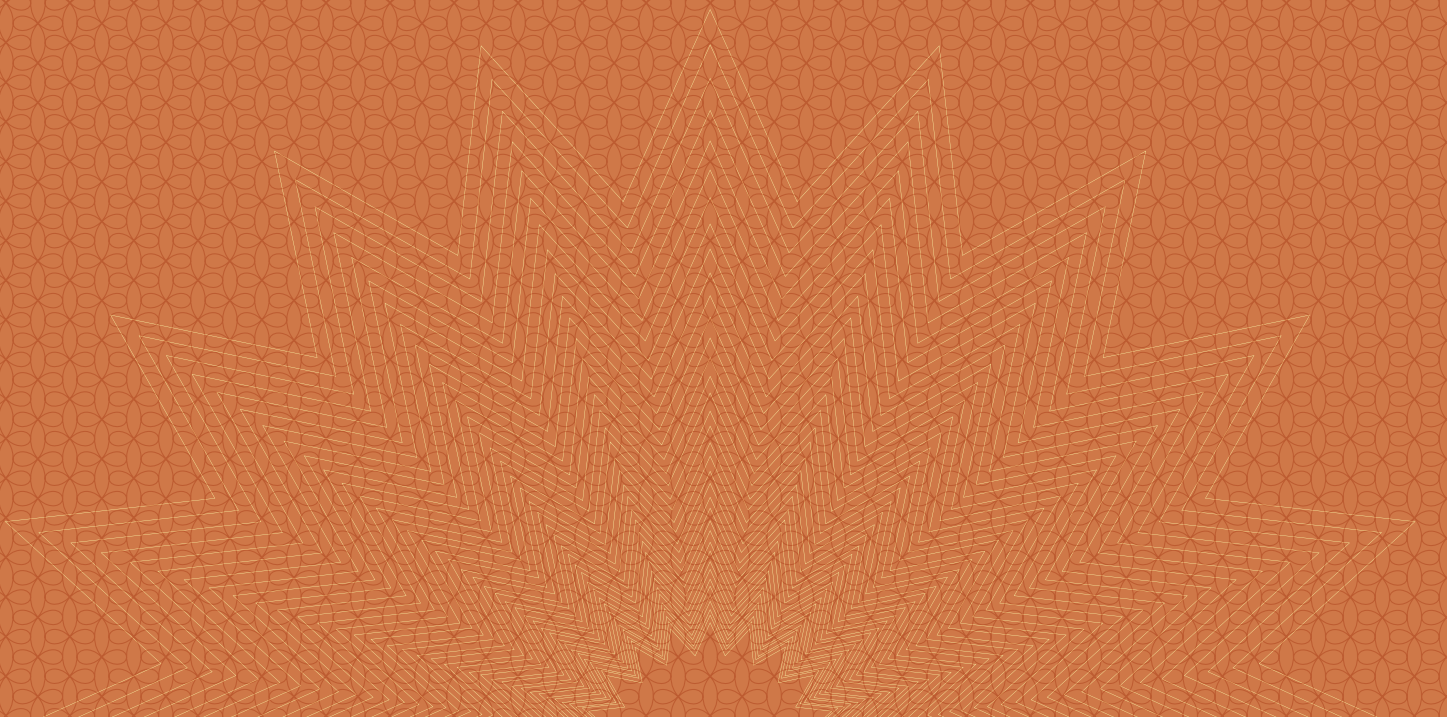




**OTHER ACCOMPANYING  
INFORMATION**



# INSPECTOR GENERAL-IDENTIFIED MANAGEMENT AND PERFORMANCE CHALLENGES



Office of Inspector General

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

September 30, 2010

## MEMORANDUM

TO: Jon Leibowitz  
Chairman, Federal Trade Commission

FROM: John M. Seeba  
Inspector General

A handwritten signature in blue ink that reads "John M. Seeba".

SUBJECT: FY 2010 FTC Management Challenges

The Federal Trade Commission is required to submit a Performance and Accountability Report (PAR) to the Office of Management and Budget in November 2010. The PAR contains a number of sections that address issues ranging from performance to financial management. The Reports Consolidation Act of 2000 requires the Inspector General to provide the Agency head with a summary of the most serious management and performance challenges facing the Agency and a brief assessment of the agency progress in addressing those challenges. This summary is included in the FTC's submission of the PAR.

The management challenges included in this document are based on work conducted by the OIG as well as information obtained during informal discussions with senior leaders within the Commission. The OIG prioritized the issues based on risk to the Agency.

As the nation's economy continues to recover from recession, the FTC continues to face great challenges in combating fraud schemes in areas such as mortgage relief, foreclosure, sweepstake, lottery and work at home scams. Over the past two years, the FTC Office of Inspector General (OIG) has continued its effort to stop sweepstake and lottery scams by partnering with the Justice Department, the Commerce Department Office of Inspector General and other Federal law enforcement agencies to identify and prosecute those defrauding our citizens. We have also worked closely with the FTC Information Technology group to identify and monitor its challenges in transitioning to a new and modernized data center.

These issues continue to reinforce our prior year assessment that management is constantly challenged in the areas of: protection of data (both personally identifiable information and Commission sensitive data), information technology security, and case management to target the most significant problems facing consumers.



INSPECTOR GENERAL-IDENTIFIED MANAGEMENT AND PERFORMANCE  
CHALLENGES (CONTINUED)

We removed last year's challenge related to Human Capital. Because of current economic conditions and the availability of highly qualified individuals seeking employment, the FTC has not had any difficulty in filling vacant positions. As a result, we have removed this concern from our list of challenges.

The attached document outlines the rationale for our assessment. The Office of Inspector General appreciates the ongoing strong support from Agency management and looks forward to working with you as we address these matters.

Attachment

## INSPECTOR GENERAL-IDENTIFIED MANAGEMENT AND PERFORMANCE CHALLENGES (CONTINUED)

Office of Inspector General  
Top Management Challenges at the Federal Trade Commission  
September 30, 2010

**Management Challenge: Protection of Data**

The protection of data, whether personally identifiable information (PII), sensitive health information (SHI) or non-public information used by the Agency in the conduct of its day-to-day work, is critical to preserve the trust of the American people. The FTC, as a regulatory and law enforcement agency vested with broad statutory authority, is entrusted with highly sensitive business information relating to proposed mergers and acquisitions and personal information related to its consumer protection work. Ensuring confidential treatment of sensitive corporate information encourages businesses and individuals to cooperate with FTC investigative activities. The FTC must be vigilant at all times to preserve this trust.

Agency Progress in Addressing the Challenge

The FTC takes its responsibility for protecting data very seriously. The agency continues to promote a strong privacy program to safeguard data through education, training and technology solutions that are probably among the most comprehensive in the federal Government. In the last few years, the FTC has been the pioneer within the federal sector in establishing sound privacy policy. Annually, the FTC promotes a privacy week program for its staff that emphasizes security awareness, protection of data and a “spring cleaning” to archive or dispose of information that is no longer needed or relevant to the mission of the FTC. The FTC also has an active Breach Notification Response Team to address the risks related to identity theft or other harms should a breach of data security occur.

The FTC is continually reevaluating its privacy program and updating training for staff to target new areas of emphasis and risk. This year, the FTC realigned the office of the Chief Privacy Officer (CPO) to clarify that the CPO reports directly to the Chairman of the FTC. This reflects the important role that privacy has within the Commission and a recognition by the Chairman of the importance placed on the CPO and the mission of protecting and maintaining privacy over agency information.

The protection of personally identifiable information (PII) and sensitive health information (SHI) remains a top management priority for the FTC. The agency has a strong and multi-faceted privacy program that ensures that organizations across the FTC consider privacy protections and controls when making business decisions involving the collection, use, sharing, disclosure, and disposal of PII and SHI.

The Chief Privacy Officer (CPO) is supported by an agency-wide Privacy Steering Committee (PSC) and Breach Notification Response Team. Key elements of the FTC’s privacy program include: privacy risk management and legal compliance; incident response; managing privacy complaints and

## INSPECTOR GENERAL-IDENTIFIED MANAGEMENT AND PERFORMANCE CHALLENGES (CONTINUED)

redress; ongoing and state-of-the-art privacy training and awareness; and accountability through effective monitoring and measurement controls. At the FTC, the privacy and data security programs are closely linked and have complimentary objectives. There is a strong partnership between the Chief Information Security Officer (CISO) and CPO, and the CPO is involved in all key technology issues, ensuring that risks to PII and SHI are evaluated and mitigated.

Protecting data is an ongoing process of continuously evaluating and reevaluating risks in light of changes in technology, new programs and initiatives at the agency, and increased data collection activities. In the first quarter of FY 2011, the PSC will be evaluating the current privacy program, which already is strong, to find ways to streamline procedures, ensure compliance, and protect the agency's PII and SHI holdings.

### The Challenge Ahead

All FTC employees must continue to focus on the challenge of safeguarding data, including the collection, storage, use and transmission of sensitive data. As the amount of data collected, stored and shared by the agency increases, there is a commensurate increase in the risk of data loss. We must as an agency guard against complacency when handling sensitive data to ensure that we maintain the trust of the American people.

### **Management Challenge: Securing the agency's information systems and networks from destruction, data loss, or compromise**

Information systems play a major role in supporting the work we do everyday. The agency's sensitive data is only as secure as the systems on which the data is stored. Protecting those systems and the volume of data produced, stored and transmitted by information systems is one of the most challenging tasks faced by federal agencies today. Everyday a multitude of threats from various sources such as the casual hacker to sophisticated foreign governments seeks to exploit information system weaknesses and gain access to confidential information. These activities place a significant burden on information technology professionals to protect our data while still allowing information to flow freely and efficiently across networks and other communication channels. Contributing to the complexity of this challenge are government initiatives to promote teleworking for employees to allow for flexibility to work at offsite locations such as their home or a telework center in their community.

During the past year, the FTC initiated a major investment project in upgrading and updating its data center operations. The Information Technology Management Office (ITMO) led this project, which included major facility renovations and installation of state of the art servers and virtual equipment. The ITMO also hired contractors to assist with the design and installation of data center as well as testing of the new systems. Following management's initial planning and installation of some equipment, the OIG identified serious deficiencies in the processes used by ITMO and its contractors to install a secure and viable information technology system.



## INSPECTOR GENERAL-IDENTIFIED MANAGEMENT AND PERFORMANCE CHALLENGES (CONTINUED)

### Agency Progress in Addressing the Challenge

The ITMO has made progress in designing a state of the art information technology (IT) system. However, much work remains to be done to ensure that the FTC continues to maintain a secure environment that is strong and robust. In response to the OIG's concerns noted above, the acting Chief Information Officer took immediate action to identify deficiencies and develop a remedial course of action to ensure a secure and sustainable information technology system. This action plan identified key processes, applications and documentation that must be developed, tested and installed to ensure a secure and trusted information technology environment.

The FTC continues to place a strong emphasis on the information security program. ITMO management has established repeatable processes for the testing, deployment, maintenance, and decommissioning of information assets that comply with Office of Management and Budget (OMB) and National Institute of Standards and Technology (NIST) guidance. Additionally, ITMO management has developed an Integrated Project Plan of Action (IPPA) to ensure the successful deployment of all FTC Infrastructure Operations (Data Center) components, information assets, and applications. To support the IPPA effort, ITMO management re-evaluated both FTC and contract staff skill sets, realigning, or acquiring personnel resources to support and streamline the Infrastructure Operation (Data Center) deployment effort. Furthermore, an Independent Verification and Validation (IV&V) review is underway to ensure there are no deficiencies in either the security policies or procedures associated with management of the FTC Infrastructure Operation (Data Center) or Desktop environment. The OIG will continue to work with ITMO and its contractors to ensure that FTC systems remain reliable and secure.

### The Challenge Ahead

The FTC relies heavily on its ability to utilize information technology to obtain, analyze and store information in its day to day operations. FTC management recognizes that continued vigilance and resource investment is required to protect the data entrusted to its care and secure the availability and integrity of the IT systems that are critical to the agency's ability to successfully perform its law enforcement mission. As management continues to move forward and install a state of the art information technology center, it must be careful to ensure that software and hardware are finely tuned to assure a highly secure and functional network that is available only to authorized users. The challenge for the Agency is to ensure that it maintains a strong system of internal controls over all systems while it is in the process of upgrading and replacing its aging infrastructure.

## INSPECTOR GENERAL-IDENTIFIED MANAGEMENT AND PERFORMANCE CHALLENGES (CONTINUED)

### **Management Challenge: Case Management**

The FTC has a very broad mission that challenges the resources of the agency every day: to promote competition and protect consumers from fraudulent and deceptive business practices and unfair methods of competition. Complicating matters, the FTC faces a marketplace that is complex, technology-driven and constantly evolving. The FTC's challenge is to collect information in an ever changing marketplace, identify the cases that have the greatest impact on competition and consumer protection, and take action in a timely manner to preserve competition and protect consumers. Increasing workloads and changing priorities make this a monumental task.

### Agency Progress in Addressing the Challenge

To meet the challenge of consumer protection, the agency has a multitude of programs to educate consumers, identify fraudulent activity, and stop deceptive practices and unfair methods of competition through enforcement. In addition, the agency provides law enforcement organizations across the country and across the globe with access to information about consumer complaints to assist them in fighting fraud and consumer deception. The agency has initiated several investigations in areas where scammers made false and unsubstantiated claims via the internet, infomercials, telemarketing, robocalls or print advertisements to market get-rich-quick schemes or other similar scams. In the area of competition, the agency is aggressive in identifying and blocking anticompetitive mergers. The agency continues to study ways of streamlining administrative adjudications and look at ways to better examine investigative data.

The agency also uses various performance measures and indicators to assist management in identifying the most significant problem and quickly take action to protect consumers. In 2009, the FTC received over 1.3 million complaints ranging from identity theft, debt collection abuse, and various fraud schemes. While current metrics are useful in developing consumer awareness campaigns and targeting the latest cutting edge scam, the agency must reevaluate its metrics to determine their relevance in today's consumer environment. Given the relative small size of the agency, selecting cases that provide the greatest impact is a management challenge that faces front line managers daily.

In 2010, the Bureau of Consumer Protection (BCP) undertook a comprehensive strategic planning effort. This effort made use of our vast in-house expertise and engaged all staff (in small groups and in a Bureau-wide town hall meeting) in contributing ideas regarding the Bureau's priorities for the next three to five years. BCP maintains a highly-skilled staff, and shifts resources as required to meet its workload and to stay ahead of the demands of the marketplace. BCP maintains its Litigation Support and Internet Labs to increase efficiency. BCP also partners with other law enforcement organizations through the Consumer Sentinel Network and through law enforcement sweeps with partner organizations. We also partner with a wide range of other organizations to extend the reach of our consumer education materials.

INSPECTOR GENERAL-IDENTIFIED MANAGEMENT AND PERFORMANCE CHALLENGES (CONTINUED)

The Bureau of Competition's (BC) Technology and Information Management Office have continued to adopt new technologies to speed up document and data review to quickly identify and address competitive concerns. The Bureau also continues to use a core group of litigators and support staff to provide expert litigation assistance on all investigations in which litigation is likely. BC management meets regularly with its Division managers to discuss caseloads, respond to new issues, and to appropriately allocate and monitor staff and financial expenditures to maximize use of these resources.

In FY 2011, the Records and Filing Office will undertake the rollout of Phase I of the Electronic Documents Management System (EDMS) (Documentum). Phase I provides the needed base for future phases that will equip the agency with a full featured EDMS like that used by large law firms. The EDMS will provide an important knowledge management tool and greatly support the FTC on its work on cases.

The Challenge Ahead

With an increasing workload, complex marketplace and sophisticated, ever-evolving fraud schemes, the FTC must look to maximize its resources through effective case selection and analysis, management of cases, and coordination with international, federal, state, and local law enforcement organizations.



# CHAIRMAN'S RESPONSE TO IG CHALLENGES



THE CHAIRMAN

FEDERAL TRADE COMMISSION  
WASHINGTON, D.C. 20580

## MANAGEMENT'S RESPONSE TO THE MANAGEMENT AND PERFORMANCE CHALLENGES IDENTIFIED BY THE INSPECTOR GENERAL

In a memorandum dated September 30, 2010, the agency's Inspector General (IG) identified three challenges facing management. The Federal Trade Commission concurs with the IG on these challenges and with the IG's assessment of agency progress addressing the challenges. Moving forward, FTC management will continue its efforts to tackle these challenges proactively.

Signed

A handwritten signature in blue ink that reads "Jon Leibowitz".

Jon Leibowitz  
November 12, 2010

Other Accompanying Information

## Summary of Financial Statement Audit and Management Assurances

TABLE 1: SUMMARY OF FINANCIAL STATEMENT AUDIT

<b>AUDIT OPINION</b>	Unqualified				
<b>RESTATEMENT</b>	No				
<b>MATERIAL WEAKNESSES</b>	<b>Beginning Balance</b>	<b>New</b>	<b>Resolved</b>	<b>Consolidated</b>	<b>Ending Balance</b>
	0	0	0	0	0
<b>TOTAL MATERIAL WEAKNESSES</b>	0	0	0	0	0



**TABLE 2: SUMMARY OF MANAGEMENT ASSURANCES**

<b>Effectiveness of Internal Control Over Financial Reporting (Federal Managers' Financial Integrity Act (FMFIA) Para. 2)</b>					
<b>STATEMENT OF ASSURANCE</b>	Unqualified				
<b>MATERIAL WEAKNESSES</b>	<b>Beginning Balance</b>	<b>New</b>	<b>Resolved</b>	<b>Consolidated</b>	<b>Ending Balance</b>
	0	0	0	0	0
<b>TOTAL MATERIAL WEAKNESSES</b>	0	0	0	0	0
<b>Effectiveness of Internal Control Over Operations (FMFIA Para. 2)</b>					
<b>STATEMENT OF ASSURANCE</b>	Unqualified				
<b>MATERIAL WEAKNESSES</b>	<b>Beginning Balance</b>	<b>New</b>	<b>Resolved</b>	<b>Consolidated</b>	<b>Ending Balance</b>
	0	0	0	0	0
<b>TOTAL MATERIAL WEAKNESSES</b>	0	0	0	0	0
<b>Conformance with Financial Management System Requirements (FMFIA Para. 4)</b>					
<b>STATEMENT OF ASSURANCE</b>	Systems conform to financial management system requirements				
<b>NON-CONFORMANCES</b>	<b>Beginning Balance</b>	<b>New</b>	<b>Resolved</b>	<b>Consolidated</b>	<b>Ending Balance</b>
	0	0	0	0	0
<b>TOTAL NON-CONFORMANCES</b>	0	0	0	0	0

# IMPROPER PAYMENTS INFORMATION ACT

The Improper Payments Information Act (Public Law No. 107-300) defined requirements to reduce improper and erroneous payments made by the federal government. The Office of Management and Budget (OMB) also established specific reporting requirements for agencies with programs that are susceptible to significant improper payments. Significant improper payments as defined by OMB guidance are those

that exceed both 2.5 percent of a program's annual payments and \$10 million. The agency reviews its controls and systems under the FMFIA to ensure that the agency can rely on them. In this review, the agency has not identified any programs where significant erroneous payments have occurred within the FTC. The agency will continue to review its programs annually to determine if any significant improper payments exist.