employees resigned prior to issuance of the OIG referral to management. Agency management is in the process of imposing disciplinary action against the two remaining employees who were the subject of our investigative referrals. While the OIG was preparing a

fourth investigative referral, the subject employee resigned from the agency. The OIG closed the

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 obtained directly from the internet at: www.ftc.gov/oig. A visitor to the OIG home page can download recent (1996-2005) OIG semiannual reports to Congress, the FY 1998 - 2004 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 Offices of Inspector General.

Internet Access

The OIG can be accessed via the world wide web at: <http://www.ftc.gov/oig>. A visitor to the OIG home page can download recent (1996-2005) OIG semiannual reports to Congress, the FY 1998 - 2005 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

TABLE II
INSPECTOR GENERAL ISSUED REPORTS
WITH QUESTIONED COSTS

	<u>Number</u>	<u>Dollar Value</u>	
		<u>Questioned Costs</u>	<u>Unsupported</u>
A. For which no management decision has been made by the commencement of the reporting period	<u>0</u>	_____	_____
B. Which were issued during the reporting period	<u>0</u>	_____	_____
Subtotals (A + B)	<u>0</u>	_____	_____
C. For which a management decision was made during the reporting period	<u>0</u>	_____	_____
(I) dollar value of disallowed costs	<u>0</u>	_____	_____
(ii) dollar value of cost not disallowed	<u>0</u>	_____	_____
D. For which no management decision was made by the end of the reporting period	<u>0</u>	_____	_____
Reports for which no management decision was made within six months of issuance	<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	1	82,000
C. For which a management decision was made during the reporting period	1	82,000
(i) dollar value of recommendations that were agreed to by management	1	82,000
- based on proposed management action	1	82,000
- 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