



**FEDERAL TRADE COMMISSION**  
**Office of Inspector General**

**SEMIANNUAL REPORT TO CONGRESS**

**October 1, 2013 - March 31, 2014**

**Report No. 51**

Federal Trade Commission — Office of Inspector General  
600 Pennsylvania Avenue, N.W. Washington, DC 20580



The FTC is consolidating its satellite offices into the Constitution Center which is conveniently located five blocks south of the Headquarters Building. The building is equipped with a private one acre garden courtyard; floor-to-ceiling glass walls; spacious cafeteria; auditorium and conference center; and a fitness center. The new facility is a sustainable site and is registered with the U.S. Green Building Council, with Gold LEED Certification awarded in October 2011<sup>1</sup>.

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<sup>1</sup> U.S. Green Building Council Directory- Constitution Center, 2014, <http://www.usgbc.org/projects/constitution-center?view=overview>

## TABLE OF CONTENTS

<b>A MESSAGE FROM THE INSPECTOR GENERAL .....</b>	<b>5</b>
<b>INTRODUCTION AND DEFINITIONS .....</b>	<b>6</b>
<b>ABOUT THE OFFICE OF INSPECTOR GENERAL .....</b>	<b>7</b>
<b>AUDITS AND RELATED ACTIVITIES .....</b>	<b>9</b>
Completed Audits and Reports.....	9
Audit Resolution and Corrective Actions .....	10
Additional Mandates .....	10
Inspection and Evaluation Activities .....	10
<b>INVESTIGATIVE ACTIVITIES .....</b>	<b>11</b>
Investigative Summary .....	11
Investigations Closed.....	12
<b>OTHER ACTIVITIES .....</b>	<b>12</b>
Preliminary Inquiry .....	12
Management Advisories.....	12
Liaison with Other Agencies.....	13
Activities within the Inspector General Community .....	13
Significant Management Decisions.....	13
Access to Information .....	13
Review of Legislation .....	14
Other Initiatives.....	14
<b>APPENDIX: PEER REVIEW ACTIVITIES .....</b>	<b>15</b>
Audit Peer Reviews .....	15
Investigative Peer Reviews .....	15
<b>TABLES .....</b>	<b>17</b>
TABLE 1: AUDIT AND EVALUATION REPORTS WITH CORRECTIVE ACTIONS PENDING.....	17
TABLE 2: INSPECTOR GENERAL ISSUED REPORTS WITH QUESTIONED COSTS ..	18
TABLE 3: INSPECTOR GENERAL ISSUED REPORTS WITH RECOMMENDATIONS THAT FUNDS BE PUT TO BETTER USE .....	19
TABLE 4: SUMMARY OF INSPECTOR GENERAL REPORTING REQUIREMENTS ..	20
<b>CONTACTING THE INSPECTOR GENERAL.....</b>	<b>21</b>

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UNITED STATES OF AMERICA

**FEDERAL TRADE COMMISSION**

WASHINGTON, D.C. 20580

OFFICE OF INSPECTOR GENERAL

April 30, 2014

**A MESSAGE FROM THE INSPECTOR GENERAL**

On behalf of the Federal Trade Commission (FTC) Office of Inspector General (OIG), I am pleased to present our Semiannual Report to Congress for the period ended March 31, 2014.

During this semiannual period, the OIG processed 228 consumer complaints and allegations of possible wrongdoing. We initiated and closed two investigations during the period and completed two preliminary inquiries that were not converted to full investigations. The OIG referred 176 complaints to the Consumer Response Center or to other federal and local law enforcement agencies. Of note, 61 complaints were related to FTC impersonations. This represents a 510% increase in impersonation related complaints over the prior reporting period. The OIG issued a Management Advisory with recommendations to better protect consumers and FTC employees when impersonations occur.

The OIG completed its annual assessment of the FTC's information security program, which concluded that the FTC is in substantial compliance with applicable security and privacy requirements. We also oversaw the annual audit of the FTC's financial statements. The FTC should be congratulated on receiving an unmodified or "clean" opinion for the 17th consecutive year.

During the course of investigating complaints or allegations of wrongdoing, the OIG identified opportunities for the FTC to enhance its processes or controls to reduce the risks in certain activities. We issued several Management Advisories during the period to highlight these risks and, when appropriate, included recommendations to help mitigate them. These advisories covered topics such as misuse of FedEx accounts, management of the copy center contract, hiring practices, and general ethics reminders related to travel and use of staff.

We also embarked on a joint effort with the Executive Director to design an audit follow-up process that adds a greater degree of management accountability for taking timely and effective actions in response to OIG recommendations that the agency agreed to implement. The Executive Director's strong support of this initiative has been critical to its success.

As in the past, FTC management has been supportive of the OIG's mission to provide independent and objective oversight of agency operations. I look forward to working with management in our ongoing efforts to promote economy, efficiency and integrity in all of the FTC's activities.

Scott E. Wilson  
Inspector General

## INTRODUCTION AND DEFINITIONS

**THE MISSION OF THE OFFICE OF INSPECTOR GENERAL IS TO PROMOTE ECONOMY, EFFICIENCY, AND EFFECTIVENESS, AND TO DETECT AND DETER FRAUD, WASTE AND ABUSE IN FTC PROGRAMS AND OPERATIONS.**

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, the OIG is responsible for conducting audits and investigations relating to the programs and operations of the FTC. Audits are conducted for the purpose of finding and preventing fraud, waste and abuse and to promote economy, efficiency and effectiveness within the agency. OIG investigations seek out facts related to allegations of wrongdoing on the part of FTC employees and individuals or entities having contracts with or obtaining benefits from the agency.

Individuals who wish to file a complaint about the business practices of a particular company or entity, or allegations of identity theft, deceptive advertising practices or consumer fraud should file a complaint with the FTC Bureau of Consumer Protection's Consumer Response Center (CRC) at 1-877-382-4357.

Complaints to the OIG from the public or from an FTC employee can be made anonymously. The identity of an FTC employee who reports waste or wrongdoing to the OIG will be protected from disclosure consistent with provisions of the Inspector General Act. In addition, the Inspector General Act and the Whistleblower Protection Act prohibit reprisals against employees for filing complaints or cooperating with the OIG.

The OIG is required by law to prepare a semiannual report summarizing the activities of the Office during the immediately preceding six-month period. The report is sent to the FTC Chair, the President of the Senate, the Speaker of the House and the FTC's appropriating and authorizing committees. The OIG has a budget of \$1,082,000 for fiscal year 2014.

## ABOUT THE OFFICE OF INSPECTOR GENERAL

### OIG MISSION

*To promote economy, efficiency and effectiveness, and to detect and deter fraud, waste and abuse in FTC programs and operations.*

### 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 & Services*

**WE PERFORM THE FOLLOWING SERVICES:**

**PERFORMANCE AUDITS** address the efficiency, effectiveness, and economy of the FTC's programs, activities, and functions; provide information to responsible parties to improve public accountability; facilitate oversight and decision making; and initiate corrective actions as needed.

**FINANCIAL AUDITS** provide an independent assessment of whether financial statements are presented fairly in accordance with generally accepted accounting principles. Reporting on financial audits in accordance with Government Auditing Standards also includes reports on internal control and compliance with provisions of laws, regulations, and contracts as they relate to financial transactions, systems and processes.

**INPECTIONS AND EVALUATIONS** are systematic and independent assessments of the design, implementation, and/or results of the FTC's operations, programs, or policies. They provide information that is timely, credible, and useful for agency managers, policy makers, and others. Inspections or evaluations can be used to determine efficiency, effectiveness, impact, and/or sustainability of agency operations, programs, or policies.

**INVESTIGATIONS** are conducted based on alleged or suspected fraud, waste, abuse or gross mismanagement, employee and contractor misconduct, and criminal and civil violations of law that have an impact on the FTC's programs and operations. The OIG refers matters to the U.S. Department of Justice whenever the OIG has reasonable grounds to believe there has been a violation of federal criminal law. The OIG also identifies fraud indicators and recommends measures to management to improve the agency's ability to protect itself against fraud and other wrongdoing.

**MANAGEMENT ADVISORIES** are utilized by the OIG to expeditiously report findings of systemic weaknesses or vulnerabilities, and recommendations to correct them, identified during the course of an investigation or other IG activity.



## AUDITS AND RELATED ACTIVITIES

### Completed Audits and Reports

During this period, we issued two mandatory reports: the FY 2013 financial statement audit report and the FY 2013 assessment of FTC's compliance with the Federal Information Security Management Act of 2002 (FISMA).



#### Audit of the FTC's Financial Statements for FY 2013

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 multiyear contract for which the OIG serves as the Contracting Officer's Representative (COR).

For the 17th consecutive year, the FTC received an unmodified opinion, the highest opinion given by independent auditors. As a result of the audit of FTC's financial statements for the year ended September 30, 2013, Brown & Company found:

- The financial statements were presented fairly, in all material respects, in conformity with U.S. generally accepted accounting principles.
- No material weakness in internal control over financial reporting (including safeguarding assets), and no reportable noncompliance with laws and regulations 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.

#### Independent Assessment of the FTC's Information Security Program and Practices for FY 2013

FISMA requires federal agencies, including the FTC, to develop, document, and implement an agency wide information security program. FISMA also requires each Inspector General to conduct an independent evaluation of its agency's information security program and practices.

The OIG contracted with Allied Technology Group Inc. (Allied Technology) to perform the independent FISMA evaluation. The objective was to provide an evaluation of the effectiveness of the FTC's information assurance and privacy programs and compliance with OMB and National Institute of Standards and Technology (NIST) guidance.

This evaluation is provided to senior management and to others to enable them to determine the effectiveness of overall security programs, to ensure the confidentiality and integrity of data entrusted to the FTC, and to develop strategies and best practices for cost-effectively improving information security. The evaluation showed that the FTC has established an information security program that is in substantial compliance with applicable security and privacy requirements. The status of the FTC information assurance and privacy programs was summarized in the FISMA reporting metrics submitted through CyberScope, the platform for the FISMA reporting process.



### Audit Resolution and Corrective Actions

During this semiannual reporting period, the FTC offices and bureaus continued to make progress in implementing open recommendations. Management reported that it has completed actions on and recommended closing six recommendations. The OIG will validate these corrective actions during FY 2014.

Table 1 (page 17) shows all significant recommendations open 180 days or more on which corrective actions are still in progress.

Section 5(a)(11) of the Inspector General 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, management did not revise any earlier decisions on OIG audit recommendations.

### Additional Mandates

The OIG is also required by law to conduct the following reviews:

- Assessment of FTC's compliance with the Improper Payments Elimination and Recovery Act (IPERA). We determined that the FTC was compliant with IPERA for FY 2013.
- Risk Assessment of the FTC's purchase card and travel card programs in accordance with OMB guidance for implementation of the Government Charge Card Abuse Prevention Act of 2012. The OIG is currently conducting a risk assessment of the programs.

### Inspection and Evaluation Activities

#### The Evaluation of FTC's Allocation and Management of Consumer Protection Resources

The OIG has initiated an evaluation of the case selection and management practices within the Bureau of Consumer Protection (BCP). The FTC receives and processes over two million consumer complaints per year. As a result, the agency is constantly challenged to direct its limited resources in a manner that will maximize its desired outcome to protect consumers. A complex marketplace, ever-evolving fraud schemes, declining budgets, and increasing workloads require continuous reassessment of management practices in achieving that objective.

The overall objective of our evaluation is to survey the FTC's policies, procedures and processes for allocating and managing resources for its consumer protection programs and to determine if management controls over case selection and management are adequate and effective. We will also determine if best practices can be adopted to improve the effectiveness of the consumer protection program.

## INVESTIGATIVE ACTIVITIES



The IG is authorized by the Inspector General 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.

### Investigative Summary

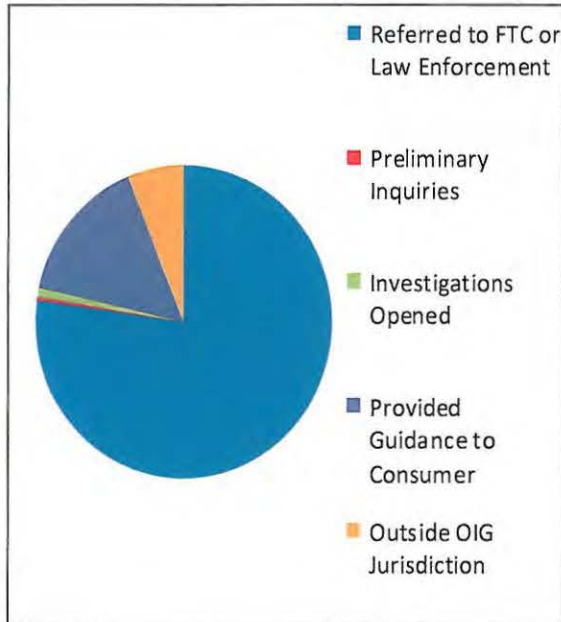
During this reporting period, the OIG received 228 consumer complaints, inquiries, and reports of possible wrongdoing. This represents a 181% increase in complaints received from the last reporting period. Of the 228 complaints, 176 either fell under the jurisdiction of FTC program components and not the OIG (identity theft, consumer scams, etc.), or were referred to other federal and local law enforcement agencies. Complaints under the jurisdiction of FTC programs were referred to the appropriate FTC component for disposition.

The OIG initiated and closed one preliminary inquiry during the reporting period and also closed one preliminary inquiry from a prior reporting period. Additionally, the OIG initiated and closed two investigations. Of the remaining complaints received, 14 were outside of the OIG's jurisdiction, and 35 resulted in the OIG providing guidance or a written response to the complainant and were closed with no further OIG action.

This reporting period, the OIG has observed a substantial increase in complaints regarding scams, frauds, and impersonations of FTC employees. Of the 228 complaints received during this reporting period, 61 were related to FTC impersonations. This represents a 510% increase in impersonation related complaints received since the prior reporting period. In 19 of these complaints, actual FTC employee names were used by the perpetrators of the scams. These complaints were referred to the FTC's Consumer Response Center and the FTC's representative on the multi-agency scams task force led by the Department of Justice. The OIG continually updates its scam alert webpage to inform consumers of common names and numbers used in scams.

In one impersonation case, a search warrant executed by the Organismo de Investigación Judicial on a sweepstakes call center in Costa Rica found various scripts used in a scam in which the perpetrators claimed to be FTC employees.

The following is a summary of the OIG's investigative activities for the six-month period ending March 31, 2014:



**Investigations Closed**

During this reporting period, the OIG closed two investigations. They are highlighted below:

Prohibited Personnel Practice

The OIG investigated allegations that hiring officials committed a prohibited personnel practice when they led a preference candidate (veteran) to withdraw his application for a position. The OIG did not substantiate the allegations; however, the OIG issued a Management Advisory recommending opportunities for improvement in the FTC's hiring processes.



Unauthorized Access of FedEx Account

The OIG investigated a compromise of an FTC Federal Express (FedEx) account. The FedEx account was improperly used by a third party to send multiple shipments throughout the country.

We were unable to determine how the third party obtained an FTC FedEx account number to send these shipments. However, the OIG investigation found that multiple employees were sharing one user ID and password.

The OIG investigation revealed that the transactions originated in Nigeria. The OIG was unable to identify the individual responsible for initiating the transactions; however, the OIG provided a Management Advisory to the FTC recommending that internal controls be strengthened regarding the sharing of user IDs and passwords.

**OTHER ACTIVITIES**

**Preliminary Inquiry**

The OIG initiated a preliminary inquiry into allegations that an FTC attorney engaged in unethical behavior regarding representations made in a court of law. The OIG found no reason, based on the evidence provided, to open an investigation.

**Management Advisories**

During this reporting period, the OIG prepared five management advisories stemming from investigative activity identifying potential internal control weaknesses and recommendations for improvement. Two are highlighted below:

FTC Impersonations

Due to the significant increase in complaints the OIG received regarding scammers impersonating FTC employees, the OIG recommended actions the FTC could take to protect consumers and FTC employees. The recommendations included making information more readily available to consumers informing them that scammers impersonate FTC officers, and developing guidance for FTC employees to assist consumers who have been contacted by impersonators.



### Time and Attendance Fraud

The OIG closed its preliminary inquiry into allegations of time and attendance fraud committed by an FTC contractor. The OIG found no reason to open an investigation, but provided a Management Advisory to the FTC recommending the development of performance metrics for the contract.

### **Liaison with Other Agencies**

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

### **Activities within the Inspector General Community**

The FTC IG is an active participant in the Council of the Inspectors General on Integrity and Efficiency (CIGIE), a council of Inspectors General that promotes collaboration on integrity, economy, and efficiency issues that transcend individual agencies. The FTC IG is a member of the CIGIE Audit Committee and also participates in periodic meetings designed to address issues common to smaller OIGs.

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

The IG's Audit Manager participates regularly in the monthly meeting of the Financial Statements Audit Network (FSAN), a CIGIE subcommittee. She also teaches the financial statement section of the CIGIE Peer Review training offered to the greater OIG community.

### **Significant Management Decisions**

Section 5(a)(12) of the Inspector General Act 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 OIG disagreed.

### **Access to Information**

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

### Review of Legislation

Section 4(a)(2) of the Inspector General 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 legislation to amend the Inspector General Act, to extend Freedom of Information Act exemptions for FISMA reports, and provide appropriations for the FTC. The OIG also reviewed proposed OMB guidance on the Improper Payments Elimination and Recovery Act of 2010 for its impact on the OIG.

### Other Initiatives

The OIG is working jointly with FTC management to improve the policy and practice for tracking OIG recommendations. This process includes quarterly meetings between the OIG and FTC management. These meetings facilitate regular communication between the OIG, Executive Director, and FTC bureaus and offices about progress made or impediments encountered in implementing recommendations.



## Appendix: Peer Review Activity

Section 989C of the Dodd-Frank Act contains additional semiannual reporting requirements pertaining to peer review reports. Federal Inspectors General are required to engage in peer review processes related to both their audit and investigative operations. In keeping with Section 989C, the FTC OIG is reporting the following information related to its peer review activities. These activities cover our role as both the reviewed and the reviewing OIG and relate to both audit and investigative peer reviews.

### Audit Peer Reviews

Peer reviews are conducted of an OIG audit organization's system of quality control in accordance with the *CIGIE Guide for Conducting External Peer Reviews of the Audit Organizations of Federal Offices of Inspector General* on a 3-year cycle. These guidelines are based on requirements in the *Government Auditing Standards* (Yellow Book). Federal audit organizations can receive a rating of pass, pass with deficiencies, or fail.

While no peer review was conducted during this reporting period, the FTC OIG audit operation was the subject of a peer review conducted by the U.S. Election Assistance Commission (EAC) OIG in 2012. Their report, issued in September 2012, opined that our system of quality control had been suitably designed and complied with to provide our office with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. We received a peer review rating of pass.

The peer review report is available on the FTC OIG's website at <http://www.ftc.gov/oig>.

### Investigative Peer Reviews

OIGs with statutory law enforcement authority pursuant to Section 6(e) of the Inspector General Act are subject to a peer review no less than once every 3 years. Because the FTC OIG does not have statutory law enforcement authority, it is not required to have a peer review of its investigative organization. However, the FTC OIG voluntarily participates in the peer review process.

While no peer review was conducted during this reporting period, the FTC OIG investigative operation was the subject of a peer review conducted by the Federal Election Commission (FEC) OIG in 2012. The peer review found that the FTC OIG's system of internal safeguards and management procedures was in compliance with the quality standards for investigations.



**View of the Constitution Center courtyard looking east.**



**TABLE 1: AUDIT AND EVALUATION REPORTS WITH CORRECTIVE ACTIONS  
PENDING**

At the end of the semiannual period, final corrective actions associated with five audits and evaluations were not completed within 180 days. Presented below for each audit are the report number, date, a brief description of the open recommendations, and date management expects to complete final actions.

Report Number and Date	Report Title and Recommendation(s) for which Final Action is Not Complete
AR 11-004 September 2011	<b>Audit of the FTC Warehouse</b>
	FTC agreed to evaluate and install inventory software to track all warehouse items such as furniture, supplies, equipment and publications. Management expects final action to be completed by September 30, 2014.
AR 11-001A April 2011	<b>Financial Statement Management Letter Fiscal Year 2010</b>
	FTC agreed to improve procedures over contract files and contract close-outs; expected date of completion is July 31, 2014.
AR 13-001A March 2013	<b>Financial Statement Management Letter Fiscal Year 2012</b>
	FTC agreed to formally document policies and procedures that address complementary client controls considerations and capitalization procedures. Management will also strengthen procedures over recording of obligations' contract line item numbers. Management expects final action to be completed by December 31, 2014.
AR 12-002 December 2011	<b>Independent Assessment of Implementation of the Federal Information Security Management Act (FISMA) for Fiscal Year 2011</b>
	FTC agreed to institute a capital planning program for HSPD-12 acquisitions and to continue its efforts to implement an enterprise-focused information security continuous monitoring program. Management expects final action to be completed by September 30, 2015.
AR 13-002 April 2013	<b>Independent Assessment of Implementation of the Federal Information Security Management Act (FISMA) for Fiscal Year 2012</b>
	FTC agreed to implement a process to leverage existing capabilities to improve analysis of incident reports and to update required documentation of system security plans. Management expects final action to be completed by December 31, 2014.

**TABLE 2: INSPECTOR GENERAL ISSUED REPORTS WITH QUESTIONED COSTS**

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

**TABLE 3: INSPECTOR GENERAL ISSUED REPORTS WITH RECOMMENDATIONS THAT FUNDS BE PUT TO BETTER USE**

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

## TABLE 4: SUMMARY OF INSPECTOR GENERAL REPORTING REQUIREMENTS

Index of Reporting Requirements—Inspector General Act of 1978, as amended.

IG ACT Reference	Reporting Requirements	Page(s)
<b>Section 4(a)(2)</b>	Review of legislation and regulations	14
<b>Section 5(a)(1)</b>	Significant problems, abuses and deficiencies	9-13
<b>Section 5(a)(2)</b>	Recommendations with respect to significant problems, abuses and deficiencies	9-13
<b>Section 5(a)(3)</b>	Prior significant recommendations on which corrective actions have not been made	17
<b>Section 5(a)(4)</b>	Matters referred to prosecutive authorities	none
<b>Section 5(a)(5)</b>	Summary of instances where information was refused	none
<b>Section 5(a)(6)</b>	List of audit reports by subject matter, showing dollar value of questioned costs and funds put to better use	none
<b>Section 5(a)(7)</b>	Summary of each particularly significant report	9
<b>Section 5(a)(8)</b>	Statistical tables showing number of reports and dollar value of questioned costs	18
<b>Section 5(a)(9)</b>	Statistical tables showing number of reports and dollar value of recommendations that funds be put to better use	19
<b>Section 5(a)(10)</b>	Summary of each audit issued before this reporting period for which no management decision was made by the end of the reporting period	none
<b>Section 5(a)(11)</b>	Significant revised management decisions	none
<b>Section 5(a)(12)</b>	Significant management decisions with which the inspector general disagrees	none

CONTACTING THE OFFICE OF INSPECTOR GENERAL



**OFFICE OF INSPECTOR GENERAL**  
FEDERAL TRADE COMMISSION

HELP PROMOTE INTEGRITY, ECONOMY AND EFFICIENCY

REPORT SUSPECTED FRAUD, WASTE, ABUSE OR MISMANAGEMENT

COMPLAINT MAY BE MADE ANONYMOUSLY

**HOTLINE**

**(202) 326-2800**

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OFFICE OF INSPECTOR GENERAL

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ANY INFORMATION YOU PROVIDE WILL BE HELD IN CONFIDENCE.

HOWEVER, PROVIDING YOUR NAME AND MEANS OF COMMUNICATING WITH YOU

MAY ENHANCE OUR ABILITY TO INVESTIGATE.

# We want to hear from you.



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