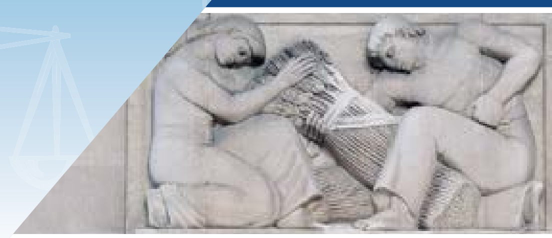
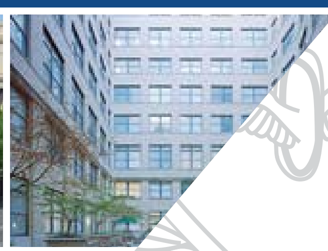


FEDERAL TRADE COMMISSION





Fiscal Year 2016

Agency Financial Report

Introduction

ABOUT THIS REPORT

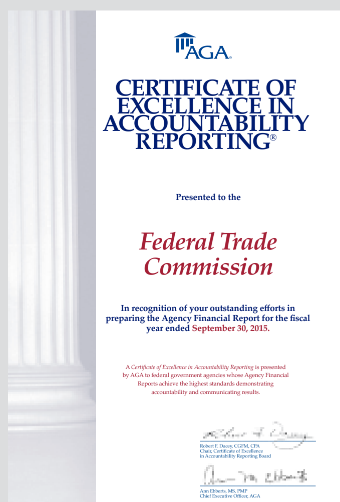
The Federal Trade Commission's (FTC) fiscal year (FY) 2016 Agency Financial Report (AFR) provides financial and high-level performance results and demonstrates to the Congress, the President, and the public, the FTC's commitment to its mission and accountability over the resources entrusted to it.

This report, available at the FTC's website, satisfies the reporting requirements contained in the following legislation:

- Federal Managers' Financial Integrity Act of 1982
- Government Performance and Results Act of 1993
- Government Management Reform Act of 1994
- Federal Financial Management Improvement Act of 1996
- Reports Consolidation Act of 2000
- Accountability of Tax Dollars Act of 2002
- Improper Payments Information Act of 2002, as amended by IPERIA
- Government Performance and Results Modernization Act of 2010
- Federal Civil Penalties Inflation Adjustment Act Improvements Act of 2015

This is the third year the FTC is producing an AFR and an Annual Performance Report (APR) in lieu of a combined Performance and Accountability Report. The FY 2016 APR will be combined with the FY 2017-2018 Annual Performance Plan (APP) and included in the FY 2018 Congressional Budget Justification in 2017. The AFR and the combined APP and APR will be published at the FTC's website.

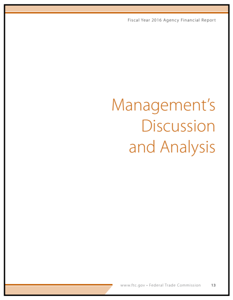
Certificate of Excellence and Special Award



The FTC received the *Association of Government Accountants' Certificate of Excellence in Accountability Reporting* for its FY 2015 AFR as well as a Special Recognition award for Best Media summary of Improper Payments.

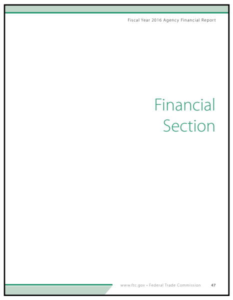
HOW THIS REPORT IS ORGANIZED

The FTC Agency Financial Report is organized into the following three major sections, plus appendices.


Management's
Discussion
and Analysis

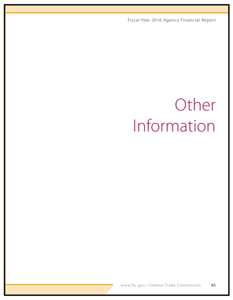
1. MANAGEMENT'S DISCUSSION AND ANALYSIS

This section provides an overview of the FTC's mission and organization, an overview of key performance goals and efficiency measures, mission challenges, financial highlights, and management assurances on internal controls, financial systems, and compliance with laws and regulations.


Financial
Section

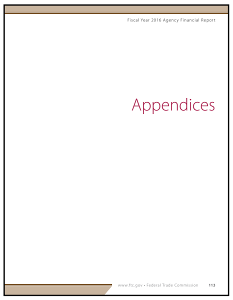
2. FINANCIAL SECTION

This section provides financial details, including the independent auditor's report and audited financial statements with accompanying notes.


Other
Information

3. OTHER INFORMATION

This section provides management and performance challenges identified by the Inspector General along with the Chairwoman's response and a summary of financial statement audit and management assurances.


Appendices

4. APPENDICES

Appendix A provides the data quality information for FTC's key performance goals and efficiency measures; Appendix B lists the acronyms cited throughout this report; Appendix C lists useful links for references; Appendix D provides contact information and acknowledgements.

THE FTC AT-A-GLANCE

HISTORY

The Federal Trade Commission was created on September 26, 1914, when President Woodrow Wilson signed the Federal Trade Commission Act into law. The original purpose of the FTC was to prevent unfair methods of competition in commerce as part of the battle to "bust the trust." Over the years, Congress passed additional laws giving the agency greater authority to police anticompetitive practices, and in 1938, Congress passed a broad prohibition against 'unfair and deceptive acts or practices." Since then the FTC also has been directed to enforce a wide variety of other consumer protection laws and regulations.

LAWS ENFORCED

The FTC is a law enforcement agency with both consumer protection and competition jurisdiction in broad sectors of the economy. The agency administers a wide variety of laws and regulations. Examples include the Clayton Act, Telemarking Sales Rule, Fair Credit Reporting Act, Identity Theft Act and Equal Credit Opportunity Act. In total, the Commission has enforcement or administrative responsibilities under more than 70 other laws.

PROFILE

The agency is headquartered in Washington, D.C. and operates with seven regions across the United States.

The agency utilized 1,165 full-time equivalent employees during FY 2016.

The FTC's new budget authority in FY 2016 was comprised of $307 million of enacted authority and $4 million of reimbursable authority, for total new budget authority of $311 million.

MESSAGE FROM THE CHAIRWOMAN

Edith Ramirez
Chairwoman

The Federal Trade Commission is a highly effective independent agency with the important dual mission of protecting consumers and promoting competition. In FY 2016, the FTC continued to exemplify good government by advancing consumer interests while encouraging innovation and competition in our economy. This Agency Financial Report highlights the FTC's major accomplishments, illustrates how we manage our resources, and outlines our plans to address the challenges ahead.

FY 2016 PERFORMANCE HIGHLIGHTS

CONSUMER PROTECTION

The FTC's consumer protection enforcement initiatives are primarily focused on addressing trends we see in the marketplace: stopping fraud in every community, protecting consumers on new technology platforms, safeguarding consumers' privacy and data security, and prosecuting false or deceptive advertising claims. The FTC also engages in significant policy work and research through, for example, our Office of Technology Research and Investigation, and the numerous workshops and seminars we hold each year on consumer issues.

Stopping fraud is one of the FTC's top consumer protection priorities, and for good reason: fraud causes enormous harm to consumers. In July, for example, the FTC obtained an order requiring multi-level marketing company Herbalife to restructure its U.S. business operations and pay $200 million in consumer redress to settle allegations that the company deceived consumers into believing they could earn substantial money selling the company's nutritional supplements and personal care products. In its complaint against Herbalife, which has a large presence in the Latino community, the FTC also charged that the multi-level marketing company's compensation structure was unfair because it rewarded distributors for recruiting others to join and purchase products in order to advance in the marketing program, rather than in response to actual retail demand for the products. We alleged that Herbalife's marketing methods caused substantial economic injury to most of its distributors.

Protecting consumers as they use and benefit from new technologies and platforms has been another important priority for the agency. In April, a federal judge granted the FTC's request for summary judgment against Amazon.com for billing consumers for unauthorized in-app charges incurred by children within otherwise "free" apps, finding that Amazon's disclosures about the possibility of in-app charges were not sufficient to inform consumers about the charges. The FTC had also reached settlements with Apple, Inc. and Google, Inc. for similar unauthorized in-app charges incurred by children, resulting in refunds to consumers totaling over $50 million.

The FTC is the lead government agency in protecting consumer privacy through enforcement, policy, and business education initiatives. Earlier this year, the Commission secured its largest data security judgment to date when LifeLock agreed to pay $100 million in consumer redress to settle charges that it violated a 2010 federal court order that required the company to secure consumers' personal information and prohibited deceptive advertising of its services. The FTC also reached a settlement with Practice Fusion, a cloud-based company that provides management services to physicians. The FTC alleged that the company deceived hundreds of thousands of consumers by soliciting reviews about their doctors with an online healthcare survey, without disclosing that the reviews – many of which included consumers' full names, medications, health conditions and treatments – would be publicly posted on the internet. The settlement prohibits Practice Fusion from making deceptive statements about the extent to which it uses, maintains and protects the privacy or confidentiality of the information it collects.

In the largest advertising case in FTC's history, Volkswagen entered into a settlement that created a $10 billion consumer compensation fund to resolve allegations that the company unfairly sold 555,000 diesel cars with illegal defeat devices designed to defeat emissions tests and deceptively advertised these cars with claims that they were low-emission and environmentally friendly. The settlement will compensate consumers by either providing an all cash buyback for more than the car's current replacement value, a no-penalty lease termination, or technical modifications to the car combined with a cash payment.

The FTC has also focused on challenging deceptive online advertising. The FTC filed a complaint in federal court alleging that Roca Labs, Inc., a Florida-based marketer of a line of weight-loss supplements, made baseless claims for their products and then threatened to enforce "gag clause" provisions against consumers to stop them from posting negative reviews and testimonials online. In our case against LeadClick Media, LLC, an affiliate marketing network operator, the U.S. Court of Appeals for the Second Circuit upheld a lower court ruling requiring it to pay $11.9 million for its part in helping to promote LeanSpa weight-loss supplements. LeadClick's network lured consumers to LeanSpa's online store through fake news websites designed to trick consumers into believing that real, independent news outlets and genuine customers, rather than paid advertisers and actors, had reviewed and endorsed the products.

PROMOTING COMPETITION

For more than 100 years, the Commission has actively enforced the antitrust laws in a range of industries of critical importance to American consumers, including health care, technology, energy, consumer goods and services, and manufacturing. The agency also conducts workshops, publishes studies and pursues advocacy opportunities to promote competition and educate policymakers about its benefits.

In FY 2016, merger enforcement actions spanned numerous markets, including consumer goods, health care, pharmaceuticals, manufactured goods, and technology. In December 2015, the Commission filed suit to block Staples, Inc.'s proposed $6.3 billion acquisition of Office Depot, a merger that would eliminate beneficial competition that large companies rely on to reduce the cost of office supplies. Staples, the country's largest seller of office products and services, and Office Depot are each other's closest competitors in the sale of "consumable" office supplies to large business customers. In May, following a hearing, a federal court in Washington, DC granted the Commission's request for a preliminary injunction blocking the merger, after which the parties abandoned the proposed transaction.

The Commission has long prioritized promoting competition in healthcare provider markets because it helps contain costs, improves quality and encourages innovation, filing three challenges to hospital mergers in FY 2016. For example, the Commission alleged that a proposed merger between Penn State Hershey Medical Center and Pinnacle Health System would substantially lessen competition in the market for general acute care services in four counties around Harrisburg, Pennsylvania. In September 2016, the United States Court of Appeals for the Third Circuit overturned a district court ruling and granted the Commission's request to enjoin the merger. The appellate court found that the district court failed to correctly identify the relevant geographic market in the case. Following the appellate decision, the parties abandoned the proposed transaction.

The FTC also maintains an active program to identify and stop anticompetitive business conduct. The Commission earned a significant appellate victory when the Eleventh Circuit affirmed its decision and order that McWane Inc. unlawfully maintained its monopoly in the market for domestically manufactured ductile iron pipe fittings. More recently, the Commission continued its commitment to challenging harmful exclusionary single-firm conduct, filing an administrative complaint against Invibio, a company that supplies some of the world's largest medical device makers with a high-performance polymer used to make spinal and other medical implants. In July, the FTC approved a final order settling charges against Invibio, prohibiting the company from entering into exclusive supply contracts and from preventing current customers from using an alternative source of the polymer.

The pharmaceutical sector has also experienced significant merger activity in recent years, and the Commission continues to carefully review mergers between pharmaceutical manufacturers and require divestitures where necessary to maintain competition. In July, Teva Parmaceutical Industries agreed to sell the rights and assets related to 79 pharmaceutical products to settle FTC charges that its proposed $40.5 billion acquisition of Allergan PLC's generic pharmaceutical business would be anticompetitive. The remedy requires Teva to divest the drug portfolio to 11 firms, marking the largest drug divestiture order in an FTC pharmaceutical merger case. Also in July, Mylan, Inc. agreed to divest the rights and assets related to two generic pharmaceutical products in order to settle FTC charges that its proposed $7.2 billion acquisition of Swedish drug maker Meda would be anticompetitive. The FTC order preserves competition in the markets for generic drugs that treat muscle spasms/stiffness and refractory epilepsy.

OUTREACH AND PARTNERSHIPS

Consumers, industry and our law enforcement partners keep us informed about real-world trends and challenges in the marketplace. Consumers can contact us online or via toll free phone numbers. Our public outreach also includes online resources, such as www.ftc.gov, much of which is also available in Spanish. We also provide updates on Facebook and Twitter, and host educational videos on the FTC's YouTube channel. The FTC's online Business Center offers extensive guidance to businesses.

FINANCIAL MANAGEMENT

For the FY 2016 independent financial audit, we received our 20th consecutive unmodified opinion. During the course of performing a management control review, the FTC identified a material weakness in the design of our internal controls regarding accounts receivable balances held by receivers appointed by federal court judges in some of our law enforcement cases. As a result of this review, the FTC implemented compensating controls to correct the weakness as of September 30, 2016. I am pleased to report that the FTC financial management systems substantially conform with the Federal Financial Management Improvement Act of 1996 (FFMIA), applicable financial systems requirements, the Federal accounting standards and the U.S. Standard General Ledger at the transaction level. (see Statement of Assurance, p. 34)

FUTURE CHALLENGES

In pursuing our strategic goals and objectives, many of the FTC's challenges are defined by the conditions of the marketplace, and thus are ever changing. We work to stay informed about new technologies, which can bring tremendous benefits to consumers, but also pose challenges on both the competition and consumer protection fronts. For a more detailed description of our mission challenges that have been identified by senior management, see p. 27.

In addition, the IG identified four key management challenges this year as: (1) securing the agency's information systems and networks from destruction, data loss or compromise; (2) accelerating maturity of the agency's information technology governance process; (3) improving acquisition planning and contract management; and (4) the acquisition of employee suitability determinations. Agency management agrees that these are important challenges, and concurs with the IG's assessment of our progress in addressing these challenges (see the "Other Information section").

Working with our partners and colleagues in Congress, industry, and domestic and international law enforcement, we will continue to strive to protect American consumers and promote competition.

Edith Ramirez
November 10, 2016

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Management's Discussion and Analysis

AGENCY AND MISSION INFORMATION

The work of the Federal Trade Commission (FTC) is critical to protecting and strengthening free and open markets and promoting informed consumer choice, both in the United States (U.S.) and around the world. The FTC performs its mission through the use of a variety of tools, including law enforcement, rulemaking, research, studies on marketplace trends and legal developments, and consumer and business education.

VISION

A vibrant economy characterized by vigorous competition and consumer access to accurate information.

MISSION

Working to protect consumers by preventing anticompetitive, deceptive, and unfair business practices, enhancing informed consumer choice and public understanding of the competitive process, and accomplishing this without unduly burdening legitimate business activity.

OUR PURPOSE AND HISTORY

Consumers and businesses are likely to be more familiar with the work of the FTC than they think. In the consumer protection area, the product warranties, care labels in clothes, and labels on home appliances showing their energy cost provide information that is required by the FTC. Likewise, businesses must be familiar with the laws requiring truthful advertising and protecting consumers' personally identifiable information. These laws are enforced by the FTC.

Competition among independent businesses is good for consumers, the businesses themselves, and the economy. Competitive markets yield lower prices and better quality goods and services, and a vigorous marketplace provides the incentive and opportunity for the development of new ideas and innovative products and services. Many of the laws governing competition also are enforced by the FTC.

The FTC has a long tradition of maintaining a competitive marketplace for both consumers and businesses. In 1903, Congress created the predecessor to the FTC, the Bureau of Corporations, as an investigatory agency within the Department of Commerce and Labor. The Bureau investigated and published reports on the operation of interstate corporations, looking for monopolistic practices. In one case of note, the Justice Department used the Bureau's 1906 report on petroleum transportation when it successfully prosecuted and broke up Standard Oil in 1911. In 1914, President Woodrow Wilson signed the Federal Trade Commission Act into law, creating the FTC, which then absorbed the Bureau of Corporations in 1915.

When the FTC was created in 1914, its purpose was to prevent unfair methods of competition in commerce as part of the battle to "bust the trusts." Over the years, the Congress passed additional laws giving the agency greater authority over anticompetitive practices. Recognizing that unfair and deceptive practices can distort a competitive marketplace as much as unfair methods of competition, in 1938 Congress passed a broad prohibition against "unfair or deceptive acts or practices in or affecting commerce." Since then, the FTC also has been directed to enforce a wide variety of other consumer protection laws and regulations.

The FTC Commission as of September 30, 2016: (left to right) Maureen Ohlhausen, Commissioner; Edith Ramirez, Chairwoman; Terrell McSweeny, Commissioner.

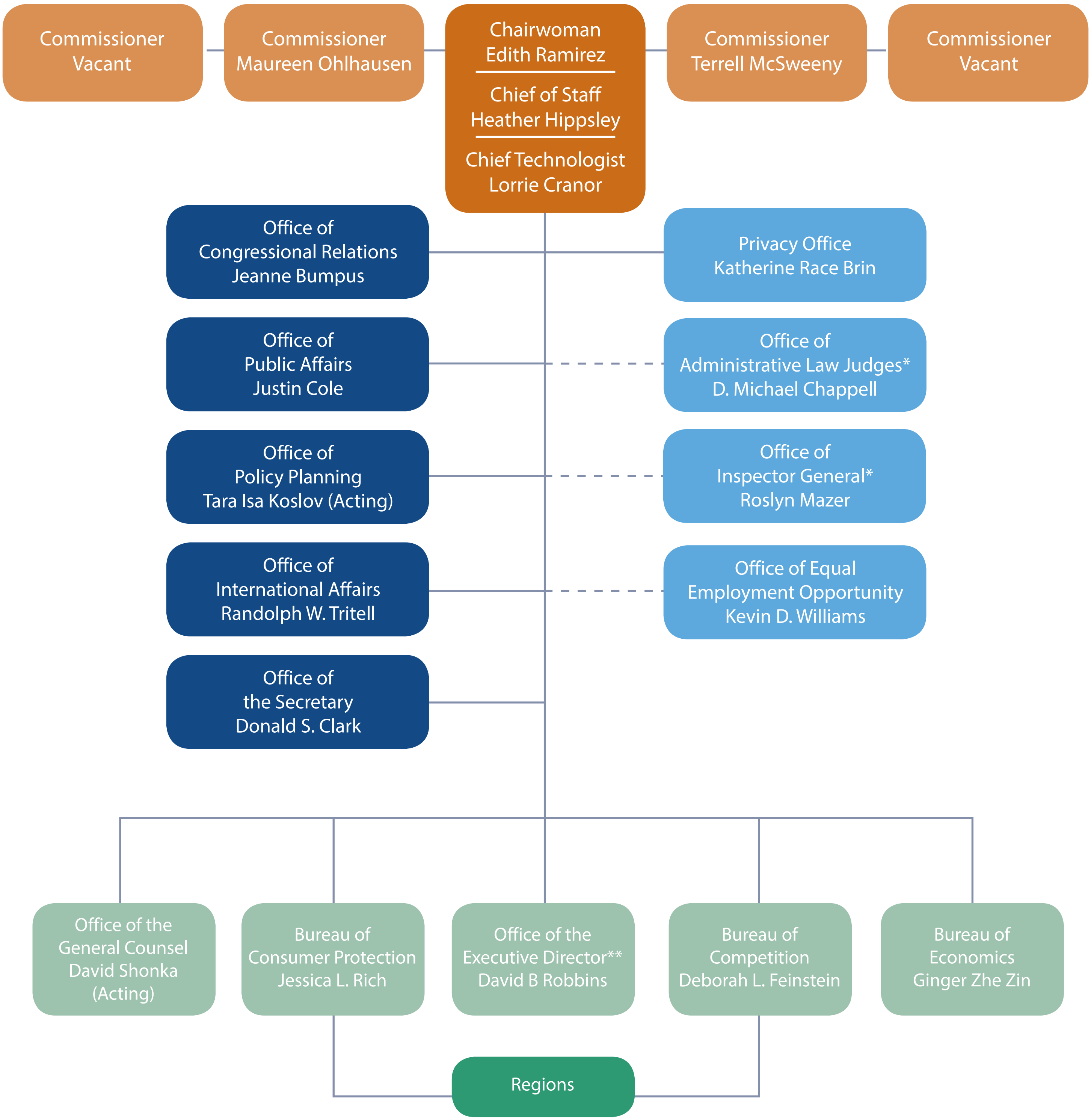
OUR ORGANIZATION

The FTC is an independent Federal agency that reports to the President and to Congress on its actions. These actions include pursuing vigorous and effective law enforcement; advancing consumers' interests by sharing its expertise with Congress and state legislatures and U.S. and international government agencies; developing policy and research tools through hearings, workshops, and conferences; and creating practical and plain-language educational programs for consumers and businesses in a global marketplace with constantly changing technologies.

The FTC is headed by a Commission composed of five commissioners, nominated by the President and confirmed by the Senate, each serving a staggered seven-year term. No more than three commissioners may be from the same political party. The President designates one commissioner to act as Chair. The post is currently held by Edith Ramirez, a commissioner since 2010, who was confirmed as Chairwoman on March 4, 2013. Commissioners include Maureen K. Ohlhausen and Terrell McSweeny.

The FTC's mission is carried out by three bureaus: the Bureau of Consumer Protection, the Bureau of Competition, and the Bureau of Economics. Their work is aided by the Offices of the General Counsel, International Affairs, Policy Planning, the Secretary, the Executive Director, Congressional Relations, Public Affairs, Administrative Law Judges, Equal Employment Opportunity, Inspector General, and seven regional offices located throughout the country. For more information about the agency's components, visit the FTC's Bureaus and Offices webpage.

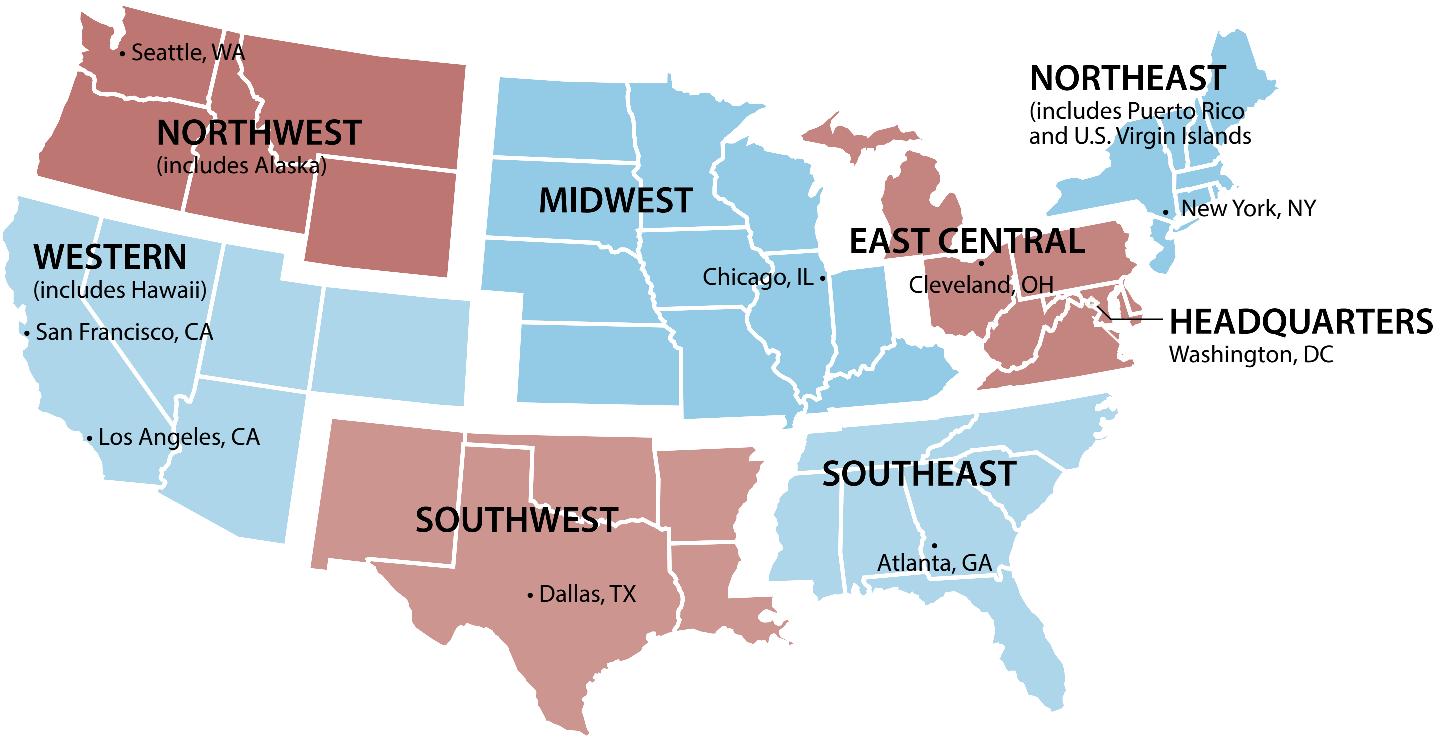
FEDERAL TRADE COMMISSION ORGANIZATION CHART



*An independent organization within the FTC

** The Office of the Executive Director oversees FTC administrative support functions, including information technology, human resources, finance, acquisition, and other administrative support.

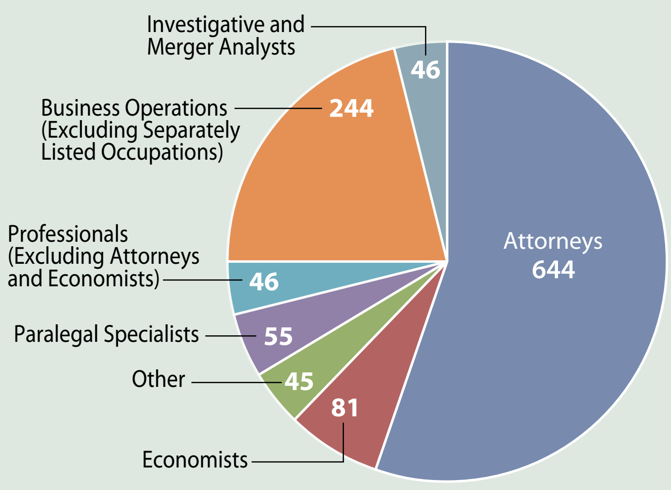
The graphic below illustrates the locations of the FTC regions.



OUR PEOPLE

The FTC's workforce is its greatest asset. The agency's workforce consists of 1,161 civil service employees onboard at the end of the fiscal year. This chart shows the FTC's workforce composition by major category.

FTC's Workforce Composition



PERFORMANCE HIGHLIGHTS

As stated in the introduction to this report, this is the third year the FTC has chosen to produce an AFR and an Annual Performance Report (APR) in lieu of a combined Performance and Accountability Report. The FY 2016 APR will be combined with the FY 2017-2018 Annual Performance Plan (APP) and included in the FY 2018 Congressional Budget Justification to be published in 2017. The AFR and combined APP and APR, will be published at the FTC's website.

This section explains the FTC's strategic and performance planning framework and summarizes the key and efficiency performance goals. The performance results described in this report enable the FTC to administer its programs, gauge their success, and make adjustments necessary to improve program quality for the public.

STRATEGIC AND PERFORMANCE PLANNING FRAMEWORK

The performance planning framework originates from the FTC's Strategic Plan for Fiscal Years 2014 to 2018 and is supported by the FTC's Performance Plan. The FTC's work is structured around three strategic goals and eight objectives. The following table shows the FTC's net costs for its strategic goals.

STRATEGIC GOALS (Dollars in millions)	**OBJECTIVES**
GOAL 1: PROTECT CONSUMERS Net Costs: $171	1.1 Identify and take actions to address deceptive or unfair practices that harm consumers.
	1.2 Provide the public with knowledge and tools to prevent harm to consumers.
	1.3 Collaborate with domestic and international partners to enhance consumer protection.
GOAL 2: MAINTAIN COMPETITION Net Costs: $29	2.1 Identify and take actions to address anticompetitive mergers and practices that harm consumers.
	2.2 Engage in effective research and stakeholder outreach to promote competition, advance its understanding, and create awareness of its benefits to consumers.
	2.3 Collaborate with domestic and international partners to preserve and promote competition.
GOAL 3: ADVANCE ORGANIZATIONAL PERFORMANCE Goal 3's costs are distributed to Goal 1 and Goal 2 predominately by Goal 1 and Goal 2's FTE usage, except for those non-pay costs that are clearly attributable to a specific goal.	3.1 Optimize resource management and infrastructure.
	3.2 Cultivate a high-performing, diverse, and engaged workforce.

Note: Net Costs represent the resources used to achieve strategic goals and signify the relative efficiency and cost-effectiveness of agency program/operations. The FTC does not divide net costs by objective.

PERFORMANCE MEASUREMENT REPORTING PROCESS

Bureau and Office representatives serve as the Performance Measure Reporting Officials (PMROs), who act as data stewards for each of the agency's publicly-reported performance goals. The PMROs report to the Deputy Performance Improvement Officer (PIO) on a monthly, quarterly, or annual basis via an internal data reporting tool. The Financial Management Office (FMO) also leads periodic performance goal reviews in coordination with budget execution reviews. The CFO/PIO, the Executive Director, the Chief of Staff, and the Chairwoman are briefed on the results and any significant variances in planned versus actual results. The PIO and Deputy PIO then coordinate with the PMROs on any adjustments to strategies and tactics based on the performance results.

VERIFICATION AND VALIDATION OF PERFORMANCE DATA

Appendix A: Data Quality Information contains definitions, calculation/formula information, data sources and limitations, and additional details on verification and validation for the performance goals included in this report. Additionally, the following steps outline how the agency ensures the performance information it reports is complete, reliable and accurate:

- The FTC has adopted a central internal repository for performance data entry, reporting and review. The electronic data tool reduces human error, increases transparency, and facilitates senior management review of the agency's performance information.
- The agency maintains written procedures used to ensure timely reporting of complete, accurate, and reliable actual results relative to the key performance goals.
- The agency holds program managers accountable to set meaningful and realistic targets that also challenge the agency to leverage its resources. This includes ensuring ongoing monitoring and updating of performance targets. Further, when appropriate, program managers are required to explain how they will improve performance when targets are not met.
- The agency conducts quarterly performance measurement reviews with management as well as periodic reviews throughout the fiscal year with FTC Executives. This process includes substantiating that actual results reported are indeed correct whenever those results reveal significant discrepancies or variances from the target.

Agency program managers also monitor and maintain automated systems and databases that collect, track, and store performance data, with support provided by the FTC's Office of the Chief Information Officer. In addition to the general controls the FTC has in place, which ensure only authorized staff can access key systems, each application (system) incorporates internal validation edits to ensure the accuracy of data contained therein. These application edits include checks for reasonableness, consistency, and accuracy. Crosschecks between other internal automated systems also provide assurances of data accuracy and consistency. In addition to internal monitoring of each system, experts outside of the business units (e.g., the Bureaus of Consumer Protection and Competition) routinely monitor the data collection. For example, senior economists from the Bureau of Economics review statistical data used by the Bureau of Competition to calculate performance results.

The FMO is responsible for providing direction and support on data collection methodology and analysis, ensuring that data quality checks are in place, and accurately reporting performance data.

PERFORMANCE GOALS OVERVIEW

The FTC has established 29 performance goals for assessing program performance against strategic goals and objectives. Of the 29 total performance goals, 24 met or exceeded target, two did not meet target, and data was not available at the time of publication for three. The following table displays historical high-level performance trends for all of the FTC's performance goals for the past three years.

Count of Performance Goals

		FY 2016	FY 2015*	FY 2014
GOAL 1: PROTECT CONSUMERS	Target Met/Exceeded	10	10	6
	Target Not Met	1	1	3
	Data Not Available at Time of Publication	1	0	0
	Data Not Available	0	1	0
	Baseline Data Year	0	0	3
GOAL 2: MAINTAIN COMPETITION	Target Met/Exceeded	8	10	8
	Target Not Met	1	0	2
	Data Not Available at Time of Publication	1	0	0
GOAL 3: ADVANCE ORGANIZATIONAL PERFORMANCE	Target Met/Exceeded	6	7	7
	Target Not Met	0	0	0
	Data Not Available at Time of Publication	1	0	0
TOTAL	Target Met/Exceeded	24	27	21
	Target Not Met	2	1	5
	Data Not Available at Time of Publication	3	0	0
	Data Not Available	0	1	0
	Baseline Data Year	0	0	3
	TOTAL MEASURES	**29**	**29**	**29**

*The FY 2015 count was updated after the publication of the FY 2015 AFR to account for one performance goal (3.2.1) for which the result became available after publication and one performance goal (2.2.2) for which the result was incorrectly counted as Not Met in the FY 2015 AFR. For more information, see the FY 2016-2017 Performance Plan and FY 2015 Performance Report.

Of the 29 performance goals, nine are considered "key" performance goals because they best indicate whether agency activities are achieving the desired outcome associated with the related objective. Additionally, four performance goals are considered efficiency performance goals because either they are ratios of outcomes to inputs or they capture administrative timeliness. For each performance goal, the FTC has established a performance target.

The following tables summarize actual performance during FY 2016 against established targets for the FTC's key and efficiency performance goals. The tables also include actual results from the prior two fiscal years. The FTC met or exceeded eight of the nine key performance goals and four of the four efficiency performance goals.

LEGEND FOR UPCOMING TABLES

✔ Signifies that the target is met or exceeded

✖ Signifies that the target is not met

Volkswagen to Provide Up to $10 Billion to Remedy False Ad Campaign

The FTC announced its largest false advertising settlement in its history with Volkswagen Group of America, which agreed to spend up to $10 billion to settle charges that VW's "clean diesel" claims deceived consumers. This settlement will offer car owners or leasees of nearly 500,000 model year 2009-2015 2.0 liter diesel vehicles either an all cash buyback for more than the car's current replacement value or no penalty lease terminations, or the possibility of a technical modification to the car and a separate cash payment.

STRATEGIC GOAL 1: PROTECT CONSUMERS

Objective 1.1: Identify and take actions to address deceptive or unfair practices that harm consumers.

Key/Efficiency Performance Goal 1.1.3

Total consumer savings compared to the amount of FTC resources allocated to consumer protection law enforcement. (Efficiency measure)

2016		2015		2014	
Target	Actual	Target	Actual	Target	Actual
650.0%	1,083.8% ✔	650.0%	723.4% ✔	Baseline Year	769.0%

Key Performance Goal 1.1.4

Amount of money the FTC returned to consumers and forwarded to the U.S. Treasury. (Outcome measure)

2016		2015		2014	
Target	Actual	Target	Actual	Target	Actual
$60.0 million	$57.6 million ✖	$60.0 million	$76.2 million ✔	Baseline Year	$66.9 million

Note: This target was not met, because a major redress order for the AT&T case was not fulfilled in FY 2016 due to the complex nature of the refund process.

Objective 1.2: Provide the public with knowledge and tools to prevent harm to consumers.

Key Performance Goal 1.2.2

Number of federal, state, local, international, and private partnerships to maximize the reach of consumer and business education campaigns. (Output measure)

2016		2015		2014	
Target	Actual	Target	Actual	Target	Actual
11,500	36,691 ✔	11,500	16,321 ✔	11,250	12,205 ✔

Herbalife Restructuring its Multi-level Marketing Operations

Herbalife International of America, Inc., and its related companies, agreed to fully restructure their U.S. business operations and pay $200 million to compensate consumers to settle FTC charges. The Commission alleged that Herbalife deceived consumers into believing they could earn a substantial income from retail sales of the company's health products through participation in a multi-level marketing structure that the agency alleged was unfair. Under the settlement, Herbalife will implement a new compensation structure for participants, which is based on retail sales of products, not on recruitment of distributors to buy products.

Objective 1.3: Collaborate with domestic and international partners to enhance consumer protection.

Key Performance Goal 1.3.2

Number of investigations or cases in which the FTC obtained foreign-based evidence or information or engaged in other mutual assistance that contributed to FTC law enforcement actions or in which the FTC cooperated with foreign agencies and/or multilateral organizations on enforcement matters. (Output measure)

2016		2015		2014	
Target	Actual	Target	Actual	Target	Actual
40	53 ✔	40	58 ✔	40	45 ✔

FTC Helps Develop International Guidelines for Electronic Commerce

The FTC played a leading role in developing international guidelines on consumer protection in electronic commerce at the Organization for Economic Cooperation and Development (OECD). The OECD, an international forum of 35 countries with market economies, issued new best practice guidelines for governments and businesses in March 2016, updating its 1999 guidelines. The new guidelines address emerging trends and challenges consumers face in a variety of areas, including mobile applications and payment systems, digital content, Internet platforms that enable consumer-to-consumer transactions, and goods and services offered in exchange for personal data. The guidelines also address dispute resolution and redress, and the need for consumer protection authorities to improve their ability to cooperate in cross-border e-commerce matters. The original guidelines had a significant impact on the development of legislation and self-regulation around the world and the 2016 revision should have a similar influence.

STRATEGIC GOAL 2: MAINTAIN COMPETITION

Objective 2.1: Identify and take actions to address anticompetitive mergers and practices that harm consumers.

Key Performance Goal 2.1.1

Percentage of actions** taken to maintain competition in substantial merger and nonmerger investigations. (Outcome measure)

2016		2015		2014	
Target	Actual	Target	Actual	Target	Actual
40.0-60.0%	54.6% ✔	40.0-60.0%	57.7% ✔	40.0-60.0%	57.1% ✔

**This refers to the percentage of substantial investigations closed with a positive outcome. See Appendix A for more information.

Note: The FY 2015 results for performance goals 2.1.1 and 2.1.3 were updated after the publication of the FY 2015 AFR and Performance Report, because a merger action was unintentionally excluded from the original calculation. The results reported in the FY 2015 AFR were as follows: Performance Goal 2.1.1 55.8%; Performance Goal 2.1.3 5,129.1%

Key/Efficiency Performance Goal 2.1.3

Total consumer savings compared to the amount of FTC resources allocated to the merger program. (Efficiency measure)

2016		2015		2014	
Target	Actual	Target	Actual	Target	Actual
2,600.0%	4,640.3% ✔	2,600.0%	5,131.6% ✔	2,600.0%	2,505.2% ✖

Note: See pp. 82 and 84 of the FY 2016-2017 Performance Plan and FY 2015 Performance Report for more information on why the results for performance goals 2.1.3 and 2.1.5 increased significantly in FY 2015 compared to FY 2014.

FTC Successfully Prevents Anticompetitive Staples/Office Depot Merger…Again

In May 2016, the federal district court for the District of Columbia granted the Commission's request for a preliminary injunction enjoining Staples' proposed merger with Office Depot, which the Commission alleged would reduce competition in the market for the sale and distribution of core consumable office supplies and paper sold to large business-to-business customers for their own use. After the court's decision, the parties abandoned their merger, marking the second time that the Commission successfully blocked a proposed merger between the rival office supply retailers. In 1997, the Commission successfully challenged the merger of Staples and Office Depot, charging that the proposed merger would likely reduce competition for retail sales of consumable office supplies by office supply superstores in several local markets. Fundamental changes in the retail office supply market driven in large part by increasing competition from online retailers has reduced the likelihood of competitive harm in retail office supply markets today, but the court nonetheless agreed that the dynamics for business customers were different.

FTC Ends Exclusive Dealing Scheme by Supplier of Polymer used in Medical Implants

Following on the Commission's appellate victory ending ductile iron pipe fitting supplier McWane's illegal monopolization through the use of exclusive dealing contracts in the domestic market for certain pipe fittings, the Commission continued its commitment to challenging harmful exclusionary single-firm conduct. This year, the Commission charged that Invibio engaged in illegal monopolization in the market for a high-performance polymer used to make spinal and other medical implants by using anticompetitive exclusionary contract terms to prevent rivals' entry. The Commission issued a consent order prohibiting Invibio's use of exclusionary supply contracts or otherwise preventing customers from using alternative suppliers for its products.

Key/Efficiency Performance Goal 2.1.5

Total consumer savings compared to the amount of FTC resources allocated to the nonmerger program. (Efficiency measure)

2016		2015		2014	
Target	Actual	Target	Actual	Target	Actual
400.0%	5,228.6% ✔	400.0%	4,863.3% ✔	1,850.0%	2,028.3% ✔

Note: See p. 87 of the FY 2015-2016 Performance Plan and FY 2014 Performance Report for more information on the target change shown.

Objective 2.3: Collaborate with domestic and international partners to preserve and promote competition.

Key Performance Goal 2.3.1

Percentage of FTC cases involving at least one substantive contact with a foreign antitrust authority in which the agencies followed consistent analytical approaches and reached compatible outcomes. (Output measure)

2016		2015		2014	
Target	Actual	Target	Actual	Target	Actual
95.0%	100.0% ✔	95.0%	100.0% ✔	95.0%	100.0% ✔

STRATEGIC GOAL 3: ADVANCE ORGANIZATIONAL PERFORMANCE

Objective 3.1: Optimize resource management and infrastructure.

Efficiency Performance Goal 3.1.4

Average number of days for the FTC to release information in response to a simple FOIA request. (Efficiency measure)

2016		2015		2014	
Target	Actual	Target	Actual	Target	Actual
6.0 days	5.9 days ✔	6.0 days	5.5 days ✔	6.0 days	5.4 days ✔

Note: Performance Goal 3.1.4 is one of four efficiency performance goals, and the only one that is not also a key performance goal. It is included here, because this report contains the agency's key and efficiency performance goals.

Objective 3.2: Cultivate a high-performing, diverse, and engaged workforce.

Key Performance Goal 3.2.2

The extent employees believe the FTC has the talent necessary to achieve organizational goals. (Outcome measure)

2016		2015		2014	
Target	Actual	Target	Actual	Target	Actual
Exceed the government-wide results of 58.0% on the Federal Employee Viewpoint Survey's Talent Management Index.	74.0% ✔	57.0%	72.0% ✔	55.0%	70.0% ✔

AGENCY MISSION CHALLENGES

The FTC stands prepared to face the challenges of today's marketplace as a champion for competition and consumers. For example, as consumers and businesses encounter difficulties with financial scams, deceptive or fraudulent advertising, online privacy and data security, and anticompetitive business practices in the technology, health care and other industries, the FTC steps forward to promote competition and protect consumers. Agency mission challenges are presented as they relate to the agency's strategic goals: Strategic Goal 1 (Protect Consumers) and Strategic Goal 2 (Maintain Competition). A reference to the most applicable strategic objectives is also provided, so readers may refer to descriptions of related performance targets and actual results.

Management's assessment was performed separately from the Inspector General's (IG) identified management and performance challenges (see Other Information section). Management concurs with the IG identified challenges and assessment of agency progress in addressing the challenges.

STRATEGIC GOAL 1: PROTECT CONSUMERS

Under the goal of protecting consumers, the FTC will continue to give priority to addressing the following challenges: protecting Americans from fraud including in the financial services marketplace; protecting consumer privacy and improving data security including combating identity theft; stopping harmful practices that exploit new technology; and addressing emerging advertising issues and targeting deceptive advertising.

PROTECTING AMERICANS FROM FRAUD:

Fraud affects all consumers, and the FTC will continue its enforcement efforts to stop scams, focusing on those that cause the greatest consumer injury. The FTC continues to receive consumer complaints about imposter scams in which the perpetrators pose as government agencies, well-known companies, utility companies, or other organizations. Certain scams, such as those involving business and income opportunities, affect all consumers, but can pose even a greater risk to those from lower income or underserved communities. The FTC also will continue to use the tools and authorities available to it to protect consumers by taking enforcement actions to stop telemarketing and online frauds; deceptive mortgage, student loan debt relief and other debt services; deceptive motor vehicle sales, leasing, and financing; payday lending operations engaging in deceptive practices; and abusive debt collection practices. These practices can have severe consequences for consumers who can least afford it. The FTC will continue to closely coordinate with other federal agency partners to ensure that consumers are protected in the financial marketplace and to avoid any duplicative efforts between the agencies. The FTC also

PrivacyCon

In January 2016, the FTC hosted a full day conference – PrivacyCon – to examine cutting-edge research and trends in protecting consumer privacy and security. The event was the first of its kind and brought together leading stakeholders, including whitehat researchers, academics, industry representatives, federal policymakers, consumer advocates and others. The FTC called for research from a variety of disciplines, such as data analytics, computer security, marketing, and economics. The event opened up a dialogue between the research community and policymakers, helping ensure that privacy and data security policy is grounded in research. With over 300 in-person attendees, 1,500 virtual attendees watching via webcast, and many more following PrivacyCon on Twitter, the event was a huge success. On January 12, 2017, the FTC will be hosting PrivacyCon 2.

will combat frauds targeting seniors, service members, and non-English-speaking consumers, and evaluate the best education messages and outreach methods for these groups. (Objectives 1.1, 1.2, and 1.3)

PROTECTING CONSUMER PRIVACY AND IMPROVING DATA SECURITY:

The FTC will continue to take a leading role in law enforcement efforts to protect consumers from unfair and deceptive practices related to the security and privacy of their personal information, while preserving the many benefits that technological advances offer. It will also promote stronger privacy and security protections through policy initiatives on a range of topics such as convening workshops on drones and smart TVs. The agency will bring enforcement actions as appropriate against entities that violate the Children's Online Privacy Protection Act (COPPA) Rule. In addition, the FTC will educate businesses on privacy and security issues. The agency also will participate in interagency groups, promote self-regulatory efforts, provide technical assistance to Congress on draft legislation, and participate in international privacy initiatives.

In addition, identity theft exacts a heavy financial and emotional toll from its victims, and the FTC will continue to assist the millions of Americans who are victimized each year through data security breaches and other means. The FTC will continue to be the repository for identity theft complaints and make them available to federal criminal law enforcement agencies. Our trained counselors will continue to advise identity theft victims who call our toll free number about rights and remedies available to them under federal law. The FTC's website IdentityTheft.gov is the federal government's one-stop resource to help consumers report and recover from identity theft. IdentityTheft.gov highlights useful resources and connects identity theft victims to federal agencies and other organizations that are critical to the recovery process. IdentityTheft.gov allows visitors to create a customized plan based on their specific experiences. The agency also will train local law enforcement to spot and prosecute identity theft, and it will update educational materials. (Objectives 1.1, 1.2, and 1.3)

STOPPING HARMFUL PRACTICES THAT EXPLOIT NEW TECHNOLOGY:

Technology provides countless benefits to consumers, including choice, convenience, and increased access to goods, services, and information. It also enables, however, new vehicles for fraudulent, deceptive, and unfair practices in the marketplace. The FTC will continue to examine consumer protection issues in the mobile and connected

Financial Technology Series

In the summer of 2016, the FTC launched a forum series exploring emerging financial technology and its implications for consumers bringing together researchers, industry representatives, law enforcement agencies, and consumer advocates for half-day discussion sessions. The first forum addressed marketplace lending which typically involves nonbank financial platforms that leverage technology to reach potential borrowers, evaluate creditworthiness, and facilitate loans. The second event in the FinTech series took place in October and focused on crowdfunding and peer-to-peer payment systems. Crowdfunding is the process by which companies and individuals raise money from the public to fund new products, projects or individual needs. The third event will examine peer-to-peer payment systems, which are online services often in the form of mobile apps that allow consumers to share money electronically.

marketplace. The FTC will take enforcement actions against unfair and deceptive practices, including deceptive online marketing techniques as well as harmful practices that target or impact financial technologies used by consumers to store, share, and spend money. Consumers and law enforcers face challenges as a result of technological advances that facilitate the use of illegal robocalls and make it easier for fraudsters perpetrating telemarketing scams to hide their location. The FTC will continue to work with consumer groups, telecommunications industry representatives, technologists, policymakers, and other stakeholders to develop solutions to halt illegal robocalls and other telemarketing practices that violate the Telemarketing Sales Rule. In addition, the Office of Technology Research and Investigation is conducting research on emerging technologies to assist with enforcement actions, educate consumers, and inform policy on consumer protection matters involving emerging technologies. (Objectives 1.1, 1.2, and 1.3)

ADDRESSING EMERGING ADVERTISING ISSUES AND TARGETING DECEPTIVE ADVERTISING:

Digital media has opened new avenues for companies to communicate with consumers, and the format of advertisements continues to evolve. Like all advertising, digital marketing must comply with the law. The FTC will take enforcement action against deceptive advertisements that appear in new formats and new media (e.g., apps, games, videos, and social networks). The FTC also will evaluate the use of online reviews of products or services, including the use of false reviews, undisclosed material connections with reviewers, prohibitions on negative reviews, or unsubstantiated testimonials, and take action as appropriate. Companies are increasingly blending advertising with news, entertainment, or editorial content in digital media. If consumers do not recognize and understand the difference between the advertising and other content, they may be deceived. The FTC, therefore, will continue to examine consumer protection issues raised by sponsored content, ”native” advertising that looks like surrounding non-commercial content, and endorsements.

The FTC will continue to address deceptive advertising of health products, such as homeopathic products and dietary supplements. The agency will focus on disease prevention and treatment claims; claims aimed at baby boomers and seniors; and claims exploiting emerging health threats. The FTC also will continue to focus its law enforcement efforts on misleading environmental marketing claims and will educate businesses about the FTC’s Guides for the Use of Environmental Marketing Claims (“Green Guides”). (Objectives 1.1, 1.2, and 1.3)

STRATEGIC GOAL 2: MAINTAIN COMPETITION

Under the Maintain Competition goal, the FTC will continue to prioritize promoting competition and preventing anticompetitive conduct in the health care and pharmaceutical sectors, technology and retail markets, and the energy industry. The agency will also work to promote sound competition policy at the international level and will continue advocating for competition before federal courts, state legislatures, and other governmental agencies.

PROMOTING COMPETITION IN HEALTH CARE AND PHARMACEUTICAL MARKETS:

The high cost of health care, which continues to account for a significant share of the gross domestic product, is a matter of concern for consumers, businesses, and taxpayers. To ensure that consumers receive the benefits of competitive health care markets, antitrust enforcement and advocacy in this sector is a top priority for the Commission.

The FTC will continue to focus substantial resources on illegal reverse payment patent settlement agreements through which brand and generic drug manufacturers agree to delay generic competition. As the Supreme Court explained in FTC v. Actavis, “there is reason for concern that settlements taking this form tend to have significant adverse effects on competition.” Similarly, the Commission will continue to investigate other anticompetitive conduct, such as sham litigation, used to delay generic entry into pharmaceutical markets. Such practices deny consumers access to lower priced generic drugs, leading to significantly higher drug costs. The FTC reviews, investigates, and challenges these harmful practices where appropriate.

The FTC also prioritizes stopping anticompetitive health care mergers that could lead to higher costs or reduced quality, including those involving health care providers and pharmaceutical and medical device companies. In recent

FTC Wins Appellate Victory in Regional Hospital Challenge

In September, the United States Court of Appeals for the Third Circuit overturned a district court ruling and granted the Commission's request to enjoin the proposed merger of Penn State Hershey Medical Center and Pinnacle Health System. The Commission alleged that the deal would substantially lessen competition in the market for general acute care services in four counties around Harrisburg, Pennsylvania. The appellate court found that the district court failed to correctly identify the relevant geographic market in the case. Specifically, the lower court erred in relying on a discredited economic theory and disregarding the response of insurers to a proposed price increase, which more accurately reflects the role that insurers play in healthcare markets. After the appellate decision, the parties abandoned the proposed transaction.

years, the FTC has required significant divestitures in a large number of pharmaceutical transactions. Additionally, since 2007, the FTC has sought to promote competition in critical health care markets by challenging a growing number of health care service provider deals.

In health care markets in particular, the FTC is increasingly facing a challenging landscape in attempting to maintain competition as state and local communities adjust to recent Supreme Court rulings in *FTC v. Phoebe Putney Health System, Inc.*, and in *North Carolina State Board of Dental Examiners v. FTC*. These rulings clarified the reach of the state action doctrine and require states to actively supervise state boards controlled by market participants when they act to suppress competition in violation of the federal antitrust laws.

Beyond enforcement, the FTC utilizes its full range of policy and advocacy tools to promote competition in health care markets. For example, the FTC increasingly has advocated against state legislation that attempts to immunize competing hospitals and other health care providers from federal antitrust laws when they merge or engage in certain forms of collaboration. In the FTC's view, state efforts to immunize such conduct are unnecessary. The antitrust laws already permit procompetitive collaboration that would benefit consumers; therefore, the main effect of these statutes would be to immunize conduct that likely would restrain competition and result in higher health care prices for consumers, without generating offsetting benefits.

The FTC also attempts to better understand the markets it monitors and to anticipate future antitrust law and policy developments through research and scholarship. (Objectives 2.1 and 2.2)

CONTINUING EMPHASIS ON TECHNOLOGY:

The continuing importance of technology and the fast pace at which it evolves is a crucial marketplace challenge. FTC antitrust investigations involve increasingly complex high-technology sectors of the economy, such as devices used in manufacturing, electronic components, and computer hardware and software. In enforcing the antitrust laws, the FTC analyzes mergers and acquisitions filed under the Hart-Scott-Rodino (HSR) Act, and also monitors the marketplace for non-reportable transactions that might raise anticompetitive concerns. The FTC takes action against those mergers that are likely to reduce or eliminate competition. The FTC is vigilant where a firm may be illegally using a dominant market position to stifle competition in order to raise prices, reduce the quality or choice of goods and services, or reduce innovation; or where groups of competitors take collective action that threatens to increase prices or stifle innovation.

Antitrust and competition policy matters in the technology marketplace increasingly intersect with complex intellectual property (IP) concerns. IP concerns remain a Commission priority due to their widespread impact on competition and consumer protection. For example, the FTC conducted a study of approximately twenty-five patent

FTC Focuses on PAE Business Models and Activity

In FY 2016, the agency worked on completing its report on patent assertion entities (PAEs), describing PAE business models and presenting recommendations for reform. PAEs are businesses that purchase patents and seek to generate revenue by asserting the patents against alleged infringers. Earlier government and academic studies of PAE activity have focused on publicly available litigation data. In order to enhance the quality of the policy dialogue, and gain a deeper understanding of the PAE business model, the FTC used its authority under the Federal Trade Commission Act to obtain nonpublic data directly from PAEs. This allowed the FTC to better understand how the PAEs structure and organize themselves, as well as view confidential acquisition and licensing terms and data.

assertion entities (PAEs)—businesses that purchase patents and generate revenues by asserting them against alleged infringers—and fifteen other entities to better understand the PAE market. The FTC issued a report that made recommendations regarding patent litigation procedures and provides guidance to other government agencies, academics, and industry participants. Additionally, FTC staff provides guidance concerning competition issues in the technology industry to various entities at the national, state, and local levels. (Objectives 2.1 and 2.2)

PREVENTING ANTICOMPETITIVE ACTIVITY IN THE ENERGY INDUSTRY:

The agency continues to closely monitor energy markets to identify and challenge anticompetitive mergers and conduct. FTC merger enforcement actions have resulted in multiple divestitures in the energy market during recent years, including Cumberland Gulf/ArcLight Capital Partners. The FTC also continuously examines price movements and other activity through its Gasoline and Diesel Price Monitoring Project in an effort to identify anticompetitive conduct such as illegal agreements among competitors, agreements between manufacturers and product dealers, and monopolization that may undermine the benefits of competition.

To prepare and support agency staff in meeting these challenges, the FTC continues to study energy markets—often in response to congressionally mandated requirements—thus developing the professional expertise and body of knowledge needed to address emerging concerns. In FY 2016, the FTC sponsored a workshop entitled "Something New Under the Sun" which examined competition and consumer protection issues in the solar energy industry. The knowledge gained from the workshop will likely influence future advocacy efforts.

The FTC also issues reports on the factors that influence the prices that American consumers pay for gas. In compliance with the Energy Policy Act of 2005, the FTC issued its eleventh annual Ethanol Market report in 2015, which concluded that the market is less concentrated than it was eleven years ago. (Objectives 2.1 and 2.2)

MAINTAINING ROBUST COMPETITION IN RETAIL MARKETS:

Retail markets impact the wallet of every American consumer. The FTC focuses significant resources on identifying and challenging mergers and conduct likely to harm competition in the retail sector. These actions preserve competition for the benefit of consumers by keeping prices down, improving quality, and expanding innovation and consumer choices. In recent years, the Commission has successfully challenged several large retail mergers including Staples/Office Depot, Dollar Tree/Family Dollar, and several proposed supermarket acquisitions, which would likely have reduced competition in many geographic markets absent the Commission's challenges.

As in other sectors, the FTC also continues to study evolving competitive dynamics that affect how consumers shop for products they want to buy. In January of 2016, the

Commission held a public workshop examining the current state and future trends in automotive distribution including direct sales to consumers, warranty reimbursement, the future of autonomous vehicles and connected cars. The workshop built upon advocacy efforts from previous years regarding the potentially anticompetitive effects of laws prohibiting direct-to-consumer auto sales. (Objectives 2.1 and 2.2)

FTC Hosts Workshops to Study Automobile Sales and Rooftop Solar Panels

The FTC hosted two policy workshops this year to explore cutting-edge distribution issues in two different industries. In January 2016, the FTC hosted a workshop that examined how automobiles are sold. The sale of new automobiles is heavily regulated by state laws, and the workshop, brought together economists, attorneys, and industry representatives to discuss the competitive implications and consumer protection issues surrounding these regulations. In June 2016, the FTC hosted a workshop on solar distributed generation (DG), which involves solar panels installed on individual homes. State regulatory boards are debating the proper regulations and rate design for solar DG. At our workshop, experts discussed the development of the solar industry and solar panel technology, as well as current approaches to compensating owners of solar panels for the power they produce. The workshop also explored potential consumer confusion when purchasing rooftop solar panels, as well as deceptive and fraudulent activities by sellers of these products.

MANAGEMENT ASSURANCES

IMPLEMENTATION OF THE FEDERAL MANAGERS' FINANCIAL INTEGRITY ACT (FMFIA)

The FTC's Enterprise Risk Management (ERM) and management controls are integral to daily management of operations and activities that achieve the FTC's strategic goals and objectives. Internal controls are part of all agency systems and processes. Managers are held accountable for assessing and improving these controls and relevant performance risks in order to provide efficient and effective program operations as well as program compliance with applicable laws and regulations.

The FTC's Senior Assessment Team (SAT) provides strategic direction and oversight over the agency's internal control program. This includes assessing and improving compliance with applicable guidance (e.g., Office of Management and Budget Circular A-123, Management's Responsibility for Enterprise Risk Management and Internal Control), and communicating the results of reviews to senior management and the head of the agency.

During FY 2016, the SAT activities included planning the annual internal controls assessments, identifying key processes and related control activities, documenting the scope, design, and methodology of risk and internal control assessments, and monitoring corrective action plans and remediation progress.

This year, the FTC approved and implemented an ERM program plan, strategy, and pilot initiative. Resources were added to complete additional assessments, implement the internal control policy and corrective action plan guide, complete all assessable unit profiles, and begin the second year of a multi-year assessment plan for key financial processes. These results and other information from independent audits or reviews performed by the Office of Inspector General (OIG) and the Government Accountability Office (GAO) (e.g., Federal Information Security Management Act review), independent audits of service providers' operations and financial systems (e.g., Statement on Standards for Attestation Engagements (SSAE) No. 16) and other relevant evaluations and control assessments were considered by the SAT and the agency head in determining if any management control deficiencies or nonconformances must be disclosed in the annual assurance statement.

The Chairwoman's assurance statement that follows is supported by the processes and reviews described above, which were carried out in FY 2016. Management assurances tables appear in the Other Information section.

UNITED STATES OF AMERICA
Federal Trade Commission
WASHINGTON, D.C. 20580

Office of the Chairwoman

CHAIRWOMAN'S FMFIA STATEMENT OF ASSURANCE

The Federal Trade Commission's (FTC) management is responsible for establishing and maintaining effective risk management, internal control and financial management systems that meet the objectives of the Federal Managers' Financial Integrity Act of 1982 (FMFIA).

In accordance with the requirements of the Office of Management and Budget (OMB) Circular A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control*, the FTC conducted its annual assessment of the effectiveness of the organization's internal controls to support effective and efficient programmatic operations, reliable financial reporting, and compliance with applicable laws and regulations; and whether the financial management system conforms to applicable financial systems requirements.

Based on the results of this assessment, the FTC provides an unmodified statement of assurance that its internal controls over the effectiveness and efficiency of operations, reliable financial reporting and compliance with applicable laws and regulations as of September 30, 2016, were operating effectively. A material weakness was found in the design of our internal controls regarding accounts receivable balances held by receivers appointed by federal court judges in some of our law enforcement cases, and was corrected prior to September 30, 2016. Some reporting officials identified areas for improvement in their individual assessments, which are being addressed internally and are not of a material nature.

Further, based on our assessment, we determined that the FTC financial management systems substantially conform with the *Federal Financial Management Improvement Act of 1996 (FFMIA),* applicable financial systems requirements, the Federal accounting standards and the U.S. Standard General Ledger at the transaction level.

Signed Edith Ramirez

Edith Ramirez
Chairwoman
October 31, 2016

SUMMARY OF MATERIAL WEAKNESS AND NONCONFORMANCES

As noted in the Chairwoman's FMFIA Statement of Assurance, the FTC's management detected a material weakness in the design of the internal controls regarding accounts receivable balances held by receivers appointed by Federal court judges in some of our law enforcement cases. During FY 2016, an updated policy was implemented, and compensating controls were implemented prior to September 30, 2016 to correct the process and sustain an unmodified assurance over the effectiveness and efficiency of operations, and reliable financial reporting.

The implementation of this policy resulted in the FTC reviewing active judgments for receiverships. As a result, there was a $29 million upward adjustment of the FY 2015 Balance sheet, and a $33 million increase in FY 2016 to non-entity accounts receivable and offsetting liabilities. The adjustments are seen in the FY 2016 Agency Financial Report. The restatement was limited to the Balance Sheet, no other statements were affected.

FEDERAL INFORMATION SECURITY MANAGEMENT ACT (FISMA)

As mandated by FISMA, the agency continues to maintain an information security program to manage information technology in accordance with National Institute of Standards and Technology (NIST) requirements. During FY 2016, the FTC has performed four assessment and authorization efforts and currently has twelve systems authorized to operate. The FTC continues to leverage two Federal Risk and Authorization Management Program (FedRAMP) Joint Authorization Board provisional authorizations – one for the cloud hosting of our public web sites and one for the Sentinel Network Services systems.

DEBT COLLECTION IMPROVEMENT ACT

The Debt Collection Improvement Act of 1996 prescribes standards for the administrative collection, compromise, suspension, and termination of Federal agency collection actions and referrals to the proper agency for litigation. The FTC monitors, administers, and collects on debts less than 120 days delinquent. The FTC also monitors, administers and collects on debts more than 120 days delinquent. All eligible, nonexempt debts more than 120 days old have been transferred to the U.S. Department of the Treasury for cross-servicing. In addition, recurring payments were processed by Electronic Funds Transfer (EFT) in accordance with the EFT provisions of the Debt Collection Improvement Act.

PROMPT PAYMENT ACT

The Prompt Payment Act requires federal agencies to make timely payments to vendors, including any interest penalties for late invoice payments. In FY 2016, the FTC processed 3,570 invoices totaling $188 million that were subject to prompt payment. Of these invoices, 98.29 percent were paid on time. During FY 2016, the FTC paid a total of $2,579 in interest penalties, or .0014 percent of the total dollar amount invoiced.

IMPROPER PAYMENT ELIMINATION AND RECOVERY IMPROVEMENT ACT (IPERIA)

The Improper Payments Elimination and Recovery Act (IPERIA) of 2012 requires agencies to annually report on all programs and activities, identify those that may be susceptible to significant improper payments, estimate annual improper payments in the susceptible programs and activities, and report the results of improper payment activities. In accordance with the OMB A-123 Appendix C guidance, the FTC performed a FY 2015 risk assessment for nine payment processes including payroll, procurement, redress payments to consumers, travel, purchase card, pre-merger filing fee refunds, training, and two miscellaneous payment processes. Each payment program was defined by its own internal control framework. The FTC evaluated each payment program using the eleven qualitative risk factors identified in OMB Circular A-123 Appendix C. The FTC also performed a quantitative risk assessment and assessed risks related to the amounts of payments processed relative to the OMB specified threshold amounts, which define payment programs susceptible to improper payments.

As a result of the FY 2015 risk assessment, the FTC determined that the agency's programs and activities presented low risk of improper payments and that none of the agency's programs or activities were determined to be susceptible to significant improper payments. Per OMB's guidance, a FY 2016 risk assessment was not conducted and the next is scheduled to be performed in FY 2018. Though no IPERIA risk assessment was conducted in FY 2016, scheduled internal control process reviews were conducted for payroll, benefits, and "procure to pay" processes. These processes execute 90 percent of the FTC's payments and the reviews concluded that key controls that provide assurance for the propriety of payments were properly designed, in place and functioning properly. Additionally, the Interior Business Center, the FTC's shared service provider, compares the FTC's payee records in the financial system with payee records in the Do Not Pay database. In addition, the FTC reviews potential matches on an on-going basis to prevent improper payments and incorporates a pre-award check on potential contractors against the Do Not Pay database.

The FY 2015 IPERIA risk assessment performed and documented testing of statistical samples from larger payment processes that verified the FTC payment programs were not susceptible to significant improper payments. More information about the FTC's IPERIA work can be found in the Other Information section of this report.

AGENCY FINANCIAL MANAGEMENT SYSTEMS STRATEGY

The FTC's overall strategy for its financial management systems framework is driven by the objectives of operational effectiveness and efficiency, reliability and timeliness of data, and support of requirements for the agency's strategic goals. The FTC obtains hosting and application management services from the Department of the Interior Business Center (IBC), a Federal Shared Service Provider, and has been in the shared services environment, using Oracle Federal Financials (OFF), since FY 2008. The FTC currently has its core financial, personnel and payroll, travel management, and acquisition lifecycle systems hosted and supported by the IBC.

The core financial management system is based on OFF Release 12, and used for general ledger, accounts payable, accounts receivable, budget execution, requisition, contract writing, and reporting capabilities. The FTC also has been obtaining support from IBC for its Federal Personnel/Payroll System (FPPS) since 1998, and the financial data from FPPS is interfaced into OFF.

The FTC, with IBC's support, continues to modernize and integrate our portfolio of financial management systems. In FY 2016, with the successful implementation of a new requisition and contracting-writing tool, Contract Lifecycle Management (CLM) became an integrated module of OFF.

In FY 2017, we will continue to work with IBC to meet the May 2017 DATA Act requirements. The FTC is an active participant in supporting IBC's enhancements and releases to OFF to establish the necessary configuration and extract functionality that will allow our timely reporting and submission of the required data files. Also in FY 2017, the FTC will further its capability of using business information analytics. The FTC will be part of IBC's effort in migrating from the Oracle Discoverer reporting system to the Oracle Business Intelligence Enterprise Edition (OBIEE)/Oracle Business Intelligence Application (OBIA). This is a prebuilt business intelligence solution that will deliver information across the organization, from front line users to senior management.

FEDERAL CIVIL PENALTIES INFLATION ADJUSTMENT ACT IMPROVEMENTS ACT OF 2015

As established by statutory civil penalty provisions, the FTC has jurisdiction to charge civil penalties for violations specified in the FTC Act and other laws the Commission is responsible for administering and enforcing. The FTC adjusts these civil penalty amounts for cost of living, as required by the Federal Civil Penalties Inflation Adjustment Act Improvements Act of 2015.

Details about the FTC's types of civil penalties, the authority for the penalty, adjustment dates, and current penalty amount can be found in the Other Information section of this report.

FINANCIAL HIGHLIGHTS

INTRODUCTION

The financial highlights that follow provide an overview of the FTC's FY 2016 financial statements. An independent auditor audited the FTC's Balance Sheet for the fiscal years ending September 30, 2016 and 2015, along with the Statement of Net Cost, Statement of Changes in Net Position, Statement of Budgetary Resources, Statement of Custodial Activity, and accompanying notes. For the 20th straight year, the FTC received an unmodified opinion on its audited financial statements. A summary of the information contained in the financial statements is presented in the tables below. The complete financial statements, including the independent auditor's reports, notes, and supplementary information, are presented in the Financial Section of this report.

The FY 2015 Balance Sheet on the FY 2016 Agency Financial Report is restated as a result of the FTC's FY 2016 implementation of a policy update regarding the recording of accounts receivable (and offsetting liability) related to the agency's non-entity consumer redress program. The FTC was not recording accounts receivable and the offsetting liability for judgments requiring assets to be liquidated by a receiver. The implementation of this policy resulted in a $29 million upward adjustment in FY 2015, and a $33 million increase in FY 2016 to non-entity consumer redress accounts receivable and liabilities. The net effect of the restatement on the Balance Sheet is zero and no other statements are affected.

CONDENSED BALANCE SHEET AS OF SEPTEMBER 30, 2016 AND 2015

(Dollars in Millions)	FY 2016	Restated FY 2015	% Change
Fund balances with Treasury	$ 930	$ 869	7%
Cash and other monetary assets	55	21	162%
Accounts receivable, net	99	43	130%
Property, plant, and equipment, net	57	63	(10%)
Total Assets	$ 1,141	$ 996	15%
Liability for redress collected	$ 852	$ 751	13%
Liability for redress to be collected	98	43	128%
Accounts payable and other	34	32	6%
Total Liabilities	$ 984	$ 826	19%
Cumulative results of operations	157	170	(8%)
Total Net Position	$ 157	$ 170	(8%)
Total Liabilities and Net Position	$ 1,141	$ 996	15%

BALANCE SHEET

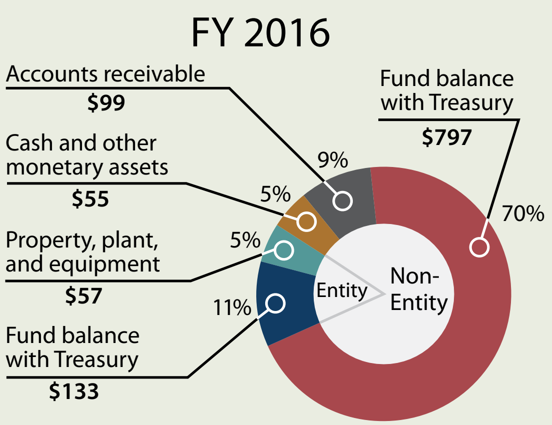
COMPOSITION OF ASSETS

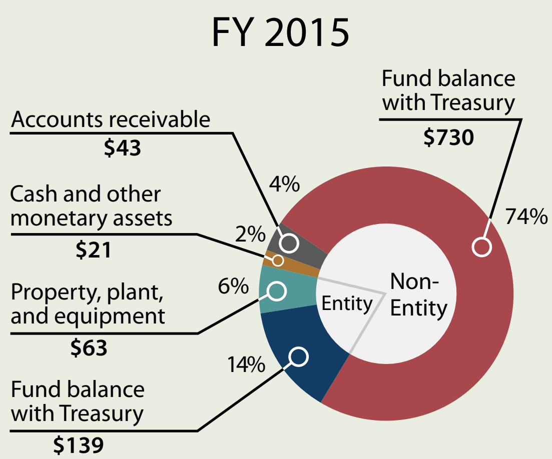
The FTC's assets consist of both entity and non-entity assets. Entity assets, by law, are authorized for the FTC to use in its operations, i.e. Property, Plant, and Equipment (PP&E). Non-entity assets are those assets held on behalf of others, i.e. collections and accounts receivable that arise from civil monetary penalties and court-ordered judgments for monetary relief in the consumer redress program.

Entity assets totaled $190 million, or 16 percent of all FTC assets as of September 30, 2016. The fund balance with Treasury of $133 million is the aggregate amount available to the FTC to make expenditures and pay liabilities. PP&E, net of accumulated depreciation, is $57 million, which is comprised of $34 million in leasehold improvements, $14 million in equipment, and $9 million in software. Of the total PP&E, $37 million is associated with the relocation of staff to Constitution Center in FY 2014.

Non-entity assets total $951 million, or 84 percent of all FTC assets as of September 30, 2016. Fund balance with Treasury (deposit fund) for consumer redress of $797 million is held temporarily by the FTC until distributed to consumers, other harmed entities, third party agents pending distribution to consumers on behalf of the FTC, or if consumer redress is not practicable a disgorgement to Treasury. Cash and other monetary assets of $55 million represent consumer redress cash that has been transferred to third party agents pending distribution to consumers on behalf of the FTC. Net accounts receivable of $99 million is comprised of $98 million in net receivables arising from court ordered judgments with the consumer redress program, and $1 million net receivables for civil monetary penalties.

COMPOSITION OF ASSETS (Dollars in millions)





Entity Assets	FY 2016	Restated FY 2015	Change
Fund balance with Treasury	$ 133	$ 139	$ (6)
Property, plant, and equipment	$ 57	$ 63	$ (6)
	$ 190	**$ 202**	**$ (12)**
Non-entity Assets			
Fund balance with Treasury	$ 797	$ 730	$ 67
Accounts receivable	$ 99	$ 43	$ 56
Cash and other monetary assets	$ 55	$ 21	$ 34
	$ 951	**$ 794**	**$ 157**
Total Assets	**$ 1,141**	**$ 996**	**$ 145**

ANALYSIS OF ASSETS

The FTC's total assets were $1,141 million at the end of FY 2016, an increase of $145 million or 15 percent over the FY 2015 total of $996 million.

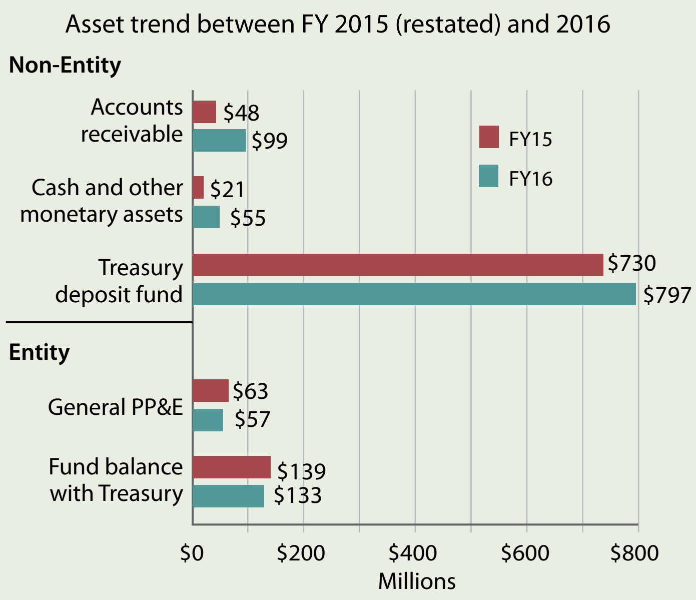
Entity assets were $190 million at the end of FY 2016, a decrease of $12 million or 6 percent from the FY 2015 total of $202 million. A $6 million decrease in PP&E is due to the continued depreciation of assets placed into service related to the FY 2014 relocation of staff to Constitution Center. A $6 million decrease in fund balance with Treasury is due to an increase in payments for contracted goods and services that provided substantial legal support for several litigation cases, and payroll related expenditures.

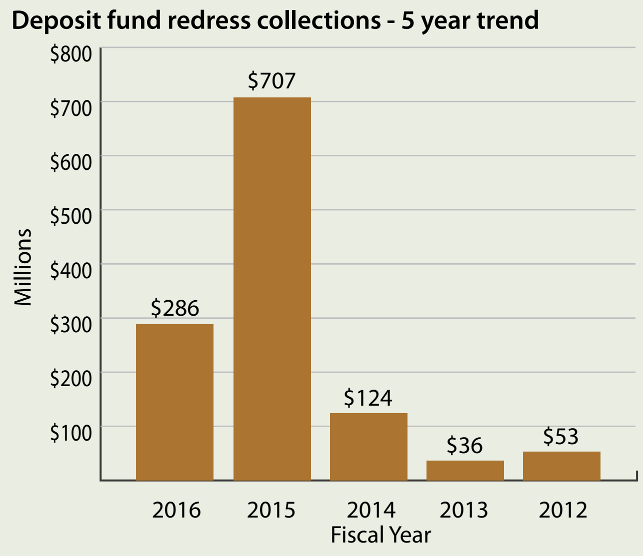
Non-entity assets were $951 million at the end of FY 2016, an increase of $157 million or 20 percent over the FY 2015 total of $794 million. This change is due to a $67 million increase in fund balance with Treasury, a $34 million increase in cash and other monetary assets, and a $56 million increase in net accounts receivable.

The $67 million increase in fund balance with Treasury consists of $286 million in collections, offset by $219 million in disbursements. The majority of the collections is attributed to a $200 million collection from Herbalife International of America, Inc. to settle FTC charges that alleged Herbalife deceived consumers as part of a multi-level marketing operation. The $286 million in FY 2016 collections is a $421 million reduction from the $707 million collected in FY 2015. This decrease in year to year collections is due to a $458 million collection in FY 2015 from a settlement resolving antitrust charges that Cephalon, Inc. illegally blocked generic competition, known as pay for delay, to its drug Provigil. During FY 2016, the FTC disbursed $120 million to claimants in accordance with the settlement with Cephalon, Inc.

The $34 million increase in cash and other monetary assets is a result of several large judgments where funds have been transferred to the third-party contractor, pending disbursement to harmed consumers. In the case of One Technologies, $20M was transferred to a third-party contractor in September for disbursement to more than 145,000 consumers who had been lured into an online scheme for "free" access to their credit scores, and then billed for a recurring $29.95 monthly fee for credit monitoring that was never ordered.

ANALYSIS OF ASSETS (Dollars in millions)





The $56 million increase in net accounts receivable is largely the result of a net $46 million accounts receivable established in association with a payday lending scheme judgment ($1,329 million judgment, with $1,283 million uncollectible). This judgment represents the largest litigated judgment ever obtained by the FTC. It stems from a 2012 complaint filed by the FTC, which alleged that the operators of a payday lending firm falsely claimed they would charge borrowers the loan amount plus a one-time finance fee. Instead, the defendants made multiple withdrawals from consumer's bank accounts and assessed a new finance fee each time a withdrawal was made, without disclosing the true costs of the loan. The judgment represents the difference between what consumers actually paid on the loans and what they were told they would pay. The large allowance is based on an analysis by the case manager who assessed the ability of the defendant to pay based on the probable recoverable value of assets.

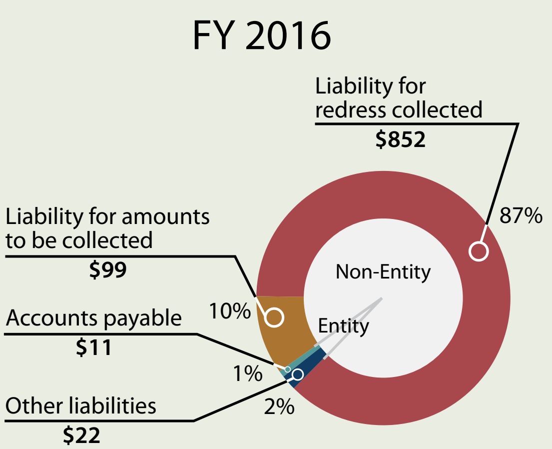
COMPOSITION OF LIABILITIES

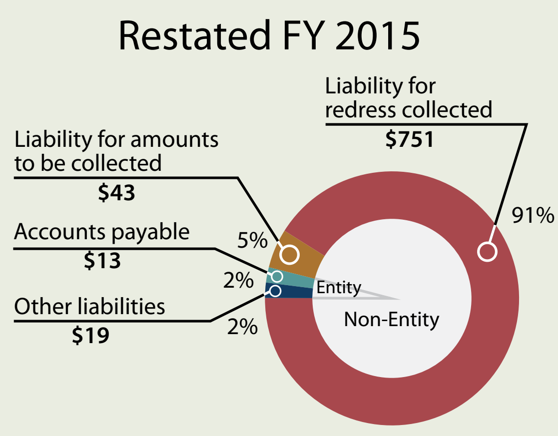
The FTC's liabilities consist of both entity and non-entity liabilities. Entity liabilities consist of probable and measurable future outflows of FTC entity resources. Non-entity liabilities are the offset (and equal) to the non-entity assets.

Entity liabilities totaled $33 million, or 3 percent of all FTC liabilities as of September 30, 2016. Employee related liabilities of $22 million consist of accrued payroll, accrued annual leave wages earned by employees but not yet paid, and the Federal Employees Compensation Act (FECA) liability. Accounts payable totaling $11 million consists of the amounts owed for goods or services received but not yet paid.

Non-entity liabilities total $951 million or 97 percent of all the FTC liabilities as of September 30, 2016. The liability for amounts collected of $852 million is offset by the non-

COMPOSITION OF LIABILITIES (Dollars in millions)





Entity Liabilities	FY 2016	Restated FY 2015	Change
Other Liabilities	$ 22	$ 19	$ 3
Accounts payable	$ 11	$ 13	$ (2)
	$ 33	**$ 32**	**$ 1**
Non-entity Liabilities			
Liabilities for redress collected	$ 852	$ 751	$ 101
Liability for amounts to be collected	$ 99	$ 43	$ 56
	$ 951	**$ 794**	**$ 158**
Total Liabilities	**$ 984**	**$ 826**	**$ 158**

entity Treasury deposit fund for consumer redress of $797 million and the cash and monetary assets of $55 million. The liability for amounts to be collected is offset by the non-entity asset accounts receivable of $99 million.

ANALYSIS OF LIABILITIES

The FTC's total liabilities were $984 million at the end of FY 2016, an increase of $158 million or 19 percent over the FY 2015 total of $826 million.

Entity liabilities were $33 million at the end of FY 2016, an increase of $1 million or 3 percent over the FY 2015 total of $32 million. The increase is due to two additional workdays accrued in the year-end payroll accrual, and an increase in the number of unfunded annual leave hours accrued during FY 2016.

Non-entity liabilities were $951 million at the end of FY 2016, an increase of $157 million or 20 percent over the FY 2015 total of $794 million. The liability for amounts collected increased by $101 million, or 13 percent, and the liability for amounts to be collected increased by $56 million or 130 percent. This is equal to the change seen in non-entity assets.

SUMMARY OF NET POSITION

The FTC's net position consists of the difference between total assets and liabilities. The FTC's net position was $157 million at the end of FY 2016, and is a decrease of $13 million or 8 percent from the FY 2015 total of $170 million.

STATEMENT OF NET COST

COMPOSITION OF THE NET COST OF OPERATIONS

The Statement of Net Cost presents the FTC's gross costs less revenue earned for both of the FTC's strategic goals, Protect Consumers and Maintain Competition. The third goal, Advance Organizational Performance, has its costs distributed to the two strategic goals based on FTE usage (unless a cost is clearly attributable to a specific goal). The FTC net cost of operations was $200 million in FY 2016, which consists of $329 million in gross costs and $129 million in earned revenue.

In addition to the earned revenue, the FTC collected $286 million in non-entity collections in the Treasury deposit fund for consumer redress. These funds are not included in the Statement of Net Cost, but are important in determining the overall impact of the agency's strategic goals.

The net cost of operations for the Protect Consumers strategic goal is $171 million, which consists of $185 million in gross costs and $14 million in earned revenue. The $14 million in earned revenue is from fees collected for the National Do Not Call Registry. The FTC receives fees from telemarketers who pay an annual subscription fee to download telephone numbers of consumers who do not wish to receive calls. Fees are based on the number of area codes downloaded.

STATEMENT OF NET COST SUMMARY
FOR THE YEARS ENDED SEPTEMBER 30, 2016 AND 2015

(DOLLARS IN MILLIONS)	FY 2016	FY 2015	% Change
Protecting Consumers:			
Gross costs	$ 185	$ 183	1%
Less: earned revenue	(14)	(13)	8%
Protecting Consumers	171	170	1%
Maintaining Competition:			
Gross costs	$ 144	$ 132	9%
Less: earned revenue	(115)	(116)	(1%)
Maintaining Competition	29	16	77%
Net Cost of Operations	**$ 200**	**$ 186**	**8%**

The net cost of operations for the Maintain Competition strategic goal is $29 million, which consists of $144 million in gross costs and $115 million in earned revenue. The $115 million in revenue comes from fees collected for premerger notification filings under the Hart-Scott-Rodino (HSR) Antitrust Improvement Act of 1976. The HSR Act requires the filing of premerger notifications with the FTC and the Antitrust Division of the Department of Justice (DOJ). The filing fees are determined by the value and size of the merging parties. By law, the FTC retains one-half of all premerger filing fees collected and remits one-half to the DOJ Antitrust Division.

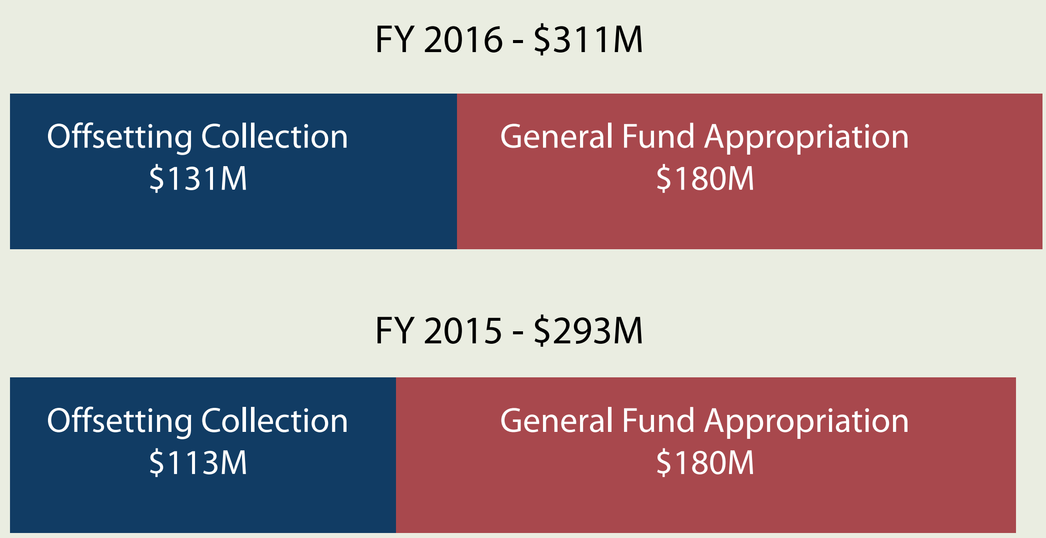
The gross costs for Maintain Competition increased from $132 million in FY 2015 to $144 million, an increase of $12 million or 9 percent. The increase is primarily due to several litigation cases that required substantial legal support. One such case using significant resources was the successful litigation challenging the Staples' proposed merger with Office Depot. In May 2016, the federal district court for the District of Columbia granted the Commission's request for a preliminary injunction enjoining Staples' proposed merger with Office Depot. After the court's decision, the parties abandoned their merger, marking the second time that the Commission successfully blocked a proposed merger between the rival office supply retailers.

BUDGET AUTHORITY

The FTC receives an annual appropriation that is available until expended, subject to the Office of Management and Budget (OMB) apportionment and Congressional provisions on the expenditure of funds (see FTC's FY 2017 Congressional Budget Justification, page 7, "Appropriations Language Provisions"). The FTC's budget authority is derived from a direct appropriation and offsetting collections.

The FTC's new budget authority in FY 2016 was comprised of $307 million of enacted authority and $4 million of reimbursable authority, for total new budget authority of $311 million. This represents an increase of $18 million or 6 percent from the FY 2015 total of $293 million. The $18 million increase is a result of the FTC requesting and receiving an increased appropriation of $14 million for a planned increase in mandatory expenses attributed to pay adjustments, contract and other non-pay related inflation, and an increase in costs related to information technology modernization and increased expert witnesses. The FTC received in excess of $4 million in reimbursable authority, for which the FTC entered into agreements with other Federal agencies to continue the FTC's mission of protecting consumers and maintaining competition.

NEW BUDGET AUTHORITY (Dollars in millions)



LIMITATIONS OF FINANCIAL STATEMENTS

FTC management has prepared the FY 2016 financial statements from the books and records of the agency in accordance with OMB Circular A-136, financial reporting requirements, as amended. The financial statements represent the financial position and results of operations of the agency pursuant to the requirements of Chapter 31 of the U.S. Code Section 3515(b). While these statements have been prepared from the agency's books in accordance with the formats prescribed by the OMB, the statements are in addition to the financial reports used to monitor and control budgetary resources, which are prepared from the same books and records. These statements should be read with the understanding that they are for a component of the U.S. government, a sovereign entity. One implication is that unfunded liabilities cannot be liquidated without legislation that provides resources to do so.

FINANCIAL MANAGEMENT INDICATORS

The following table shows standard indicators developed by the Chief Financial Officers Council and used by the OMB to monitor agencies' financial management practices.

FINANCIAL MANAGEMENT INDICATORS FOR FY 2016

DEBT MANAGEMENT	
Eligible debt transferred to Treasury	100%
FUNDS MANAGEMENT	
Fund balance with Treasury (identifies the difference between the fund balance reported in Treasury reports and the agency fund balance with Treasury recorded in its general ledger)	100% reconciled
PAYMENT MANAGEMENT	
Percentage invoices paid on time (per Prompt Payment Act)	98.29%
Percentage interest penalties paid to total dollars invoiced	.0014%
Percentage of total dollars outstanding in current status (good standing) for individually billed travel account holders	100%
Percentage of total dollars outstanding in current status (good standing) for centrally billed travel accounts	100%
Percentage of total dollars outstanding in current status (good standing) for purchase cards	100%

Financial Section

MESSAGE FROM THE CHIEF FINANCIAL OFFICER

David Rebich

Chief Financial Officer

I am pleased to present FTC's Agency Financial Report (AFR) for Fiscal Year 2016. The AFR is a useful summary of the FTC's use of resources, operating performance, and financial stewardship. It includes comparative Principal Financial Statements and Footnotes for FY 2016 and FY 2015. These financial statements, coupled with the agency's Performance Highlights, demonstrate how the FTC optimizes the use of its financial resources to protect American consumers and maintain competition in the marketplace.

For the twentieth consecutive year, an independent auditor rendered an unmodified opinion on FTC's Financial Statements. We are very proud of this accomplishment and worked very hard to achieve this result. Some of our efforts this year include:

- Resolving and closing all FY 2015 and prior financial statement audit findings;
- Assessing our Entity-wide Controls;
- Conducting internal control reviews of identified assessable units;
- Monitoring the status of Corrective Action Plans (CAPs), which resulted in closing 52 recommendations from internal and external reviews;
- Implementing the integrated Contract Lifecycle Management (CLM) system on time and within budget; and
- Educating FTC's Contracting Officer Representatives through supplemental in-house training and posting a wide variety of COR resources online, including acquisition process maps and sample acquisition documents.

We received a new material weakness in internal controls during FY 2016. During the course of performing management control reviews, we detected an improper design of controls and implemented compensating controls to correct the process and fairly present the FTC's financial statements in all material aspects as of September 30, 2016. Due to our findings from the management control review, we reassessed and broadened our definition of non-entity assets to include receivables held by court appointed receivers, resulting in a restatement of the FY 2015 balance sheet, with no changes to the other statements. This change provides the readers of the FTC's financial statements with more accurate information on anticipated collections distributed to consumers or disgorged to Treasury.

In 2016, we continued to strengthen our Enterprise Risk Management (ERM) efforts by submitting our ERM Implementation Plan to OMB. We also prepared an ERM Guide for internal use by the FTC's Program Managers. The FTC has a robust Senior Assessment Team (SAT), which reviews all ERM documents, is fully apprised of the results of internal reviews, and approves the FTC's multi-year assessment plan to ensure material processes are continuously reviewed and monitored.

Looking ahead, we are focusing on several efforts to ensure that we are good stewards of taxpayer dollars. We are coordinating the efforts of our ERM program with the upcoming agency update to our Strategic Plan. We are working closely with our Shared Service Provider to implement improvements, including the needed enhancements to comply with the DATA Act, transition to electronic invoicing, and migrate to a business intelligence and analytics tool for our enterprise financial information.

These accomplishments and on-going projects demonstrate our commitment to effectively managing our resources, and I am proud of the progress we have made during the past couple of years to promote sound business practices in the conduct of our agency's mission.

On behalf of the Chairwoman and everyone in the Financial Management Office, I would like to extend our special thanks to the financial management and program professionals throughout the FTC. Your dedication and hard work has enabled the FTC to deliver efficient programs and provide accurate, transparent, and timely financial information to the public. Your service to the FTC and American consumers is greatly appreciated.

David Rebich
Chief Financial Officer
November 10, 2016

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

Office of Inspector General

November 15, 2016

The Commissioners
Federal Trade Commission

I am pleased to provide you with the attached audit report required by the Accountability of Tax Dollars Act of 2002, which presents an unmodified opinion on the Federal Trade Commission's (FTC) fiscal years 2016 and 2015 financial statements. We commend the FTC for the noteworthy accomplishment of attaining an unmodified (clean) opinion for the 20th consecutive year.

We contracted with the independent certified public accounting firm of Brown & Company CPAs, PLLC (Brown & Company) to audit the financial statements of the FTC as of September 30, 2016 and 2015, and for the years then ended. The contract requires that the audit be performed in accordance with U.S. generally accepted government auditing standards and Office of Management and Budget bulletin, *Audit Requirements for Federal Financial Statements.*

Results of the Independent Audit

Brown & Company found:

- the fiscal years 2016 and 2015 financial statements are presented fairly, in all material respects, in accordance with U.S. generally accepted accounting principles,

- one material weakness in internal control over financial reporting, and

- no reportable noncompliance with applicable provisions of laws, regulations, and contracts tested.

Evaluation and Monitoring of Audit Performance

The Inspector General Act of 1978 requires that the Inspector General take appropriate steps to assure that any work performed by non-Federal auditors complies with the auditing standards established by the Comptroller General. In that regard, we evaluated the independence, objectivity, and qualifications of the auditors and specialists; reviewed the plan and approach of the audit; monitored the performance of the audit; reviewed Brown & Company's reports and related audit documentation; and inquired of its representatives.

Our review was not intended to enable us to express, and we do not express, an opinion on the FTC's financial statements or conclusions about the effectiveness of internal control over financial reporting or on compliance with laws, regulations, and contracts tested.

Brown & Company is responsible for the attached auditor's report and the conclusions expressed in the related reports on internal control over financial reporting and compliance with laws, regulations, and contracts tested.

We appreciate the cooperation afforded to Brown & Company and my office during the audit. Should you have any questions or would like to discuss the report, please contact me at (202) 326-3527.

Sincerely,

Roslyn A. Mazer
Inspector General

Enclosure

BROWN & COMPANY
CERTIFIED PUBLIC ACCOUNTANTS AND MANAGEMENT CONSULTANTS, PLLC

INDEPENDENT AUDITOR'S REPORT

Inspector General
Federal Trade Commission
Washington, D.C.

Report on the Financial Statements

We have audited the accompanying balance sheet of the Federal Trade Commission (FTC) as of September 30, 2016 and 2015 (Restated), and the related statements of net cost, changes in net position, budgetary resources, and custodial activity for the years then ended (collectively referred to as the financial statements), and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with U.S. generally accepted government auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the Office of Management and Budget (OMB) Bulletin No. 15-02, *Audit Requirements for Federal Financial Statements*. Those standards and OMB Bulletin No. 15-02 require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatements.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit includes test of compliance with provisions of applicable laws, regulations and contracts that have a direct effect on the determination of material amounts and disclosure in the financial statements. The purpose was not to provide an opinion on compliance with provisions of applicable laws, regulations and contracts and, therefore, we do not express such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

1101 MERCANTILE LANE, SUITE 122 • LARGO, MD 20774
PHONE: (240) 770-4900 • FAX: (301) 773-2090 • mail@brownco-cpas.com • www.brownco-cpas.com

Opinion on the Financial Statements

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of FTC as of September 30, 2016 and 2015 (Restated), and its net costs, changes in net position, budgetary resources, and custodial activity for the years then ended, in accordance with U.S. generally accepted accounting principles.

Emphasis of Matters

Restated Financial Statements. As discussed in *Note 18 Restatement* in the Principal Financial Statements, the agency has restated the financial statements for FY 2015 due to material errors found in the reporting of accounts receivable balances held by court appointed receivers. The agency's internal control review found it had previously not reported accounts receivables from receivers based on the net cash value due to the FTC. Instead, collections were recorded when received. As a result, the FTC identified $29 million in accounts receivables not recorded as of September 30, 2015. Due to this material error found in the reporting of accounts receivable for receivers, FTC's Consolidated Financial Statements, dated November 13, 2015, should not be relied on. Instead, users should rely on this report and refer to *Note 18 Restatement.* This material weakness is also reported in *"Report on Internal Control Over Financial Reporting"* section of this report.

Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles require that the information in the *Management's Discussion and Analysis* (MD&A), *and Required Supplementary Information* (RSI) sections be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Federal Accounting Standards Advisory Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the RSI in accordance with U.S. generally accepted government auditing standards, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. "*The Message From The Chairwoman, Message From The CFO, Other Information, and the Appendices* sections are presented for purposes of additional analysis and are not a required part of the financial statements. Such information has not been subjected to the auditing procedures applied in the audits of the financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

BROWN & COMPANY
CERTIFIED PUBLIC ACCOUNTANTS AND MANAGEMENT CONSULTANTS, PLLC

Report on Internal Control Over Financial Reporting

In planning and performing our audit of FTC's financial statements for the fiscal years ended September 30, 2016 and 2015 (Restated), we considered FTC's internal control over financial reporting by obtaining an understanding of FTC's system of internal control, determining whether internal controls had been placed in operation, assessing control risk, and testing controls to determine which auditing procedures to use for expressing our opinion on the financial statements. We limited our internal control testing to those controls necessary to achieve the objectives described in OMB Bulletin 15-02. We did not test all internal controls relevant to operating objectives as broadly defined by the Federal Managers' Financial Integrity Act of 1982 (FMFIA), Public Law 97-225, such as those controls relevant to ensuring efficient operations. The objective of our audit was not to provide an opinion on internal control. Accordingly, we do not express an opinion on internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses and significant deficiencies may exist that were not identified.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. The following material weakness described in the accompanying **Exhibit I** has been identified and included in the Chairwoman's Assurance Statement.

- Improved Accounting and Controls are Needed Over Receivership Receivables

Although the FTC had implemented the process of documenting the recording of accounts receivable for the estimate of proceeds from the sale of assets by receiverships, the estimate was not recorded for the financial statements as of June 30, 2016.

We also identified other deficiencies in FTC's internal control over financial reporting that we do not consider to be material weaknesses or significant deficiencies. Nonetheless, these deficiencies warrant FTC management's attention. We have communicated these matters to FTC management and, will report on them separately in a management letter.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether FTC's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations and contracts, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. We limited our tests of compliance to the provisions described in the preceding sentence, and we did not test compliance with all laws, regulations and contracts applicable to FTC. The objective was not to provide an opinion on compliance with those provisions of laws, regulations and contracts, and accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* or OMB Bulletin No. 15-02.

BROWN & COMPANY
CERTIFIED PUBLIC ACCOUNTANTS AND MANAGEMENT CONSULTANTS, PLLC

Management's Responsibility for Internal Control and Compliance

FTC's management is responsible for (1) evaluating effectiveness of internal control over financial reporting based on criteria established under the Federal Managers Financial Integrity Act (FMFIA), (2) providing a statement of assurance on the overall effectiveness of internal control over financial reporting, and (3) ensuring compliance with other applicable laws and regulations.

Auditor's Responsibilities

We are responsible for (1) obtaining a sufficient understanding of internal control over financial reporting to plan the audit, (2) testing compliance with certain provisions of laws and regulations that have a direct and material effect on the financial statements and applicable laws for which OMB Bulletin No. 15-02 requires testing, and (3) applying certain limited procedures with respect to the MD&A and other RSI.

We did not evaluate all internal controls relevant to operating objectives as broadly established by the FMFIA, such as those controls relevant to preparing statistical reports and ensuring efficient operations. We limited our internal control testing to testing internal control over financial reporting. Because of inherent limitations in internal control, misstatements due to error or fraud, losses, or noncompliance may nevertheless occur and not be detected. We also caution that projecting our audit results to future periods is subject to risk that controls may become inadequate because of changes in conditions or that the degree of compliance with controls may deteriorate. In addition, we caution that our internal control testing may not be sufficient for other purposes.

We did not test compliance with all laws and regulations applicable to FTC. We limited our tests of compliance to certain provisions of laws and regulations that have a direct and material effect on the financial statements and those required by OMB Bulletin No. 15-02 that we deemed applicable to FTC's financial statements for the fiscal year ended September 30, 2016. We caution that noncompliance with laws and regulations may occur and not be detected by these tests and that such testing may not be sufficient for other purposes.

Purpose of the Report on Internal Control over Financial Reporting and the Report on Compliance and Other Matters

The purpose of the Report on Internal Control over Financial Reporting and the Report on Compliance and Other Matters sections of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of FTC's internal control or on compliance. These reports are an integral part of an audit performed in accordance with *Government Auditing Standards* in considering FTC's internal control and compliance. Accordingly, these reports are not suitable for any other purpose.

Brown & Company

Largo, Maryland
November 14, 2016

BROWN & COMPANY
CERTIFIED PUBLIC ACCOUNTANTS AND MANAGEMENT CONSULTANTS, PLLC

Exhibit I

Finding 2016-02 Improved Accounting and Controls are Needed Over Receivership Receivables

Condition:
Although FTC had implemented the process of documenting the recording of accounts receivable for the estimate of proceeds from the sale of assets by receiverships, the estimate was not recorded for the financial statements as of June 30, 2016.

1. The FTC reviewed 82 judgments with potential receiverships, and received 100 percent accountability.

2. Based on the information received, the estimated proceeds were determined to be a material amount. Brown & Company CPAs and Management Consultants, PLLC was informed on August 20, 2016 that the amount of the estimated receivership receivables at June 30, 2016 would be $29,680,516.50.

3. At September 30, 2016, the balance of receivership receivables was $33,145,961.52.

Criteria:
Office of Management and Budget (OMB) Circular A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control,* requires management to be responsible for establishing and maintaining internal controls to achieve the objectives of effective and efficient operations, reliable financial reporting and compliance with applicable laws and regulations.

Cause:

1. According to Financial Management Office (FMO), the lack of a policy required to obtain the estimates delayed the recording of the receivership receivable at June 30, 2016, the policy became effective at September 30, 2016.

2. Establishing the estimate involved notifying all of the regional case managers, verifying the receiverships and matters by region and then obtaining completed receivership asset reports.

3. The receiverships are accountable to the courts and do not have a direct relationship with or are accountable to the FTC.

Effect:
Material misstatement of the September 30, 2015 and June 30, 2016 balance sheets. Matters that should be included in the receivership receivable balance could be omitted.

Recommendation:
We recommend that the FTC follow and improve the approved policy to ensure that the receivership receivable events (e.g. establishment, liquidation, closure, court filings, etc…) are recorded timely.

MANAGEMENT'S RESPONSE

Financial Management Office

UNITED STATES OF AMERICA
Federal Trade Commission
HEADQUARTERS (HQ)

November 9, 2016

TO: Roslyn A. Mazer
Inspector General

FROM: David Rebich
Chief Financial Officer

SUBJECT: Draft FY 2016 Audit Report for the Federal Trade Commission

On the behalf of the FTC management, I want to express our gratitude and appreciation to the Office of Inspector General (IG) and the independent auditor's professionalism and work ethic shown during the FY 2016 Financial Statement Audit. Based upon our review of the draft FY 2016 Financial Statement Audit Report, we concur with the Independent Auditor's Report, including the Opinion on the Financial Statements, Report on Internal Control over Financial Reporting and Operations, and Report on Compliance.

We will inform the responsible senior management of the final audit results. Management is committed to ensuring the FTC employs financial management processes that result in reliable and actionable information for internal and external stakeholders and decision makers. We will prioritize our internal control activities and prepare corrective action plans to address the items identified in your report and management letter.

We appreciate the continued collaboration of the IG to improve the stewardship of the funds entrusted to the FTC.

PRINCIPAL FINANCIAL STATEMENTS

FINANCIAL STATEMENT DESCRIPTIONS

A brief description of the five principal financial statements presented on the following pages is provided:

- **Balance Sheet** – Presents the combined amounts the agency had to use or distribute (assets) versus the amounts the agency owed (liabilities), and the difference between the two (net position).
- **Statement of Net Cost** – Presents the annual cost of agency operations. The gross cost less any offsetting revenue is used to determine the net cost.
- **Statement of Changes in Net Position** – Reports the accounting activities that caused the change in net position during the reporting period.
- **Statement of Budgetary Resources** – Reports how budgetary resources were made available and the status of those resources at fiscal year-end.
- **Statement of Custodial Activity** – Reports collections and their disposition by the agency on behalf of the Treasury General Fund and one other Federal agency. The FTC acts as custodian and does not have use of these funds.

The accompanying Notes to the Financial Statements describe significant accounting policies as well as detailed information on select statement lines.

FEDERAL TRADE COMMISSION
BALANCE SHEET
AS OF SEPTEMBER 30, 2016 AND 2015 (Restated)

(Dollars in Thousands)

	2016	Restated 2015
Assets (Notes 2 and 18):		
Intragovernmental:		
Fund balance with Treasury (Note 3)	$ 929,693	$ 868,730
Accounts receivable, net (Note 5)	75	65
Total intragovernmental	929,768	868,795
Cash and other monetary assets (Note 4)	54,495	20,373
Accounts receivable, net (Notes 5 and 18)	98,996	43,105
Property, plant, and equipment, net (Note 6)	57,368	63,310
Total Assets	$ 1,140,627	$ 995,583
Liabilities (Notes 7 and 18):		
Intragovernmental:		
Accounts payable	$ 621	$ 1,118
Other liabilities (Note 8)	4,973	3,400
Total intragovernmental	5,594	4,518
Accounts payable	10,353	11,508
Accrued redress due to claimants (Note 18)	98,182	41,741
Undisbursed redress collections	850,890	750,177
Other (Note 8)	19,275	18,141
Total Liabilities	$ 984,294	$ 826,085
Net Position (Note 1(p)):		
Unexpended appropriations	-	-
Cumulative results of operations	156,333	169,498
Total Net Position	$ 156,333	$ 169,498
Total Liabilities and Net Position (Note 18)	$ 1,140,627	$ 995,583

The accompanying notes are an integral part of these statements.

FEDERAL TRADE COMMISSION
STATEMENT OF NET COST
FOR THE YEARS ENDED SEPTEMBER 30, 2016 AND 2015

(Dollars in Thousands)

	2016	2015
Costs by Strategic Goal:		
Strategic Goal 1: Protect Consumers:		
Gross costs (Note 11)	$ 184,670	$ 183,468
Less: earned revenue (Note 11)	(13,867)	(13,458)
Net cost	170,803	170,010
Strategic Goal 2: Maintain Competition:		
Gross costs (Note 11)	143,924	132,312
Less: earned revenue (Note 11)	(114,673)	(115,814)
Net cost	29,251	16,498
Net Cost of Operations	$ 200,054	$ 186,508

The accompanying notes are an integral part of these statements.

FEDERAL TRADE COMMISSION
STATEMENT OF CHANGES IN NET POSITION
FOR THE YEARS ENDED SEPTEMBER 30, 2016 AND 2015

(Dollars in Thousands)

	2016	2015
Cumulative Results of Operations:		
Beginning balance	$ 169,498	$ 168,132
Budgetary Financing Sources:		
Appropriations used	179,804	179,675
Other Financing Sources (Non-Exchange):		
Imputed financing	7,085	8,199
Total financing sources	186,889	187,874
Net cost of operations	(200,054)	(186,508)
Net change	(13,165)	1,366
Cumulative Results of Operations	$ 156,333	$ 169,498
Unexpended Appropriations:		
Beginning balance	$ -	$ -
Budgetary Financing Sources:		
Appropriations received	179,804	179,675
Appropriations used	(179,804)	(179,675)
Total budgetary financing sources	-	-
Total Unexpended Appropriations	-	-
Net Position (Note 1(p))	$ 156,333	$ 169,498

The accompanying notes are an integral part of these statements.

FEDERAL TRADE COMMISSION
STATEMENT OF BUDGETARY RESOURCES
FOR THE YEARS ENDED SEPTEMBER 30, 2016 AND 2015
(Dollars in Thousands)

	2016	2015
Budgetary Resources:		
Unobligated balance, brought forward, October 1	$ 22,118	$ 27,447
Recoveries of unpaid prior year obligations	20,317	6,963
Other changes in unobligated balance	28	4
Unobligated balance from prior year budget authority, net	42,463	34,414
Appropriations	179,804	179,675
Spending authority from offsetting collections	131,425	113,323
Total Budgetary Resources	$ 353,692	$ 327,412
Status of Budgetary Resources:		
New obligations and upward adjustments (total) (Note 12)	$ 327,742	$ 305,294
Unobligated balance, end of year:		
Apportioned, unexpired accounts	10,346	11,747
Unapportioned, unexpired accounts	15,604	10,371
Unexpired unobligated balance, end of year	25,950	22,118
Unobligated balance, end of year (total)	25,950	22,118
Total Status of Budgetary Resources	$ 353,692	$ 327,412
Change in Obligated Balance:		
Unpaid Obligations:		
Unpaid obligations, brought forward, October 1	$ 91,647	$ 96,624
New obligations and upward adjustments (Note 12)	327,742	305,294
Outlays, gross	(315,721)	(303,308)
Recoveries of prior year unpaid obligations	(20,317)	(6,963)
Unpaid obligations, end of year	83,351	91,647
Uncollected Payments:		
Uncollected payments from Federal sources, brought forward, October 1	(577)	(745)
Change in uncollected payments from Federal sources, brought forward , October 1	(938)	168
Uncollected payments from Federal sources, end of year	(1,515)	(577)
Memorandum (non-add) Entries:		
Obligated balance, start of year	91,070	95,877
Obligated balance, end of year	81,836	91,070
Budget Authority and Outlays, Net:		
Budget authority, gross	$ 311,229	$ 292,998
Actual offsetting collections	(130,515)	(129,173)
Change in uncollected customer payments from Federal sources	(938)	168
Recoveries of prior year paid obligations	28	4
Budget authority, net	$ 179,804	$ 163,997
Outlays, gross	$ 315,721	$ 303,308
Actual offsetting collections	(130,515)	(129,173)
Outlays, net	185,206	174,135
Distributed offsetting receipts	(6,825)	(21,331)
Agency outlays, net	$ 178,381	$ 152,804

The accompanying notes are an integral part of these statements.

FEDERAL TRADE COMMISSION
STATEMENT OF CUSTODIAL ACTIVITY
FOR THE YEARS ENDED SEPTEMBER 30, 2016 AND 2015

(Dollars in Thousands)

	Protect Consumers	Maintain Competition	2016	2015
Revenue Activity (Note 15):				
Sources of collections:				
Premerger filing fees (net of refunds)	$ -	$ 114,173	$ 114,173	$ 115,678
Civil penalties and fines	6,291	-	6,291	5,411
Consumer redress	6,680	-	6,680	21,081
Other miscellaneous receipts	145	-	145	250
Total cash collections	13,116	114,173	127,289	142,420
Accrual adjustments	(554)	-	(554)	(1,328)
Total Custodial Revenue	$ 12,562	$ 114,173	$ 126,735	$ 141,092
Disposition of Collections (Note 15):				
Transferred to others:				
Treasury general fund	$ 13,116	$ -	$ 13,116	$ 26,742
Department of Justice	-	114,093	114,093	115,678
Amounts yet to be transferred	(554)	80	(474)	(1,328)
Total Disposition of Collections	$ 12,562	$ 114,173	$ 126,735	$ 141,092
Net Custodial Activity	$ -	$ -	$ -	$ -

The accompanying notes are an integral part of these statements.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1—SIGNIFICANT ACCOUNTING POLICIES

(a) Reporting Entity

The Federal Trade Commission (FTC) is an independent agency of the U.S. Government, established by the Federal Trade Commission Act of 1914. The FTC enforces a variety of Federal antitrust and consumer protection laws. Its mission is working to protect consumers by preventing anticompetitive, deceptive, and unfair business practices, enhancing informed consumer choice and public understanding of the competitive process, and accomplishing this without unduly burdening legitimate business activity. The FTC is headed by five Commissioners, nominated by the President and confirmed by the Senate, each serving a seven-year term. The President chooses one Commissioner to act as Chair.

The FTC carries out its mission of protecting consumers and maintaining competition through three bureaus: The Bureau of Consumer Protection (BCP), the Bureau of Competition (BC), and the Bureau of Economics (BE), which supports both BCP and BC. Additionally, various offices within the FTC provide critical mission support to the bureaus. The FTC's staff is located in Washington, D.C. and seven other geographic areas.

The financial statements and notes include the financial activity recorded in all of the funds under the FTC's control. As further described in Note 1(b), Fund Accounting Structure, the FTC maintains these funds including appropriations received for salaries and necessary expenses, as well as non-entity funds that are primarily collections derived from court ordered judgments and settlements held for subsequent distribution to approved claimants.

(b) Fund Accounting Structure

The FTC, like other Federal agencies, uses Treasury Account Symbols (TAS) to record and track financial activity. These TAS are described as:

General Fund

Salaries and Expenses (TAS 29X0100): Each year, this account receives budget authority from an appropriation and offsetting collections, up to a limit set by Congress, to fund the necessary expenses of the agency. Offsetting collections include fees collected for premerger notification filings under the Hart-Scott-Rodino (HSR) Antitrust Improvement Act of 1976, and collections for the National Do Not Call Registry, which operates under Section 5 of the FTC Act. Collections in excess of Congressional limits are unavailable by law and included in the FTC's unavailable – temporary reduction balance. (See Note 3, Fund Balance with Treasury)

Deposit Fund

Consumer Redress Escrow (TAS 29X6013): This account consists of amounts collected under the consumer redress program and held temporarily by the FTC until money is distributed to consumers or harmed entities (or to a third party agent that distributes money to consumers on the FTC's behalf), or transferred to the general fund of the Treasury. These funds, which are considered non-entity funds, do not affect the FTC's Net Position and are not reported on the Statement of Changes in Net Position. (See Note 3, Fund Balance with Treasury and Note 16, Consumer Redress Activities)

Clearing/Suspense Fund

Budget Clearing and Suspense (TAS 29F3875): Fees collected for premerger notification filings under the HSR Act are deposited, initially, into the Budget Clearing and Suspense account, then distributed equally to the FTC (as an offsetting collection in the general fund) and the Department of Justice (DOJ). (See Note 1(q), Revenues and Other Financing Sources)

Receipt Accounts

Fines, Penalties, and Forfeitures, Customs, Commerce, and Antitrust Laws (TAS 29 1040): Collections of civil penalties imposed in court actions for violations of antitrust acts and FTC orders are deposited into this account. Penalties imposed, but not yet collected, are accrued as accounts receivable and recorded in this account. The cash balance in the fund at the end of the fiscal year is transferred to the general fund of the Treasury.

General Fund Proprietary Receipts (TAS 29 3220): Miscellaneous receipts that by law are not available for the FTC's use, and collections in connection with the consumer redress program for which redress to consumers is not practicable, are held in this account until the end of the fiscal year when they are transferred to the general fund of the Treasury.

(c) Basis of Presentation and Accounting

The accompanying financial statements present the financial position, net cost of operations, changes in net position, budgetary resources, and custodial activities of the FTC, and have been prepared from the accounting records of the FTC. These financial statements may differ from other financial reports submitted pursuant to the Office of Management and Budget (OMB) directives for the purpose of monitoring and controlling the use of the FTC's budgetary resources.

The FTC's financial statements are prepared in conformity with generally accepted accounting principles (GAAP) for Federal entities and with OMB Circular A-136, Financial Reporting Requirements (as revised October 2016). Accordingly, revenues are recognized when earned and expenses are recognized when incurred, without regard to the receipt or payment of cash. These principles differ from budgetary reporting principles. The differences relate primarily to the capitalization and depreciation of property and equipment, as well as the recognition of other long-term assets and liabilities.

As described in Note 1(b), Fund Accounting Structure, the FTC maintains a single fund to account for salaries and all necessary expenses. Further, there are limited intra-entity transactions with any other fund (e.g., deposit fund) that would require eliminating entries to present consolidated statements. Accordingly, the statements are not labeled consolidated nor is the Statement of Budgetary Resources (SBR) presented as combined.

Assets, liabilities, revenues and costs are classified in these financial statements according to the type of entity associated with the transactions. Balances classified as intragovernmental arise from transactions with other Federal entities. Balances not classified as intragovernmental arise from transactions with individuals or organizations outside of the Federal Government (i.e., with the Public).

The FTC presents net cost of operations by its two major strategic goals: Protect Consumers and Maintain Competition. These goals are described in the agency's strategic and performance plan and align with the agency's major programs.

(d) Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. For example, estimates are used in computing accounts payable for vendor service contracts, the allowance for uncollectible accounts, and the allocation of costs to strategic goals in the Statement of Net Cost. Actual results could differ from the estimated amounts.

(e) Budget Authority

The Congress passes appropriations annually that provide the FTC with authority to obligate funds for necessary expenses to carry out mandated program activities. These funds are available until expended, subject to the OMB apportionment and to Congressional provisions on the expenditure of funds (see FTC's FY 2017 Congressional Budget Justification, page 7, "Appropriations Language Provisions"). In addition, the FTC places internal restrictions on fund expenditures to ensure the efficient and proper use of all funds. The FTC's budget authority is derived from a direct appropriation and offsetting collections. The FTC accounts for budget authority in its general fund (29X0100), as reflected in the Statement of Budgetary Resources.

(f) Entity and Non-Entity Assets

The FTC accounts for and reports on both entity and non-entity assets in the financial statements. Assets that the agency is authorized to use in its operations are entity assets. Assets that the agency holds on behalf of another Federal agency or a third party and are not available for the agency's use are non-entity assets. Non-entity assets include collections and accounts receivable that arise from court-order judgments for monetary relief, civil monetary penalties, and the portion of fees collected for premerger notification filings that are distributed to the DOJ in a subsequent period. These non-entity assets are included in the financial statements along with an offsetting non-entity liability of equal amount. (See Note 2, Entity and Non-Entity

Assets)

(g) Fund Balance with Treasury

The fund balance with Treasury (FBwT) is the aggregate amount of undisbursed funds in the FTC's general fund, deposit fund, and clearing/suspense fund. General funds include a portion that is available to the FTC to make expenditures and pay liabilities, and a portion that is unavailable. Deposit fund and clearing/suspense fund balances are non-entity funds that are temporarily held by the FTC until transferred to another Federal agency (Treasury or DOJ), or distributed to a third party. Fund balances are carried forward into subsequent fiscal years until disbursements are made. (See Note 3, Fund Balance with Treasury)

(h) Cash and Other Monetary Assets

In connection with the consumer redress program (and described in Note 16, Consumer Redress Activities), amounts necessary to cover current disbursement schedules are transferred from the FTC's deposit fund to third party redress administrators to be held as cash in accounts at financial institutions. Upon approval by the FTC's Redress Administration Office, the redress administrators process claims and disburse redress proceeds to affected consumers and approved claimants. The cash held in these financial institutions is included in the FTC's financial statements as a non-entity asset. (See Note 4, Cash and Other Monetary Assets)

(i) Accounts Receivable, Net

Accounts receivable, net of allowances, reflect the Federal Accounting Standards Advisory Board (FASAB) standard for the recognition of losses using the collection criterion of "more likely than not." This criterion results in receivable balances that are more conservatively stated than those valued by the private sector under GAAP. FASAB states that it is appropriate to recognize the nature of Federal receivables, which, unlike trade accounts of private firms or loans made by banks, are not created through credit screening procedures. Rather, these receivables arise because of the assessment of fines from regulatory violations. In these circumstances, historical experience and economic realities indicate that these types of claims are frequently not fully collectible. Accounts receivable includes estimates of the net cash value from court appointed receivers for which the FTC anticipates the proceeds will be deposited in the Consumer Redress Escrow account.

The method used to estimate the allowance for uncollectible accounts consists of individual case analysis by a case manager who assesses the debtor's ability and willingness to pay, the defendant's payment record, and the probable recovery amount including the value of assets. Based on the litigation and collection status, cases are referred to the Treasury for collection action.

(j) Property, Plant, and Equipment

The FTC's property, plant, and equipment (PP&E) consists of general purpose equipment used by the agency and capital improvements made to buildings leased from the General Services Administration (GSA) by the FTC for office space, as well as software leased and purchased from vendors. The FTC's capitalization policy, *Accounting for Property, Plant, and Equipment*, was updated with an effective date on or after October 1, 2014. PP&E placed in service prior to October 1, 2014, will continue to be accounted for based on the capitalization policy in effect at the time acquired, until fully depreciated or removed from service.

Effective October 1, 2014, capitalization thresholds are as follows:

Asset Type	Capitalization Threshold
Furniture	$ 50,000
General Equipment	$ 50,000
IT Equipment	$ 150,000
Leasehold Improvements	$ 150,000
Internal Use Software	$ 200,000

The FTC reports property and equipment at historical cost and capitalizes items based on the above thresholds and a useful life of two or more years. Property and equipment that meet these criteria are depreciated or amortized using the straight-line method over the estimated useful life of the asset. Additionally, assets under development, such as internal use software and leasehold improvements, with an estimated aggregate cost meeting the threshold criteria are capitalized and then amortized once completed and placed into service. Normal repairs and maintenance, and PP&E that do not meet the capitalization criteria, are recognized as an expense in the current period. (See Note

6, Property, Plant, and Equipment)

(k) Accrued Liabilities and Accounts Payable

Accrued liabilities and accounts payable represent a probable future outflow or other sacrifice of resources from past transactions or events. Liabilities are recognized when they are incurred, regardless of whether they are covered by budgetary resources. The FTC has liabilities that are entity and non-entity. Entity liabilities cannot be liquidated without legislation that provides the resources to do so. In addition, the government, acting in its sovereign capacity, can abrogate the FTC's liabilities (other than contracts). (See Note 7, Liabilities Covered and Not Covered by Budgetary Resources)

(l) Employee Health Benefits and Life Insurance

FTC employees are eligible to participate in the contributory Federal Employees' Health Benefit Program (FEHBP) and the Federal Employees' Group Life Insurance Program (FEGLIP) administered by the Office of Personnel Management (OPM). The FTC contributes a percentage to each program to pay for current benefits.

(m) Employee Retirement Benefits

FTC employees participate in either the Civil Service Retirement System (CSRS) or the Federal Employees' Retirement System (FERS) administered by the OPM. Employees hired after December 31, 1983 are covered by FERS and Social Security, while employees hired prior to January 1, 1984 were allowed to elect joining FERS or remaining in CSRS. For employees participating in CSRS, the FTC contributes 7 percent of the employee's basic pay to the Civil Service Retirement and Disability Fund. For employees participating in FERS, the FTC contributes 13.2 percent to the Federal Employees' Retirement Fund. New employees hired between January 1 and December 31, 2013 participate in FERS-RAE (Revised Annuity Employees). New employees hired on or after January 1, 2014 are covered by FERS-FRAE (Further Revised Annuity Employees). The FTC contribution is 11.1 percent for both FERS-RAE and FERS-FRAE. In addition, the FTC contributes the employer's matching share to the Social Security Administration under the Federal Insurance Contributions Act, which fully covers FERS participating employees. FTC contributions are recognized as current operating expenses.

The Thrift Savings Plan (TSP) is a defined contribution retirement savings and investment plan for employees covered by either CSRS or FERS. Participating employees may contribute any dollar amount or percentage of basic salary to the TSP, not to exceed an annual dollar limit set by law. For those employees participating in FERS, the FTC makes a mandatory 1 percent contribution to this plan and, in addition, matches 100 percent of the first 3 percent contributed and 50 percent of the next 2 percent. CSRS participating employees do not receive a matching contribution from the FTC. The FTC contributions to the TSP are recognized as current operating expenses.

The FTC does not report CSRS and FERS assets, accumulated plan benefits, or unfunded liabilities, if any, applicable to its employees. The OPM reports this information. However, the FTC recognizes the full cost of providing future pension benefits to covered employees at the time the employees' services are rendered using cost factors provided by the OPM that estimate the true service cost of providing the pension benefits. The FTC recognizes the excess of the true service cost over amounts contributed as an imputed cost. This additional cost is financed by the OPM, and recognized as an imputed financing source by the FTC. (See Note 17, Reconciliation of Net Cost of Operations to Budget)

(n) FECA and Other Post-Employment Benefits

The Federal Employees' Compensation Act (FECA) administered by the U.S. Department of Labor (DOL) provides income and medical cost protection to covered Federal civilian employees injured on the job, and employees who have incurred a work-related injury or occupational disease. The DOL bills the FTC annually for the claims paid and the FTC recognizes the FECA liability for future payment. Payment is deferred for two years to allow for funding through the budget. The FTC also recognizes a FECA actuarial liability, which is an estimate for the future workers compensation as a result of past events using procedures developed by the DOL to estimate the liability. FECA liabilities are reported as not covered by budgetary resources. (See Note 7, Liabilities Covered and Not Covered by Budgetary Resources)

FTC employees eligible to participate in the FEHBP and the FEGLIP may continue to participate in these programs after their retirement. The FTC recognizes a current cost of providing post-retirement benefits using cost factors provided by the OPM that estimate the true cost of providing these benefits to current employees. The cost of providing post-retirement benefits for the FEHBP and FEGLIP is financed by the OPM, and recognized as an imputed financing source by the FTC.

(o) Annual and Sick Leave

The FTC accrues an annual leave liability when employees earn leave and reduces the liability when employees take leave. The balance in this account reflects the current leave balances and pay rates of the FTC employees. Budget execution rules do not allow this liability to be funded as earned. It is funded when leave is taken or when paid out as a lump sum at the end of employment. As a result, accrued annual leave is reported as not covered by budgetary resources. Sick leave is non-vested and expensed as used. (See Note 7, Liabilities Covered and Not Covered by Budgetary Resources)

(p) Net Position

Cumulative results of operations represent the net results of operations since inception, the cumulative amount of prior period adjustments, the remaining book value of capitalized assets, and future funding requirements.

The portion of the FTC's budget authority funded by a direct appropriation is fully expended during the year. Therefore, there is no unexpended appropriation balance in net position at the end of the year. (See Statement of Changes in Net Position)

(q) Revenues and Other Financing Sources

The FTC's activities are financed through exchange revenue it receives from others and through an appropriation provided by the Congress. Exchange revenues consist of fees collected for premerger notification filings under the HSR Act and collections for the National Do Not Call Registry. Additionally, exchange revenues include a small amount of reimbursements for services performed under inter-agency agreements.

(r) Methodology for Assigning Costs and Exchange Revenues

The FTC allocates costs and exchange revenues on the Statement of Net Cost to its two major strategic goals: Protect Consumers and Maintain Competition. Costs and exchange revenues that are identified specifically with each of these two strategic goals are charged or credited directly. Costs not directly attributable to these two goals, including costs related to the FTC's third goal, Advance Performance, are allocated based on the percentage of direct full-time equivalents used by each of these two goals.

NOTE 2—ENTITY AND NON-ENTITY ASSETS

The FTC's entity assets are comprised of undisbursed general funds, accounts receivable, and property, plant and equipment. Accounts receivable, net, represents amounts due from other Federal agencies, current and former employees, and vendors.

The FTC's non-entity assets are comprised of fund balances with Treasury, accounts receivable, and cash and other monetary assets. The fund balances with Treasury consist of amounts held temporarily in deposit funds for the consumer redress program and collections of premerger filing fees held in clearing/suspense funds that will be transferred to the DOJ in a subsequent period. Cash and other monetary assets is cash held in financial institutions to meet current disbursement schedules for the consumer redress program. Accounts receivable, net, is the estimated amount collectible on consumer redress judgments and civil penalties.

Entity and non-entity assets consisted of the following as of September 30, 2016:

(Dollars in thousands)	2016 Entity	2016 Non-Entity	2016 Total
Intragovernmental:			
Fund balance with Treasury:			
General funds	$ 132,875	$ -	$ 132,875
Deposit funds - consumer redress	-	796,395	796,395
Clearing/Suspense funds - premerger filing fees	-	423	423
Accounts receivable, net	75	-	75
Subtotal intragovernmental assets	$ 132,950	$ 796,818	$ 929,768
Cash and other monetary assets	-	54,495	54,495
Accounts receivable, net	79	98,917	98,996
Property, plant, and equipment, net	57,368	-	57,368
Total Assets	$ 190,397	$ 950,230	$ 1,140,627

Entity and non-entity assets consisted of the following as of September 30, 2015 (Restated):

(Dollars in thousands)	2015 Entity	Restated 2015 Non-Entity	Restated 2015 Total
Intragovernmental:			
Fund balance with Treasury:			
General funds	$ 138,276	$ -	$ 138,276
Deposit funds - consumer redress	-	729,804	729,804
Clearing/Suspense funds - premerger filing fees	-	650	650
Accounts receivable, net	65	-	65
Subtotal intragovernmental assets	$ 138,341	$ 730,454	$ 868,795
Cash and other monetary assets	-	20,373	20,373
Accounts receivable, net	74	43,031	43,105
Property, plant, and equipment, net	63,310	-	63,310
Total Assets	$ 201,725	$ 793,858	$ 995,583

NOTE 3—FUND BALANCE WITH TREASURY

The FTC's fund balance with Treasury consists of undisbursed appropriated funds, which are either unobligated or obligated, as well as deposit funds arising from amounts collected for consumer redress and not yet disbursed to claimants. The fund balance also includes clearing/suspense funds for collections of premerger filing fees that will be distributed to the DOJ in a subsequent period. The unobligated balance includes available and unavailable balances. The unavailable balance is the result of recoveries that exceeded anticipated and apportioned amounts, the collection of fees above the authorized amount to spend in the current year and prior year, and $6,450 thousand of sequestered funds from FY 2013.

Fund balance with Treasury consisted of the following as of September 30, 2016 and 2015:

(Dollars in thousands)	2016	2015
Fund Balance with Treasury:		
General funds	$ 132,875	$ 138,276
Deposit funds - consumer redress	796,395	729,804
Clearing/Suspense funds - premerger filing fees	423	650
Total Fund Balance with Treasury	$ 929,693	$ 868,730
Status of Fund Balance with Treasury:		
Unobligated balance:		
Available - apportioned	$ 10,346	$ 11,747
Unavailable - unapportioned	15,604	10,371
Unavailable - temporary reduction	25,089	25,088
Obligated balance not yet disbursed	81,836	91,070
Non-budgetary fund balance with Treasury		
Deposit funds - consumer redress	796,395	729,804
Clearing/Suspense funds - premerger filing fees	423	650
Total Status of Fund Balance with Treasury	$ 929,693	$ 868,730

The FTC's fund balance with Treasury, as reflected in the entity's general ledger and the Treasury account balances, has no material discrepancy.

NOTE 4—CASH AND OTHER MONETARY ASSETS

Cash and other monetary assets consists of cash held in financial institutions necessary to cover current disbursement schedules in connection with the consumer redress program. (See Note 1(h), Cash and Other Monetary Assets and Note 16, Consumer Redress Activities)

Cash and other monetary assets consisted of the following as of September 30, 2016 and 2015:

(Dollars in thousands)	2016	2015
Cash and Other Monetary Assets:		
Consumer redress funds held in financial institutions	$ 54,495	$ 20,373
Total Cash and Other Monetary Assets	$ 54,495	$ 20,373

NOTE 5—ACCOUNTS RECEIVABLE, NET

The bulk of the FTC's accounts receivable are non-entity accounts receivable arising from the settlement or litigation of administrative and Federal court cases in connection with the consumer redress program, and from civil monetary penalties imposed for violation of an FTC order and antitrust acts. Because of the nature of these receivables, they are frequently not fully collectible and are offset with a significant allowance. The allowance for uncollectible accounts is based on an analysis by a case manager who assesses the debtor's ability and willingness to pay, the defendant's payment record, and the probable recovery amount including the value of assets. These non-entity accounts receivable are included in the financial statements along with an offsetting non-entity liability.

Non-entity redress gross accounts receivable is the court ordered judgment amount, usually a calculated amount of ill-gotten gains. The related allowance for uncollectible accounts is the estimate the FTC will not collect from the defendant(s), which many times is a large percentage of the judgment.

The major increase in redress gross receivables and allowance for uncollectible accounts results from one judgment of $1.3 billion with less than 2 percent estimated to be collectible.

Currently, the FTC does not record interest as determined by 28 U.S.C. 1961 for court judgments. While significant progress toward calculating the accrued interest has been made, the finalized implementation process and procedure is not yet complete. Based upon open court judgment accounts receivable balances and their respective allowance accounts, the estimated net interest affect to the Balance Sheet is $33 thousand ($1,134 thousand interest accounts receivable less $1,101 thousand allowance) for the end of FY 2016.

See Note 18, Restatement, regarding the effect on the redress accounts receivable for FY 2016 and the FY 2015 restatement.

Accounts receivable, net consisted of the following as of September 30, 2016:

(Dollars in thousands)	Gross Receivables	Allowance for Uncollectible Accounts	2016 Net
Entity Accounts Receivable:			
Intragovernmental	$ 75	$ -	$ 75
With the public	79	-	79
Total entity accounts receivable	$ 154	$ -	$ 154
Non-Entity Accounts Receivable:			
Consumer redress	$ 2,600,317	$ 2,502,135	$ 98,182
Civil penalties	35,075	34,340	735
Total non-entity accounts receivable	$ 2,635,392	$ 2,536,475	$ 98,917
Total Accounts Receivable	$ 2,635,546	$ 2,536,475	$ 99,071

Accounts receivable, net consisted of the following as of September 30, 2015 (Restated):

(Dollars in thousands)	Restated Gross Receivables	Allowance for Uncollectible Accounts	Restated 2015 Net
Entity Accounts Receivable:			
Intragovernmental	$ 65	$ -	$ 65
With the public	74	-	74
Total entity accounts receivable	$ 139	$ -	$ 139
Non-Entity Accounts Receivable:			
Consumer redress	$ 1,608,214	$ 1,566,473	$ 41,741
Civil penalties	35,453	34,163	1,290
Total non-entity accounts receivable	$ 1,643,667	$ 1,600,636	$ 43,031
Total Accounts Receivable	$ 1,643,806	$ 1,600,636	$ 43,170

NOTE 6—PROPERTY, PLANT, AND EQUIPMENT, NET

The following represents the FTC's capital assets and accumulated depreciation as of September 30, 2016 and 2015. No impairment was recognized in either year.

Property, plant, and equipment, net consisted of the following as of September 30, 2016:

Asset Class (Dollars in thousands)	Service Life	Acquisition Value	Accumulated Depreciation / Amortization	Net Book Value
Equipment	5-20 years	$ 24,425	$ 10,586	$ 13,839
Leasehold improvements	15 years	45,894	11,697	34,197
Software	5 years	27,359	18,027	9,332
Total Property, Plant, and Equipment		$ 97,678	$ 40,310	$ 57,368

Property, plant, and equipment, net consisted of the following as of September 30, 2015:

Asset Class (Dollars in thousands)	Service Life	Acquisition Value	Accumulated Depreciation / Amortization	Net Book Value
Equipment	5-20 years	$ 22,228	$ 6,318	$ 15,910
Leasehold improvements	15 years	45,895	8,663	37,232
Software	5 years	25,634	15,466	10,168
Total Property, Plant, and Equipment		$ 93,757	$ 30,447	$ 63,310

NOTE 7—LIABILITIES COVERED AND NOT COVERED BY BUDGETARY RESOURCES

The FTC recognizes three categories of liabilities described below:

Liabilities Covered by Budgetary Resources

Liabilities incurred that will be covered by available budgetary resources as of the Balance Sheet date. These include accounts payable for goods and services received, and accrued employee payroll and benefits payable.

Liabilities not Covered by Budgetary Resources

Liabilities incurred for which revenues or other sources of funds necessary to pay the liabilities have not been made available through Congressional appropriations or current earnings. These include unfunded FECA liabilities and accrued annual leave.

Liabilities Not Requiring Budgetary Resources

Non-entity liabilities that are covered by non-entity assets. These include:

Undisbursed Premerger Filing Fees - the offsetting liability to the non-entity clearing/suspense fund balance for premerger fees that are payable to the DOJ in a subsequent period.

Accrued Civil Penalties due to Treasury - the offsetting liability to non-entity accounts receivable for civil penalties, net, that upon collection will be payable to the general fund of the Treasury.

Undisbursed Redress Collections - the offsetting liability to the non-entity deposit fund balance for consumer redress that is payable to approved claimants.

Accrued Redress due to Claimants - the offsetting liability to the non-entity accounts receivable for consumer redress that upon collection will be payable to approved claimants.

Liabilities consisted of the following as of September 30, 2016 and 2015 (Restated):

(Dollars in thousands)	2016 Covered by Budgetary Resources	2016 Not Covered by Budgetary Resources	2016 Not Requiring Budgetary Resources	2016 Total Liabilities	2015 Covered by Budgetary Resources	2015 Not Covered by Budgetary Resources	Restated 2015 Not Requiring Budgetary Resources	Restated 2015 Total Liabilities
Intragovernmental:								
Accounts payable	$ 621	$ -	$ -	$ 621	$ 1,118	$ -	$ -	$ 1,118
Accrued employee benefits	1,413	-	-	1,413	1,098	-	-	1,098
Other employment related liability	-	13	-	13	-	3	-	3
FECA liability	-	354	-	354	-	359	-	359
Reimbursable advances	1,956	-	-	1,956	-	-	-	-
Undisbursed premerger filing fees	-	-	502	502	-	-	650	650
Accrued civil penalties due to Treasury	-	-	735	735	-	-	1,290	1,290
Subtotal intragovernmental liabilities	$ 3,990	$ 367	$ 1,237	$ 5,594	$ 2,216	$ 362	$ 1,940	$ 4,518
Accounts payable	10,353	-	-	10,353	11,508	-	-	11,508
Accrued payroll and benefits	5,784	-	-	5,784	4,898	-	-	4,898
Accrued leave	-	11,431	-	11,431	-	11,230	-	11,230
Actuarial FECA	-	2,060	-	2,060	-	2,013	-	2,013
Undisbursed redress collections	-	-	850,890	850,890	-	-	750,177	750,177
Accrued redress due to claimants	-	-	98,182	98,182	-	-	41,741	41,741
Total Liabilities	$ 20,127	$ 13,858	$ 950,309	$ 984,294	$ 18,622	$ 13,605	$ 793,858	$ 826,085

NOTE 8—OTHER LIABILITIES

Other liabilities consisted of the following as of September 30, 2016:

(Dollars in thousands)	2016 Non-Current	2016 Current	2016 Total
Other intragovernmental:			
Accrued employee benefits	$ -	$ 1,426	$ 1,426
FECA liability	354	-	354
Reimbursable advances	-	1,956	1,956
Undisbursed premerger filing fees	-	502	502
Accrued civil penalties due to Treasury	-	735	735
Subtotal other intragovernmental	$ 354	$ 4,619	$ 4,973
Accrued payroll and benefits		5,784	5,784
Accrued leave	11,431	-	11,431
Actuarial FECA	2,060	-	2,060
Subtotal other	$ 13,491	$ 5,784	$ 19,275
Total Other Liabilities	$ 13,845	$ 10,403	$ 24,248

Other liabilities consisted of the following as of September 30, 2015:

(Dollars in thousands)	2015 Non-Current	2015 Current	2015 Total
Other intragovernmental:			
Accrued employee benefits	$ -	$ 1,101	$ 1,101
FECA liability	359	-	359
Reimbursable advances	-	-	-
Undisbursed premerger filing fees	-	650	650
Accrued civil penalties due to Treasury	-	1,290	1,290
Subtotal other intragovernmental	$ 359	$ 3,041	$ 3,400
Accrued payroll and benefits	-	4,898	4,898
Accrued leave	11,230	-	11,230
Actuarial FECA	2,013	-	2,013
Subtotal other	$ 13,243	$ 4,898	$ 18,141
Total Other Liabilities	$ 13,602	$ 7,939	$ 21,541

NOTE 9—OPERATING LEASES

Leases of government and commercial property are made through and managed by the GSA. While the leases with the GSA are cancellable, the FTC's intention is to stay in the GSA leased space and disclose the amounts that will be paid in the future to the GSA under signed lease agreements. The FTC has leases on three government-owned properties and eight commercial properties totaling approximately 610 thousand square feet for use as offices, storage and parking. The FTC's government leases expire at various dates through 2019, while the commercial leases expire at various dates through 2024.

Future minimum lease payments due under leases of government-owned property for the fiscal year ended September 30, 2016:

Fiscal Year (Dollars in thousands)		
2017	$	6,760
2018		6,727
2019		6,349
2020		(-)
2021		(-)
Thereafter		(-)
Total Future Minimum Lease Payments	$	19,836

Future minimum lease payments due under leases of commercial-owned property for the fiscal year ended September 30, 2016:

Fiscal Year (Dollars in thousands)		
2017	$	14,442
2018		13,492
2019		13,996
2020		14,303
2021		14,294
Thereafter		33,576
Total Future Minimum Lease Payments	$	104,103

NOTE 10—COMMITMENTS AND CONTINGENCIES

As of September 30, 2016, the FTC has no pending single or aggregate administrative proceedings, legal actions, and claims brought by or against it, including pending litigation where adverse decisions are considered by management and legal counsel as "reasonably possible."

NOTE 11—INTRAGOVERNMENTAL COSTS AND EXCHANGE REVENUES

The Statement of Net Cost presents the FTC's costs and exchange revenues for its two major strategic goals. The costs and exchange revenues reported can be further classified as either "intragovernmental" or "public." Intragovernmental costs and exchange revenues arise from transactions with another Federal entity, whereas, public costs and exchange revenues arise from transactions with non-Federal entities.

A small portion of the FTC's overall exchange revenue is intragovernmental arising from services provided to other Federal agencies under interagency agreements. The FTC bills the buying agency to recover the full cost of services, primarily salaries, and recognizes the revenue at the time expenditures are incurred.

The bulk of the FTC's exchange revenue is "public" and derived from two primary sources:

Fees collected for premerger notification filings under the HSR Act - The HSR Act requires the filing of premerger notifications with the FTC and the Antitrust Division of the DOJ and establishes a waiting period before certain acquisitions may be consummated. The filing fees are determined by the value and size of the parties. By law, the FTC retains one-half of all premerger filing fees collected, and remits one-half to the DOJ's Antitrust Division.

Subscription fees collected for the National Do Not Call Registry - The Do Not Call (DNC) Registry Fee Extension Act of 2007, which amended the Do Not Call Implementation Act, established a permanent fee structure for the DNC registry and provided that fees be reviewed annually and adjusted for inflation, as appropriate. Telemarketers must pay an annual subscription fee and download a list of telephone numbers of consumers who do not wish to receive calls. Fees are based on the number of area codes downloaded. The FTC recognizes the revenue when collected and the telemarketer is given access to the requested data.

Costs and revenues categorized as intragovernmental and public consisted of the following for the fiscal years ended September 30, 2016 and 2015:

(Dollars in thousands)	2016	2015
Strategic Goal 1: Protect Consumers		
Intragovernmental gross costs	$ 45,417	$ 46,068
Public costs	139,253	137,400
Gross costs, Protect Consumers	184,670	183,468
Intragovernmental earned revenue - reimbursements	(945)	(133)
Public earned revenue - Do Not Call registry fees	(12,922)	(13,325)
Earned revenue, Protect Consumers	(13,867)	(13,458)
Net Cost, Protect Consumers	$ 170,803	$ 170,010
Strategic Goal 2: Maintain Competition		
Intragovernmental gross costs	$ 35,396	$ 33,223
Public costs	108,528	99,089
Gross costs, Maintain Competition	143,924	132,312
Intragovernmental earned revenue - reimbursements	(500)	(136)
Public earned revenue - premerger filing fees	(114,173)	(115,678)
Earned revenue, Maintain Competition	(114,673)	(115,814)
Net Cost, Maintain Competition	$ 29,251	$ 16,498
Net Cost of Operations	$ 200,054	$ 186,508

NOTE 12—APPORTIONMENT CATEGORIES OF OBLIGATIONS INCURRED: DIRECT VS. REIMBURSABLE OBLIGATIONS

Obligations incurred consisted of the following for the fiscal years ended September 30, 2016 and 2015:

(Dollars in thousands)	2016	2015
Obligations Incurred:		
Category A - direct obligations	$ 324,221	$ 302,093
Category B - direct obligations	-	2,917
Category B - reimbursable obligations	3,521	284
Total Obligations Incurred	$ 327,742	$ 305,294

Category A – direct obligations represent amounts obligated in carrying out the FTC's normal on-going operations. The source of funding for these obligations is an annual appropriation, offsetting collections, and unobligated funds brought forward from previous years. These funds are made available by the OMB through quarterly (Category A) apportionments.

Category B – direct obligations represented amounts obligated for space replacement and the relocation of the FTC staff. As this project has been completed, there are no new obligations in this category.

Category B – reimbursable obligations represent amounts obligated in fulfilling interagency agreements when the FTC is the provider of services. The source of funding for these obligations is reimbursements collected from other Federal agencies to cover the FTC's costs in fulfilling the agreement.

NOTE 13—EXPLANATION OF DIFFERENCES BETWEEN THE STATEMENT OF BUDGETARY RESOURCES AND THE BUDGET OF THE UNITED STATES GOVERNMENT

There are no material differences between amounts reported in the FY 2015 Statement of Budgetary Resources and the FY 2015 actual amounts as reported in the FY 2017 Budget of the United States Government. The FY 2018 Budget of the United States is not available to compare FY 2016 actual amounts to the FY 2016 Statement of Budgetary Resources.

NOTE 14—UNDELIVERED ORDERS AT THE END OF THE PERIOD

The amount of budgetary resources obligated for undelivered orders as of September 30, 2016 and 2015, is $65,100 thousand and $73,021 thousand, respectively.

NOTE 15—CUSTODIAL ACTIVITIES

The primary custodial activities of the FTC are:

Premerger Filing Fees

Fees collected for premerger notification filings under the HSR Act are divided evenly between the FTC and the DOJ. The portion of collections designated for the DOJ is reported as a custodial activity. As of September 30, 2016 and 2015, the FTC collected $228,346 thousand and $231,356 thousand respectively, in HSR premerger filing fees. One-half of the amounts collected in each year was distributed to the DOJ, as shown on the Statement of Custodial Activity.

Civil Penalties

Civil monetary penalties and antitrust violations collected in connection with the settlement or litigation of the FTC's administrative or Federal court cases are collected by either the FTC or the DOJ as provided by law. In those situations where the FTC collects the penalties, the funds are deposited in a receipt account with the Treasury. Civil penalties collected also include amounts collected for undecided civil penalty cases that are held until final disposition of the case. All civil penalties collected are transferred to the general fund of the Treasury at the end of the year.

Consumer Redress

Collections for consumer redress reported on the Statement of Custodial Activity are limited to those collections that have been disgorged to the Treasury. Net disgorgements to the Treasury were $267 thousand as of September 30, 2016 and $21,081 thousand as of September 30, 2015.

Other line items on the Statement of Custodial Activity include:

Accrual Adjustments

Accrual adjustments represent the change in accounts receivable, net of allowances for uncollectible accounts, for civil penalties assessed in court actions.

Amounts Yet to be Transferred

Amounts yet to be transferred represents the change in the offsetting liability for civil penalties due to Treasury that is established at the time an accounts receivable for civil penalties is recorded.

NOTE 16—CONSUMER REDRESS ACTIVITIES

The FTC obtains consumer redress in connection with the settlement or litigation of both administrative proceedings and Federal court cases. The FTC attempts to distribute funds to injured parties whenever possible. In those cases where consumer redress is not practicable, the funds are transferred (disgorged) to the Treasury, or on occasion, used for consumer education or another purpose as directed by the final order issued by the court. Major components of the redress program include eligibility determination, claimant notification, and administration of redress to claimants.

The FTC holds redress funds in a deposit fund at Treasury until a determination is made on the practicability of redress. If redress is determined to be practicable, funds are either directly disbursed by the FTC to claimants, or, funds needed to cover immediate disbursements to injured parties are transferred to accounts at financial institutions from which redress third party administrators process claims and disburse proceeds to claimants. In FY 2016, the FTC disbursed $120,000 thousand to claimants in accordance with a FY 2015 settlement resolving antitrust charges against Cephalon, Inc.

Redress fund activities consisted of the following for the fiscal years ended September 30, 2016 and 2015 (Restated):

(Dollars in thousands)	2016	Restated 2015
Consumer Redress:		
Fund Balance with Treasury		
Beginning balance	$ 729,804	$ 105,091
Collections	286,265	707,410
Disbursements to claimants, net	(120,007)	(0)
Disgorgements to Treasury, net	(267)	(21,081)
Transfers, expenses, refunds	(99,400)	(61,616)
Total Fund Balance with Treasury, Ending	$ 796,395	$ 729,804
Cash and Other Monetary Assets		
Beginning balance	$ 20,373	$ 28,797
Disbursements to claimants, net	(56,614)	(49,823)
Transfers and expenses	90,736	41,399
Total Cash and Other Monetary Assets, Ending	$ 54,495	$ 20,373
Accounts Receivable, Net		
Beginning balance	$ 41,741	$ 85,054
Net activity	56,441	(43,313)
Total Accounts Receivable, Ending	$ 98,182	$ 41,741

NOTE 17—RECONCILIATION OF NET COST OF OPERATIONS TO BUDGET

For the fiscal years ended September 30, 2016 and 2015:

(Dollars in thousands)	2016	2015
Resources Used to Finance Activities:		
Budgetary resources obligated:		
Obligations incurred	$ 327,742	$ 305,294
Less: spending authority from offsetting collections and recoveries	(151,770)	(135,968)
Total budgetary resources obligated	175,972	169,326
Other resources:		
Imputed financing from costs absorbed by others	7,085	8,199
Total other resources	7,085	8,199
Total Resources Used to Finance Activities	$ 183,057	$ 177,525
Resources Used to Finance Items not Part of the Net Cost of Operations:		
Change in budgetary resources obligated, but not yet provided	$ 10,806	$ 6,765
Resources that finance the acquisition of assets	(4,328)	(8,062)
Total resources used to finance items not part of the net cost of operations	6,478	(1,297)
Total Resources Used to Finance the Net Cost of Operations	$ 189,535	$ 176,228
Components of the Net Cost of Operations that will not Require or Generate Resources in the Current Period:		
Components requiring or generating resources in future periods:		
Increase in annual leave liability	$ 201	$ 1,493
Other	47	(213)
Total components requiring or generating resources in future period	248	1,280
Components not requiring or generating resources:		
Depreciation and amortization	10,271	9,000
Total components not requiring or generating resources	10,271	9,000
Total Components of the Net Cost of Operations that will not Require or Generate Resources in the Current Period:	$ 10,519	$ 10,280
Net Cost of Operations	$ 200,054	$ 186,508

NOTE 18—RESTATEMENT

In accordance with OMB Circular A-123, the FTC performed a review of its court ordered collection process. The review identified noncompliance with the Statement of Federal Financial Accounting Standard (SFFAS) 1, Accounting for Selected Assets and Liabilities. The SFFAS 1 defines the recognition of receivables as follows:

"A receivable should be recognized when a federal entity establishes a claim to cash or other assets against other entities, either based on legal provisions … or goods or services provided. If the exact amount is unknown, a reasonable estimate should be made."

To address this finding, the FTC updated the court order judgment policy at the end of FY 2016 to include non-entity accounts receivable held by a court appointed receiver. These are Federal court actions in a matter where a judgment has been entered requiring assets to be turned over to the FTC at the close of the receivership. The receivable is established for the net cash value (liquidation of assets being held by the receiver less estimated expenses) that the FTC expects to receive. Upon receipt, the FTC deposits the funds into a Treasury deposit fund (Consumer Redress Escrow (TAS 29X6013)), until proper disposition.

As a result of the corrections, the FTC restated the FY 2015 financial statements. The restatements are presented in the FY 2016 and FY 2015 comparative financial statements. The FTC redress program is non-entity in nature, and all assets are offset by an equal liability. There is no net effect to the restatement beyond the lines presented below on the Balance Sheet, and as reflected on the following notes: Note 2 Entity and Non-Entity Assets, Note 5 Accounts Receivable, Net, Note 7 Liabilities Covered and Not Covered by Budgetary Resources, and Note 16 Consumer Redress Activities.

CONDENSED BALANCE SHEET

Balanced as of September 30, 2015 (Restated):

(Dollars in thousands)	FY 2015 as Stated	Adjustment	FY 2015 Restated
Assets:			
Accounts Receivable, net	$ 14,148	$ 28,957	$ 43,105
Total Assets	$ 966,626	$ 28,957	$ 995,583
Liabilities:			
Accrued redress due to claimants	$ 12,784	$ 28,957	$ 41,741
Total Liabilities	$ 797,128	$ 28,957	$ 826,085
Net Position:	$ 169,498		$ 169,498
Total Liabilities and Net Position	$ 966,626	$ 28,957	$ 995,583

Other Information

INSPECTOR GENERAL-IDENTIFIED MANAGEMENT AND PERFORMANCE CHALLENGES

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

Office of Inspector General

October 17, 2016

MEMORANDUM

TO: Edith Ramirez
Chairwoman, Federal Trade Commission

FROM: Roslyn A. Mazer
Inspector General

SUBJECT: FY 2016 FTC Management Challenges

The *Reports Consolidation Act of 2000* requires that the Inspector General provide a summary of our perspective on the most serious management and performance challenges facing the agency and a brief assessment of the agency's progress in addressing those challenges. The management challenges in this document are based on work conducted by the Office of Inspector General (OIG) and discussions with senior leaders at the Federal Trade Commission (FTC).

We identify the following as the most significant management challenges facing the FTC:

1. Securing the Agency's Information Systems and Networks from Destruction, Data Loss, or Compromise
2. Accelerating Maturing the Agency's Information Technology Governance Process
3. Improving Acquisition Planning and Contract Management
4. Acquiring Employee Suitability Determinations

Some of these are enduring challenges requiring leadership's continued attention. Others are a priority at this time in the agency's development, but may become a less pressing priority in the future. The FTC has made progress in addressing each of these challenges in FY 2016.

The attached document provides the justification for our assessment. We provided a draft of our assessment to management, and its comments are incorporated into the section headings, "Agency Progress in Addressing the Challenge."

We appreciate leadership's ongoing support for the OIG's independent mission, and we will continue to work with you in addressing these and other challenges the FTC faces in achieving its vital mission. As the FTC continues to focus energy and resources on addressing these challenges, it will significantly enhance its performance and success.

Attachment 1

Office of Inspector General
Top Management Challenges at the Federal Trade Commission

October 17, 2016

1. Securing the Agency's Information Systems and Networks from Destruction, Data Loss, or Compromise

Protecting information assets is an ongoing and complex challenge for the FTC. Information the FTC routinely acquires and must protect is increasing in volume and scope, and threats are becoming more numerous and pervasive. The FTC cannot effectively accomplish its mission if industry and the public do not have confidence that the FTC can protect proprietary information, personally-identifiable information, and other sensitive non-public information entrusted to its care.

The FTC OIG assists by assessing FTC information control procedures, including its annual Federal Information Security Modernization Act of 2014 (FISMA) evaluation of FTC information security and privacy programs. These assessments provide management with an independent, high-level determination of the FTC's ability to protect its information assets; securely and cost-effectively acquire, implement, and manage modern technologies; and maintain a skilled workforce versed in technology and the need to protect information assets.

Over the past three years, OIG FISMA evaluations have reached the same conclusions: FTC security and privacy programs are sufficiently comprehensive to protect the confidentiality, integrity, and availability of FTC information assets; the FTC responds quickly to mitigate identified specific vulnerabilities and threats; and FTC staff recognize and value information security and privacy.

The OIG Fiscal Year (FY) 2015 FISMA evaluation used the new Department of Homeland Security (DHS) guidance that provided information security "maturity model" criteria developed by the Council of the Inspectors General on Integrity and Efficiency (CIGIE). The CIGIE model assesses agency establishment of security performance metrics and continuous monitoring of those metrics, i.e., an Information System Continuous Monitoring (ISCM) process. Continuous Monitoring Management is a critical FISMA metric because it has the broadest coverage scope and includes the foundation elements of effective information security and privacy control, assessed in three model domains (People, Processes, and Technology) at five maturity levels (1-Ad-hoc, 2-Defined, 3-Consistently Implemented, 4-Managed and Measurable, and 5-Optimized). In the FY 2015 FISMA assessment, the OIG determined that the FTC meets the criteria for Maturity Level 2-Defined. That means that the FTC has formalized its ISCM program through the development of comprehensive ISCM policies, procedures, and strategies, but the agency does not consistently apply those policies, procedures, and strategies.

The FTC is in the process of implementing controls that are assessed by the maturity model, such as increasing the level of staff training to improve the consistency and reporting of security and privacy activities, and ensuring controls are documented, measured, and repeatable. The components of the ISCM and the FY 2015 FISMA assessment underscore the need for the FTC to maintain information privacy and security programs that are continuously evolving and maturing to address changes in threats and mission objectives.

The FTC corrects security and privacy weaknesses as staff become aware of problems. This approach is characteristic of Level 2 maturity within the Information Technology (IT) Security Maturity Model, where weakness identification is more likely to result from staff observation than from automated analysis techniques. The FTC is taking action to improve its capabilities to monitor project status as part of its governance procedures. In its FY 2015 FISMA evaluation, the OIG recognized the improvements taking place but continued to advocate for control monitoring and management improvements that increase management's security and privacy oversight while reducing costs through an evolving Continuous Monitoring Management system.

Agency Progress in Addressing the Challenge

The agency's recently finalized IT Strategy and Transition Plan calls for extensive changes to the FTC's IT environment, such as improving IT security through effective and measurable cybersecurity practices. The plan further details the need for more security-driven performance metrics and increased continuous monitoring to align with the key principles of IT security as stated in NIST's Standards for Security Categorization of Federal Information and Information Systems: confidentiality, integrity, and availability. While the IT Strategy and Transition Plan lays out various future targets in IT security and privacy, the FTC's Office of the Chief Information Officer (OCIO) has continued to evolve in the areas of system and network security and availability throughout the past year.

A critical first step in enhancing both the security of FTC systems and the quality of the IT services provided was improving network performance through simplifying configurations to access the infrastructure. For a number of years, the FTC's IT infrastructure has struggled with network latency and inconsistent end-user experience, especially in the FTC's Regional Office locations. An assessment of the FTC's network revealed complex, redundant, and inefficient configurations, many of which caused latency and increased login and authentication times for end-users. A number of these configurations were undocumented and little justification or reasoning existed for the changes. Over the course of fiscal year 2016, OCIO has implemented numerous changes to the FTC network to improve performance, including decommissioning of unused or duplicative systems across the network, standardization of authentication protocols, reprioritization of network traffic, elimination of redundant data encryption, and configuration changes to the agency's network firewall.

As part of the network improvement project, the OCIO began a regular review of system configurations, performance, and event management data. In late 2015, the OCIO instituted weekly operational status meetings to review system performance and configuration data with discussion of deviations and anomalies in system performance and open security vulnerabilities. These discussions led to greater visibility across the OCIO into potential causes of network performance degradation and the need for automated alerts and improved system monitoring. The OCIO is continuously working to improve its capabilities in automated reporting of system and network performance, using tools such as Solarwinds.

To build on the progress made under the network improvement project, the OCIO is preparing a revamp of its IT Configuration Management program. The final product of this new configuration management program will be documented system baselines and a process for ensuring all changes in configurations are properly reviewed for potential security and performance risks, documenting the decision and the actions taken to implement the changes, and updating documentation to reflect the new system configurations. This change in process will allow the FTC to manage its system configurations more effectively, which in turn will further secure the network, increase efficiency of operations, improve user satisfaction, and provide increased documentation and governance over changes in critical IT systems.

In response to previous FISMA recommendations to improve documentation of security controls and assessments, FTC is streamlining its management of security documentation through the implementation of Department of Justice's Cyber Security Assessment and Management (CSAM) tool. The FTC's investment in CSAM provides a suite of integrated tools that enable effective FISMA compliance through on-demand access to security control and system documentation in a secured shared-service environment. Information System Security Officers (ISSOs) and system owners update their security documentation on a regular basis within the CSAM system, providing a central repository for critical security documentation, such as System Security Plans (SSPs) and Plans of Actions and Milestones (POAMs). The CSAM application was fully implemented in August of 2015. FTC continues to train staff and define FISMA systems and security controls.

In fiscal year 2016, the FTC continued to develop IT governance practices and procedures as it relates to information security and privacy, as recommended in the FY 2014 FISMA evaluation. During fiscal year 2016, the OCIO presented the agency's progress against Cross-Agency Priority (CAP) goals to the IT Business Council and IT Governance Board, providing an overview of the FTC's IT security posture. These materials offer the governance program members insight into the agency's strengths and weaknesses in IT security and furnish information needed to make informed decisions about investments and projects with security and privacy concerns. Additionally, the inclusion of privacy and security risk detail in the submission of IT business cases, beginning in 2015, further integrates security and privacy with the IT Governance Program.

Even though recent FISMA evaluations offer positive feedback on the FTC's ability to defend information and systems against potential threats and vulnerabilities, FTC continues to research and evaluate new ways to strengthen its cybersecurity posture and keep abreast of emerging threats and security challenges. During fiscal year 2016, FTC executed its first phishing simulation exercise, in which FTC employees received a system-generated email requesting personal information or asking users to click a suspicious link. These training exercises reinforce the principles of IT security and privacy that all FTC employees should follow to protect information and IT systems. FTC also continues to improve information security through the implementation of two-factor authentication using the PIV card. Toward the end of fiscal

year 2016, FTC implemented a limited release of PIV authentication to the FTC network, including the mandatory use of two-factor authentication for privileged users, such as system administrators. The FTC aims to expand the use of two-factor authentication to require mandatory PIV card login for all FTC users during fiscal year 2017.
In accordance with guidance from the Office of Management and Budget, key milestones to address this challenge will be published in the FTC's next Annual Performance Plan.

2. Accelerating Maturity of the Agency's Information Technology Governance Process

In executing its core missions to promote competition and protect consumers, the FTC generates, receives, and stores large volumes of information. For example, the agency obtains a large volume of proprietary information through its law enforcement investigations, and the agency hosts a national repository of consumer complaints. The FTC depends upon the availability, confidentiality, and integrity of its information systems to complete its missions, protect its information assets, and protect the privacy of individuals whose records are in FTC systems.

At the end of FY 2011, the FTC chartered an Information Technology (IT) Governance Program with three governance boards to improve the planning, monitoring, and risk mitigation associated with its information systems. The Governance Program provided a formalized structure for inclusion of FTC Bureaus in IT planning and investment analysis. Although the governance structure was an improvement, its focus was on management of the investment and not on management of risk associated with those investments.

The FTC has improved its IT governance procedures to address increasing threats, changes in government-wide policy and guidelines, and constrained budgets. As reported in the OIG independent FISMA evaluations for FYs 2012, 2014, and FY 2015, the FTC improved its governance policies, procedures, and technical guidance and expanded its use of Capital Planning and Investment Control (CPIC) and investment analysis techniques to provide consistent planning, oversight, and risk-based decision-making of its IT investments. Further, IT Governance Board members are more proactive, raising security and system performance concerns in materials submitted for review and requiring assessments of risk and alternate solutions to technology advances and challenges. For example, in recognition of the enterprise-level impact of even minor FTC IT projects, the Governance Board now identifies reputational risk as a critical potential impact from a system compromise or failure, and investment risk is now a criterion for determining whether an investment or project is subject to Governance Board review and oversight. Moreover, under current FTC governance procedures, an investment or project with a high risk of an adverse impact from a security breach is subject to Governance Board oversight, regardless of cost.

a. Integrating Acquisition Planning and Project Execution in Accordance with the Federal Acquisition Regulation and FTC Policy Requirements

The OIG FY 2015 FISMA review identified opportunities for further maturing IT governance practices:

- The Governance Boards are, as part of their authorized responsibilities, making decisions that affect the planning and execution of proposed and ongoing investments/projects. The FTC should improve documentation for these decisions so that they clearly communicate (to an individual who was not a participant in Governance Board discussions) the elements of the decision, including its scope, rationale, and associated risk.

- Approved projects/investments may encounter problems during execution that result in unanticipated delays, cost overruns, or performance issues (e.g., the electronic Discovery Support System (eDSS) for litigation support). The FTC Governance Process does not yet have a process for identifying projects that experience difficulties in performance and escalating those problems for higher level management review and resolution. The FTC should establish escalation processes that automatically identify projects that are outside established performance criteria for higher-level management review, such as a TechStat or other less formal problem status assessment.

- FTC IT operations must adhere to a variety of government-wide law, policy, standards, guidelines, and best practices. Direction regarding these various documents may originate from one or multiple entities. For example, FISMA compliance must take into account the FISMA statutory guidance as well as policy and other guidance originating from the OMB, National Institute of Standards and Technology (NIST), DHS, National Archives and Records Administration (NARA), and General Services Administration.
  A recent example of multiple sources of guidance is the Controlled Unclassified Information (CUI) program, which started eight years ago as an approach to facilitate secure sharing of unclassified terrorist information. However, with the promulgation of a Final Rule in September 2016, the program has evolved into a government-wide effort that will require a substantial resource commitment for FTC compliance, especially in the areas of labeling and marking current and legacy information. The FTC's monitoring of potential CUI requirements was principally focused on the legal aspects of the program originating through NARA and not on the operational impacts identified in NIST guidance, which originated in a dual track that included both NARA and NIST. Thus, the FTC is only now analyzing the operational impact of this new program. To avoid future instances where FTC must make substantive operational changes, the Governance Program should include procedures where pending government-wide changes are provided to the Governance Boards so that the potential operational impact of the change may be identified, discussed, and if necessary, action taken, particularly in the context of major planned acquisitions likely to be affected by new requirements.

Other OIG evaluations demonstrate that the FTC must integrate both the acquisition planning and information technology elements of the Federal Acquisition Regulation (FAR). FAR Part 7 includes a description of the acquisition planning to be used in supporting the acquisition of goods and services. FAR Part 7 also includes references to FAR Part 39, which specifies requirements for acquisition of information and information technology under guidance and authority of the Chief Information Officer.

In several reviews over the past five years, including the annual FISMA evaluations, the OIG identified the failure to follow FAR and OCIO acquisition policy in the course of acquisition planning as a root cause of cost increases and delivery of products and services that failed to meet FTC business and operational needs. Had the FTC adhered to the FAR and OCIO Acquisition Strategy requirements for an Acquisition Plan, the risk of accepting poor performing products would have been reduced. For example, in its recent evaluation, *Opportunities Exist to Accelerate Maturation of FTC Information Technology Governance Practices*, the OIG provided close analysis of two projects, each with a high impact on the FTC mission and the day-to-day activities of its work force and contractors: its e-Discovery Support System (eDSS), which provides tools and techniques for review of significant amounts of electronic data in support of litigation activities; and its Messaging Infrastructure Project, which was to replace and upgrade the FTC's Blackberry devices with mobile "smart phones."

Our assessment showed that in approving the eDSS project, the FTC elected to eliminate a Return on Investment (ROI) analysis, a discussion of project milestones and performance criteria, a discussion of the impact on operational use where system support is provided from outside the United States, and a discussion of the impact of deferring development of performance criteria until after contract award -- all elements of an Acquisition Plan.

These reviews demonstrate that the FTC should closely adhere to the acquisition planning process called for in the FAR and by the agency's OCIO Acquisition Strategy. A significant first step has been taken as the FTC is now including representatives of the Chief Acquisition Officer in significant acquisition planning efforts. This should be followed by guidance that allows the content of specific acquisition plans to be tailored based on acquisition complexity, size, and risk and where failure to meet either acquisition milestones or performance criteria are elements of a problem escalation process to the Governance Board.

b. Integrating a Tailored Insider Threat Program into Governance Board Processes

The FTC's planned actions to implement the new CUI Rule present an opportunity to extend the FTC's insider threat program to sensitive but unclassified holdings. The FTC has minimal holdings of or access to classified information, but does have substantial volumes of highly sensitive information about individuals, businesses participating in government programs, and individuals and businesses that submit confidential and proprietary information in regulatory filings. These holdings include consumer complaints, judicial filings, discovery databases, competition merger filings, and other administrative and security information. Inadvertent or deliberate disclosure of such information could cause severe damage to consumers, litigants, regulatory filers, and others.

Previously, FTC protected its sensitive information holdings as "non-public." The non-public designation is now subject to protection under the CUI program that includes general control requirements for information identification and safeguarding as well as protection under specific statutes.

The FTC is considering opportunities to establish an insider threat program that addresses all of its information holdings. Extending its insider threat program to all sensitive holdings follows guidance from NARA and NIST to establish and maintain consistent, risk-based information protection programs across an agency.

Management's planned focus on insider threats is well placed and should be a high priority. To effectively safeguard CUI from insider threats, the FTC should consider expanding its insider threat program to the full scope and range of the FTC enterprise. An enterprise risk focus is consistent with the NIST principles of enterprise risk management and guidance espoused in the Office of Management and Budget's (OMB) recent revision of OMB Circular A-123, *Management's Role in Enterprise Risk Management and Internal Control* (July 2016). Such an effort would also complement recommendations in the OIG's FY 2012 and 2013 FISMA evaluations that urged use of a governance-based capability (such as an analytical software tool) to permit analysis of incident/trouble reports. A governance-based approach to build a tailored insider threat program could meaningfully add to the FTC's information security and privacy protections, as well as risk mitigation.

The FTC is accelerating its introduction of new technologies and use of existing technologies in new ways to keep pace with increasing demands for technological support to satisfy mission objectives; comply with changes in government-wide policy; and increase support reliability while constraining costs. The FTC will need to continue to mature its governance practices to ensure IT projects/investments have a high probability for successful performance with minimum risk.

Agency Progress in Addressing the Challenge

OCIO, in conjunction with agency leadership, took steps toward maturing the agency's IT governance process during fiscal year 2016. In November 2015, the Chief Information Officer (CIO) established a Risk and Policy Management division within the OCIO to focus on the areas of risk management, policy and procedure, and governance. Since the inception of this organization, the OCIO has made great strides in advancing the agency's IT governance program and increasing the visibility of risks and issues associated with the agency's IT programs and systems.

The first major accomplishment was the development of an updated governance program charter. In the updated charter, the roles and responsibilities of the governing bodies, the Information Technology Council (ITC), IT Business Council (ITBC), and IT Governance Board (ITGB), were better defined. Additionally, the new charter improves the governance process through the integration of risk management principles. Incorporating risk management into the governance process ensures the members of the governing bodies are able to make well-informed decisions, considering all risks, including security, privacy, technology, procurement, and human capital risks. The OCIO is working to finalize the charter and ensure alignment with best practices in IT governance, risk management, and capital planning and investment control, with a target completion date of March 2017.

To ensure the governing bodies have insight into project risk and issues, the OCIO expanded the use of the TechStat process. Before the end of FY 2016, OCIO presented TechStats to the governance boards on numerous mission-critical IT investments, including network modernization, disaster recovery, remote access, e-discovery, and the mobile device program. Through the TechStat process, the governing bodies are able to have visibility into variances in cost and schedule, technical challenges, and project risk.

The finalization of the agency's IT Strategy and Transition Plan will support further improvement in the areas of IT governance and planning. The Plan establishes a two-year roadmap for modernizing the agency's information technology portfolio, proposing a target architecture with a focus on high availability cloud environments, increased mobility, and greater emphasis on mission IT needs. This roadmap is broken into a detailed list of projects and initiatives needed to meet the objectives set forth in the plan and acts as a definitive list of potential IT investments for the next two to three years. Both the IT Business Council and IT Governance Board have reviewed and provided feedback on the Strategy and Transition Plan and are in full support of the initiatives and projects proposed. The OCIO is currently reviewing all active projects and potential investments to ensure those projects align with the Strategy and Transition Plan, and those projects that do not align will be reevaluated, de-scoped, or terminated.

The OCIO continues to make improvements to the governance process in preparation for fiscal year 2017. In the future, OCIO will continue to review the IT governance process and recommend changes to better align the process with the budget cycle, integrate privacy and security, and provide increased control and oversight over investments regardless of cost, as well as operational spending, acquisition planning, and enterprise-wide portfolio analysis. The OCIO is in the initial stages of developing a portfolio management program, beginning with the development of high-level IT portfolios (service domains) and programs (service categories) and the assignment of Service Category Managers to each of those areas. The Service Category Manager (SCM) will be responsible for the successful execution of projects and initiatives within the service category and will have greater autonomy over the alignment of resources to individual services and projects. Starting in FY 2017, the OCIO will align both budgetary resources and FTE resources to the service categories established to inform decision-making at a higher, more holistic level, instead of focusing on individual investments. Each service category will have its own program-level plan that aligns with the IT Strategy and Transition Plan to ensure sufficient acquisition planning, requirements analysis, and risk assessment takes place.

Additionally, OCIO is working to build performance metrics associated with each service area so OCIO leadership and governance board members can make informed decisions about investments needed to improve performance and customer success. Another initiative underway in the OCIO is the development of a new program and project management structure. The newly established Vendor and Program Management division is leading the effort to strengthen program and project management through increased documentation, data-driven project decision-making, greater project oversight from the OCIO leadership, and alignment with the IT Strategic and Transition Plan. To address the integration of acquisition planning with the governance process, FTC will update the IT business case analysis (BCA) template to include acquisition-planning elements as described in the Federal Acquisition Regulation (FAR).

Insider Threat Program

While the FTC's Insider Threat Program (ITP) focuses on the protection of classified materials, the Commission has long placed great importance on its mandate to protect CUI from insider and other threats and strives to regularly update and adjust its practices to ensure the security of all non-public data in its control. Under the FTC Act, FTC employees who disclose non-public information, without authorization, are subject to possible criminal prosecution. Moreover, the FTC has adopted an extensive framework of protections for sensitive, but unclassified information held by the agency. This framework includes documented internal policies and procedures concerning safeguarding sensitive personally identifiable information.

As part of this ongoing effort to protect the non-public information in its possession, FTC staff is reviewing the rule just issued by the National Archives and Records Administration regarding the handling of CUI, *see* Final Rule, *Controlled Unclassified Information*, 81 Fed. Reg. 63324 (Sept. 14, 2016). As part of this process, the Commission will entertain the OIG's recommendation to consider expanding the scope of the agency's insider threat program, and how the agency might leverage its insider threat program to protect CUI.

The ITP requires an implementation plan to gather, share, integrate, identify, and report relevant insider threat information from offices across the agency, including security, information security, and human resources. FTC plans to implement the ITP in phases, and will identify staff responsible for planning, implementing, and operating each element. FTC has already established a multi-office working group, chaired by the Records and Filings Office (RFO) and that includes the Chief Privacy Office, the Chief Information Security Officer, representatives from Physical and Personnel Security, the Office of General Counsel and others, to develop plans to implement the requirements of the final CUI rule and consider the implications these changes will have on the ITP.

FTC's Privacy Office will work to ensure a balance between a robust and effective ITP, using NIST's risk management framework analysis, and the privacy rights of FTC employees under the Privacy Act and other federal laws. Staff training is critical and a web page of materials to educate FTC staff about insider threats will be launched on FTCs intranet in December 2016. Also, OCIO is revising the Risk Management and Governance policy to require that systems that may include CUI be identified as such. Additionally, OCIO's FISMA policies will be revised to ensure that the control requirements of the CUI program, as identified in NIST security special publications, are taken into consideration when planning for systems and selecting information safeguard controls. OCIO will review capabilities for CUI marking and metadata analysis, and verify and validate that potential technology acquisitions, when feasible, address these requirements. OCIO currently logs bandwidth utilization and reviews the logs on a monthly basis looking for any anomalous file transfer amounts that might indicate an exfiltration of data out of the Commission. OCIO, in consultation with others, will also review its ITP and data loss prevention capabilities and recommend solutions to enhance our capabilities in both areas. RFO will, among other things, continue to monitor NARA and NIST CUI program activities and alert agency officials of changes that affect the agency's approach to managing CUI on its systems.

In accordance with guidance from the Office of Management and Budget, key milestones to address this challenge will be published in the FTC's next Annual Performance Plan.

3. Improving Acquisition Planning and Contract Management

The FTC continues to rely on contract support to meet its goals and objectives. In FY 2015, the FTC obligated approximately $60 million – or about 20 percent of its FY 2015 appropriation –

for contracts for goods and services. Effective contract management is essential to ensure that the FTC obtains the quality goods and services it needs with expected quality performance, and that it receives goods and services on schedule and within contracted prices.

For more than five years, the OIG has identified deficiencies in IT acquisition planning, project management, and contract management. For example,

- The FTC Data Center project known as Information Technology Architecture Release 1 (ITA-1) deficiencies resulted in a special OCIO initiative to research and attempt to mitigate the deficiencies and acquire a new infrastructure support contractor;

- Performance and capability issues in the electronic discovery platform (eDSS) obtained to provide litigation support IT capabilities did not provide the anticipated capability, reliability, or scalability needed, resulting in continuation of legacy systems that had been planned for retirement, special efforts to try to diagnose and remedy identified deficiencies, and use of alternative products that could provide needed capabilities; and

- A contract for Targeted Reviews to conduct analyses and develop reports to help the OCIO in their strategic planning efforts that resulted in the generation of unnecessary reports, where the OCIO staff served as contractor resources to develop required reports while maintaining their own workloads.

OIG analyses showed that defective acquisition planning and weaknesses in contract management contributed toward these contract failures. Effective contract management is a function of a properly constructed contract; consistent, product/user focused performance reporting; and a trained Contracting Officer's Representative (COR) with the resources necessary to monitor contractor performance and address poor performance.

In FY 2016 the OIG completed several reviews of the FTC's efforts to address the long-standing challenge to adequately provide qualified COR support. For example, in our evaluation of the OCIO, the OIG identified shortfalls that increase the agency's risk for poorly performing IT contractors and vendors, resulting in undelivered or delayed capabilities and functionality, and performance challenges that jeopardized mission success. A key finding was that the FTC has not been successful in recruiting, training, retaining, and supervising CORs. For example, we found that OCIO employees who serve as CORs may be assigned as many as 15 individual contracts and often lack project and contract management skills; OCIO did not provide guidance to address situations where requirements expanded beyond contract limits ("scope creep"); and The FTC did not provide guidance or support to CORs to enable them to properly manage or modify contracts that did not specify proper performance metrics, and did not define the process for collecting or measuring performance against objectives.

The adverse impacts of IT problem contracts are not consistently reflected in performance metrics. For IT contracts, the FTC typically used metrics that monitor performance (e.g., availability and system down-time) for individual components and not the service levels provided to end-users. Component-focused metrics often result in higher performance levels than experienced by the end-user. This places the CORs in a situation where they cannot effectively

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address user performance complaints -- a situation that increases stress on both the COR and the end-user.

CORs with inadequate contract management training and skills also have an increased potential to overlook issues that are critical to proper contract management. For example, the OIG received complaints that some CORs might not be retaining emails in contravention of federal regulations and FTC records management policies; non-COR FTC staff were directing contractor performance; and some CORs may not be properly documenting poor contractor performance, precluding potential remedial contract action. The FTC should staff and train FTC CORs so they can effectively monitor contractor performance and ensure that the FTC receives the quality goods and services they need in accordance with contact costs and schedules. FTC should ensure that contracts include provisions for providing performance metrics that effectively support COR responsibilities, and that COR workloads are adequately balanced so that they have the resources necessary to perform their oversight role.

Agency Progress in Addressing the Challenge

COR Education

COR education continues to be a priority for Financial Management Office (FMO) management and the Chief Acquisitions Officer (CAO). While in FY 2016, FMO agreed to host quarterly COR training, the Acquisitions Division subsequently determined that there was a need for more frequent training and has held bi-monthly COR training since February, 2016. Bi-monthly training will continue and will not only address current, specific COR needs, but also will be tailored towards maturing the FTC COR community's knowledge base overall. To complement its in person training, the Acquisitions Division has posted a wide variety of COR resources online for easy access, including templates, sample documents, and PALT requirements for the most common acquisitions, including new task orders, open market contracts, sole source contracts, and supplies/services contracts through GSA.

The Acquisitions Division is working to improve the quality of agency acquisitions by continuing to improve customer communications via targeted customer meetings and by obtaining acquisition liaison support for certain customers. The CAO customer meetings, first initiated in FY 2015, ensure standard topics are discussed, and new requirements are being addressed in an agreed-upon priority order. This process better supports the Acquisitions Division and the program offices to engage in integrated acquisition planning.

Additionally, the Acquisitions Division has contracted for three acquisition liaisons, who will assist assigned program offices, beginning in early FY 2017, by providing hands on guidance on the acquisition process; assisting customers with initiating contract actions; ensuring the adequacy of acquisition packages; and ensuring that both the Acquisitions Division and the customer maintain visibility and confidence throughout the entire process. The liaisons also will assess the current state of services received, so that they can structure subsequent acquisitions to continuously improve the quality of contractor services. Liaisons will begin with the end goal in mind, providing acquisition assistance that will ensure the customer based performance management measures are built in to the acquisitions package at the requirements definition phase. FMO anticipates that the liaison support will improve the quality of the acquisition packages, which will lead to better management of contractor performance, as well as delivery of improved services to the Commission.

Revised Policies and Procedures

The CAO has continued to review of all policies and procedures to ensure consistency with the latest federal regulations. The first phase of this effort included a review and draft revision of the Administrative Manual section pertaining to Acquisition, which was completed in FY 2016. Review and revision of the policy on Market Research and Acquisition Planning will be completed in the second quarter of FY 2017. The Acquisitions Division will continue to identify areas of concern that need established policy and procedures in FY 2017 and beyond. Through this continuous assessment process, the Acquisitions Division will have legally compliant and standardized policies and procedures that will govern contracting actions and provide consistency and efficiency in operation and output of the Acquisitions Division, as well as clear guidance for the program offices. Establishment of policies and procedures is an ongoing effort of continuous review, revision, and tested compliance, as the FAR and industry standards are constantly changing in the acquisitions environment.

IT Acquisition Planning, Project Management, and Contract Management

OCIO has taken significant steps towards improving IT acquisition processes during FY 2016. In March 2016, the CIO established a Vendor and Program Management (VPM) division within OCIO to focus on IT acquisition, contract management, and program management processes and practices. The VPM division works with IT managers, IT governance stakeholders and the FMO's Acquisitions Division to develop strategies, plans, processes, and procedures for identifying, reviewing and validating IT acquisition requirements; integrate IT acquisition planning with capital planning and project planning; develop acquisition strategies and mechanisms to streamline and reduce the number of individual acquisition actions; establish guidelines and standards for defining measurable and meaningful contract performance metrics; establish procedures and methods for ongoing contract performance monitoring; and provide training and skills development for OCIO staff in acquisition planning, project management and contract management. By the end of FY 2016, OCIO staffed the VPM with three employees with COR and Project Management certification and experience.

The VPM will serve as OCIO's central review and coordination point for all IT acquisitions. It will provide training, coaching and mentoring to CORs and Technical Point of Contacts in other OCIO divisions regarding IT acquisition and IT project management. VPM staff will also serve as CORs on complex IT acquisitions. In FY 2017, OCIO will continue to assess resource requirements of the VPM and take necessary actions. OCIO will also assess and invest in training of all OCIO staff in acquisition and project management areas.

In FY 2016, the VPM has been working in conjunction with FMO's Acquisitions Division to develop a Blanket Purchase Agreement (BPA) strategy to streamline acquisition of IT services and to implement the agency's IT Strategy and Transition Plan. The BPA will provide a mechanism for FTC to acquire strategic partners to support the agency's IT service delivery, reliable and secure infrastructure operations, and modern and innovative IT solutions. The BPA will establish clearer expectations of services and service integration among contractors, put in place standard methods of procuring needed services, and improve acquisition process efficiencies. In FY 2017, OCIO and FMO will continue to work very closely together to: 1) define requirements and solicitation packages for the BPA and its task orders; 2) transition legacy service contracts to the BPA; and 3) develop a strategy in FY 2017 to streamline and reduce the number of IT commodity product acquisition contracts. OCIO plans to award the BPA by April of 2017.

In FY 2017, OCIO will conduct a comprehensive review of existing IT acquisitions policies and procedures, develop new or updated IT acquisition policies and procedures, and ensure their compliance with CAO's established agency-wide policies and procedures. OCIO will also establish a mechanism to enforce the procedures. OCIO will ensure that IT acquisition and contract management procedures are integrated with capital planning, program management and IT governance. OCIO will ensure that all key IT acquisition stakeholders will be engaged in the process, including OCIO staff and managers, business customers, and the agency's IT Business Council and Governance Board members. OCIO will focus on COR training, acquisition planning, performance metrics, and ongoing contract performance monitoring for IT acquisitions.

In accordance with guidance from the Office of Management and Budget, key milestones to address this challenge will be published in the FTC's next Annual Performance Plan.

4. Acquiring Employee Suitability Determinations

Protecting employees, contractors, and members of the public who work in or visit FTC facilities requires clear policies, protocols, and effective management oversight. All agency facilities must adhere to specific General Services Administration security standards and Office of Personnel Management (OPM) personnel security practices. In addition to physical threats, the agency must adhere to Federal Information Security Modernization Act of 2014 (FISMA) standards to protect its technological infrastructure from cyber threats and other risks to information security and privacy.

The Administrative Services Office (ASO) is responsible for managing physical security, health, and safety programs for agency staff and facilities, while the Human Capital Management Office is currently responsible for personnel security. There are approximately 1,700 federal employees and contractors that constitute the FTC workforce and require a secure working environment. In addition to visitors, there is a steady flow of arriving and departing staff who must be "onboarded" – that is, processed into the agency.

The agency must adhere to the appropriate security regulations for onboarding. In accordance with Executive Order 10450, *Security Requirements for Government Employment*, and Title 5, Code of Federal Regulations (CFR), parts 731 and 736, the FTC requires personnel security investigations to determine if applicants, interns, volunteers, contractors, and employees meet the suitability requirements for employment, and for physical and logical access to its information and IT systems. Although OPM requires a suitability determination for all potential employees,

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there is no mandated process for onboarding new hires, which is left to the discretion of the individual agency.

OIG and Government Accountability Office reporting throughout the federal government demonstrate that onboarding employees prior to suitability determinations is an agency security threat. An OIG FISMA review found in 2013 that the FTC had provided credentials to access the agency's IT infrastructure prior to completion of minimum background screening, contrary to FTC policy, making the agency vulnerable to insider threats. The OIG recommended in its FY 2013 FISMA evaluation that the FTC revise its infrastructure access procedure to enforce the access restriction until the completion of background screening. The 2013 recommendation remains open today and was restated in the OIG's FY 2014 and FY 2015 FISMA reviews.

In response to the OIG's FISMA recommendations, the agency has committed to align infrastructure access procedures with FTC access policy. ASO (which at the time was responsible for personnel security) adopted an informal pilot program in the summer of 2015 granting contractors physical access to FTC buildings upon onboarding through the issuance of a temporary badge allowing physical access to FTC facilities, but withholding network access until the contractors are fingerprinted and receive favorable determinations from ASO. FTC policy currently requires all new employees and contractors to have their fingerprints adjudicated prior to allowing network access. When fully implemented, this change may resolve a key finding in the OIG's 2015 *Evaluation of the Office of Chief Information Officer*, which noted that Bureaus have effectively bypassed FTC policy governing IT requests by pressing for premature onboarding of staff. The agency can no longer defer implementing the OIG's 2013 onboarding recommendations and must urgently address internal control improvements identified in recent OIG referrals and in management's parallel review of recently discovered lapses in physical and logical accesses associated with its special hiring and other programs. By addressing gaps in policies and operational oversight through sustained leadership focus, the FTC can more effectively protect its staff, contractors, and the public, and safeguard its property and repositories of highly sensitive information in support of its competition and consumer protection missions.

Agency Progress in Addressing the Challenge

The Office of Personnel Management (OPM) is directed to provide guidance to civilian agencies on the handling of suitability investigations, reinvestigations, and responses to unfavorable determinations. While reporting obligations and the re-investigative process are both well-defined for individuals with clearances, there is no clear OPM guidance on suitability and fitness or on the handling of the re-investigation of public trust personnel. Despite this lack of guidance and the discretion granted agencies in handling the onboarding of personnel, management agreed with the OIG that there were potential vulnerabilities associated with onboarding employees and contractors before completion of fingerprinting and preliminary suitability/fitness background screening. Accordingly, based on its assessment that the risk was greatest with respect to contractors,[1] in 2015, the agency first implemented a policy requiring that all contractors be

[1] Certain characteristics of the agency's makeup operate to lessen the risk of non-suitability for a significant percentage of the agency's FTE hires. The FTC is largely made up of lawyers who, by virtue of most bar rules, are

fingerprinted and a preliminary suitability/fitness check be completed before granting them logical access.[2] By the end of December 2016, the agency will have implemented a new process that will ensure that contractors and employees are on boarded and granted logical and physical access, only after they have been fingerprinted and a preliminary suitability/fitness determination has been completed. Employees and contractors also will be required to have successfully completed privacy and security training before being on-boarded.

These changes will be supported by implementation of new electronic systems, including the Workforce Transformation Tracking System (WTTS), which will track the onboarding of FTE, and the Entrance on Duty System (EODS), which will manage relevant documentation related to onboarding. The agency is also modifying its CICOM (Check In Check Out Moves) system to be able to better track and control the onboarding of contractors and all other employees. All system implementations and modifications will be completed by the end of February 2017. All policies and procedures related to these and other changes being implemented to guide hiring officials and protect the agency, with respect to the complete array of its hires, will be in place by the end of March 2017.

In accordance with guidance from the Office of Management and Budget, key milestones to address this challenge will be published in the FTC's next Annual Performance Plan.

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subject to ethics checks to be admitted to practice and to ongoing obligations to self- report entry of judgment in certain civil actions, charges by indictment or information, all felony convictions, and certain misdemeanor convictions. The fact that one could lose one's license to practice law for committing or failing to report such acts is strong disincentive not to engage in such behavior. Moreover, once onboard, all FTC employees are subject to Section 10 of the FTC Act, 15 U.S.C. § 50, pursuant to which unauthorized release of information obtained by the Commission is a criminal offense, with penalties up to a $5,000 fine and one year imprisonment, or both. In some cases, criminal sanctions may also be available under the Trade Secrets Act, 18 U.S.C. § 1905, or the Larceny Act, 18 U.S.C. § 641. Thus, even where employees have been on-boarded before completion of a suitability determination, strong disincentives are in place and continue to serve to protect against misuse of the agency's highly sensitive information.

[2] Despite certain violations of this policy, for which the employee involved was disciplined, the on boarding of contractors after fingerprinting has been successful.

CHAIRWOMAN'S RESPONSE TO IG-IDENTIFIED CHALLENGES

UNITED STATES OF AMERICA
Federal Trade Commission
WASHINGTON, D.C. 20580

Office of the Chairwoman

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

In a memorandum dated October 17, 2016, the agency's Inspector General (IG) identified four 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

Edith Ramirez
Chairwoman
October 31, 2016

SUMMARY OF FINANCIAL STATEMENT AUDIT AND MANAGEMENT ASSURANCES

TABLE 1: SUMMARY OF FINANCIAL STATEMENT AUDIT

Audit Opinion	**Unmodified**				
Restatement	**Yes**				
Material Weaknesses	**Beginning Balance**	**New**	**Resolved**	**Consolidated**	**Ending Balance**
The FTC did not record interim receivership accounts receivable	0	1	0	0	1
Total Material Weaknesses	0	1	0	0	1

TABLE 2: SUMMARY OF MANAGEMENT ASSURANCES

Effectiveness of Internal Control Over Financial Reporting (Federal Managers' Financial Integrity Act (FMFIA) Para. 2)						
Statement of Assurance	**Unmodified**					
Material Weaknesses	**Beginning Balance**	**New**	**Resolved**	**Consolidated**	**Reassessed**	**Ending Balance**
Recognition of receivership receivables	0	1	1	0	0	0
Total Material Weaknesses	0	1	1	0	0	0
Effectiveness of Internal Control Over Operations (FMFIA Para. 2)						
Statement of Assurance	**Unmodified**					
Material Weaknesses	**Beginning Balance**	**New**	**Resolved**	**Consolidated**	**Reassessed**	**Ending Balance**
Recognition of receivership receivables	0	1	1	0	0	0
Total Material Weaknesses	0	1	1	0	0	0
Conformance with Financial Management System Requirements (FMFIA Para. 4)						
Statement of Assurance	**Systems conform to financial management system requirements**					
Non-Conformances	**Beginning Balance**	**New**	**Resolved**	**Consolidated**	**Reassessed**	**Ending Balance**
Recognition of receivership receivables	0	1	1	0	0	0
Total Non-Conformances	0	1	1	0	0	0

COMBINED SCHEDULE OF SPENDING

The Combined Schedule of Spending (SOS) provides an overview of how and on what the FTC spent money during FY 2016 and FY 2015. The data used for this schedule is the same data used for the Statement of Budgetary Resources (SBR). The term "spend," as used in this report, means obligated. As such, this data does not equate to expenses as reported on the Statement of Net Cost. The SOS provides summary level information by mission for the "New obligations and upward adjustments (total)" line on the SBR. The FTC has two primary missions – Protect Consumers and Maintain Competition.

(Dollars in thousands)	2016	2015
What Money is Available to Spend?		
Total Resources	$ 353,692	$ 327,412
Less amount available but not agreed to be spent	10,346	11,747
Less amount not available to be spent	15,604	10,371
Total Amounts Agreed to be Spent	$ 327,742	$ 305,294
How was the Money Spent/Issued		
Consumer Protection		
Personnel compensation and benefits	$ 109,917	$ 109,290
Contractual services	53,239	42,733
Rent, communications, and utilities	15,535	16,306
Acquisition of assets	3,758	7,012
Other	1,742	2,035
Total Consumer Protection	184,191	177,376
Maintain Competition		
Personnel compensation and benefits	85,665	78,816
Contractual services	41,492	30,819
Rent, communications, and utilities	12,108	11,759
Acquisition of assets	2,929	5,057
Other	1,357	1,467
Total Maintain Competition	143,551	127,918
Total Amounts Agreed to be Spent	$ 327,742	$ 305,294
Who did the Money go to?		
Federal entities	$ 73,814	$ 72,776
Non-Federal entities	253,928	232,518
Total Amounts Agreed to be Spent	$ 327,742	$ 305,294

In accordance with OMB Circular A-136, Section II.5.1, the Schedule of Spending is not a required part of the Financial Statements and, therefore, it is not audited.

THE IMPROPER PAYMENTS ELIMINATION AND RECOVERY IMPROVEMENT ACT REPORTING DETAILS

The Improper Payments Elimination and Recovery Improvement Act (IPERIA) of 2012 requires agencies to annually report on all programs and activities, identify those that may be susceptible to significant improper payments, estimate annual improper payments in the susceptible programs and activities, and report the results of their improper payment activities. In accordance with the OMB A-123 Appendix C guidance, the FTC performed a FY 2015 risk assessment for nine payment processes including payroll, procurement, redress payments to consumers, travel, purchase card, pre-merger filing fee refunds, training, and two miscellaneous payment processes. Each payment program was defined by its own internal control framework. The FTC evaluated each payment program using the following qualitative risk factors identified in OMB Circular A-123 Appendix C:

- The relative complexity of the program or activity operation
- The extent and significance of recent changes in the program that may be reason for improper payment in funding, authorities, practices and procedure
- The level, experience, and quality of training for personnel responsible for program eligibility determination or certifying that payments are accurate
- The inherent risks of improper payments due to the nature of programs or operation
- Known control deficiencies (i.e., reported by OIG, or GAO) that might hinder accurate payment certification
- The program or activity was recently initiated at the agency
- The volume of payments made annually
- Results from prior improper payment work

The FTC also performed a quantitative risk assessment and assessed risks related to the amounts of payments processed relative to the OMB specified threshold amounts that define payment programs susceptible to improper payments.

As a result of the risk assessment, the FTC determined that the agency's programs and activities presented low risk of improper payments and that none of the agency's programs or activities were determined to be susceptible to significant improper payments. In addition to the risk assessment of all payment processes, the Interior Business Center (IBC), the FTC's shared service provider, compares the FTC's payee records in the financial system with payee records in the Do Not Pay databases. Additionally, the FTC reviews potential matches on an on-going basis to prevent improper payments and incorporates a pre-award check on potential contractors against the Do Not Pay databases. In FY 2015, the FTC performed and documented testing of statistical samples from larger payment processes to verify that the FTC payment programs are not susceptible to significant improper payments. Per OMB guidance and the result of FY 2015 IPERIA risk assessments, no assessment was conducted during FY 2016 and the next is scheduled for FY 2018.

	Number (#) of Payments Reviewed for Possible Improper Payments	Dollars ($) of Payments Reviewed for Possible Improper Payments	Number (#) of Payments Stopped	Dollars ($) of Payments Stopped	Number (#) of Potential Improper Payments Reviewed and Determined Accurate	Dollars ($)of Potential Improper Payments Determined Accurate
Reviews with the IPERIA specified databases	9,215	$ 194.1M	0	$ 0.00	0	$ 0.00
Reviews with databases not listed in IPERIA	0	$ 0.00	0	$ 0.00	0	$ 0.00

All payments are screened by the Do Not Pay databases including the Death Master File, the System for Award Management, the Debt Check Database of the Department of the Treasury (Debt Check), the Credit Alert System or Credit Alert Interactive Voice Response System of the Department of Housing and Urban Development, the List of Excluded Individuals/Entities of the Office of the Inspector General of the Department of Health and Human Services, and the Prisoner Update Processing System of the Social Security Administration.

"FREEZE THE FOOTPRINT" IMPLEMENTATION

	FY 2012 Baseline	FY 2015	FY 2016	Change (FY 2012 Baseline - FY 2016)
Rentable Square Footage	638,877	610,662	610,317	28,560

The FTC's decrease in rentable square footage from FY 2015 to FY 2016 is due to a reduction of an existing lease in Seattle, Washington. The agency's total square footage did not increase above the FY 2012 baseline, which is consistent with Section 3, OMB M-12-12.

The FTC will continue efforts to reduce the office footprint each time a lease is renewed with the GSA.

The FTC has no buildings that meet the requirements to report operations and maintenance costs.

CIVIL MONETARY PENALTY ADJUSTMENT FOR INFLATION

The Federal Civil Penalties Inflation Adjustment Act Improvements Act of 2015, as amended, requires agencies to make regular and consistent inflationary adjustments of civil monetary penalties to maintain their deterrent effect. This table reports the most recent inflationary adjustments to civil monetary penalties.

Penalty	Authority (Statute)	Date of Previous Adjustment	Date of Current Adjustment	Current Penalty Level ($Amount)
Violations of cease and desist orders	The Clayton Act Section 7A(g)(1) 15 U.S.C	February 2009	August 2016	$ 40,000
	The Clayton Act Section 11(l)	April 2014	August 2016	$ 21,250
Failure to file reports required by the FTC Act	The FTC Act Section 5(l)	February 2009	August 2016	$ 40,000
	The FTC Act Section 5(m)(1)(A)	February 2009	August 2016	$ 40,000
	The FTC Act Section 5(m)(1)(B)	February 2009	August 2016	$ 40,000
Failure to file reports required by the FTC Act	The FTC Act Section 10	April 2014	August 2016	$ 525
Failure to file required business information with the Commission	The Webb-Pomerene (Export Trade) Act Section 5	April 2014	August 2016	$ 525
Failure to maintain proper records of fiber content	The Wool Products Labeling Act Section 6(b)	April 2014	August 2016	$ 525
Failure to maintain records	The Fur Products Labeling Act Section 3(e)	April 2014	August 2016	$ 525
	The Fur Products Labeling Act Section 8(d)(2)	April 2014	August 2016	$ 525
FTC enforcement of knowing violations	The Energy Policy and Conservation Act Section 333(a) 42 U.S.C. 6303(a)	April 2014	August 2016	$ 433
Recycled oil labeling violations	The Energy Policy and Conservation Act Section 525(a) 42 U.S.C. 6395(a)	April 2014	August 2016	$ 21,250
	The Energy Policy and Conservation Act Section 525(b) 42 U.S.C. 6395(b)	February 2009	August 2016	$ 40,000
FTC enforcement of knowing violations	The Fair Credit Reporting Act Section 621(a)(2) 15 U.S.C. 1681s(a)(2)	February 2009	August 2016	$ 3,756

CIVIL MONETARY PENALTY ADJUSTMENT FOR INFLATION (CONTINUED)

Penalty	Authority (Statute)	Date of Previous Adjustment	Date of Current Adjustment	Current Penalty Level ($Amount)
Failure to comply with filing requirements	The Medicare Prescription Drug Improvement and Modernization Act of 2003 Public Law 108-173 Section 1115(a)	April 2014	August 2016	$ 14,142
Violations of prohibitions on market manipulation and provision of false information to federal agencies	The Energy Independence and Security Act of 2007 Section 814(a) 42 U.S.C. 17304	April 2014	August 2016	$ 1,138,330

Appendices

APPENDIX A: DATA QUALITY INFORMATION

STRATEGIC GOAL 1 – PROTECT CONSUMERS

OBJECTIVE 1.1 – IDENTIFY AND TAKE ACTIONS TO ADDRESS DECEPTIVE OR UNFAIR PRACTICES THAT HARM CONSUMERS.

Performance Goal 1.1.3: Total consumer savings compared to the amount of FTC resources allocated to consumer protection law enforcement.

Definition and background: This measure tracks how much money the FTC's law enforcement efforts save consumers each year. The FTC has found that typically when it files a complaint in federal district court and obtains a court order, the defendants stop their practices. If they fail to comply with an order, they are subject to contempt proceedings. By stopping these practices, the agency directly prevents further consumer losses caused by these defendants.

Calculation/Formula: The sum of the estimated consumer savings generated and the amount of money the FTC returned to consumers, divided by the amount of resources spent on consumer protection law enforcement for the current fiscal year. Resources spent on the Consumer and Business Education and Economics and Consumer Policy functions are excluded from the base.

Data sources: To make dollar value assessments, staff uses company sales and other records, as well as information from employees and customers, where applicable. BCP case managers derive the amount of economic injury to consumers by estimating the consumer loss due to fraudulent, deceptive, or unfair practices in the 12 months prior to the FTC's first contact with the defendants or by dividing the estimated total economic injury by the amount of time the defendants' business operated to derive an annualized estimate of consumer savings. The measure also includes instances wherein, as a result of FTC staff action directed specifically at a business, that business stops its allegedly unfair or deceptive practices. After the completion of a case, staff reports the estimated dollar value of consumer loss in the Debrief in the Redress and Enforcement Database. If staff has not completed the Debrief or provided the required information, staff is surveyed by email. See goal 1.1.4 for more information about the total amount of money returned to consumers.

Verification and validation: The consumer savings by case are maintained in a spreadsheet by BCP staff in DCRO. The spreadsheet is reviewed quarterly by headquarters and regional office management to verify the accuracy of the report and to ensure that all applicable cases are included in the report.

Data limitations: The calculation does not perfectly estimate the agency's impact because it assumes that the challenged business practices would have continued for only one more year and it ignores the deterrent effect of FTC enforcement.

Performance Goal 1.1.4: Amount of money the FTC returned to consumers and forwarded to the U.S. Treasury.

Definition and background: The amount of money includes the sum of redress checks cashed by consumers and all other amounts of money collected from defendants that is forwarded to the U.S. Treasury.

Calculation/Formula: Sum of redress checks cashed by consumers, the amount of residual redress money or defendants' disgorged profits that are forwarded to the U.S. Treasury, and the amount of civil penalties collected that are also forwarded to the U.S. Treasury.

Data sources: The redress data is based on sub-ledger reports from the agency's Financial Management Office (FMO), redress contractor reports, and matter bank statements. The civil penalty data is summarized in a spreadsheet maintained by BCP staff in DCRO.

Verification and validation:

1. The Redress Administration Office (RAO) in DCRO reconciles monthly activity reports submitted by the redress contractors and FMO with matter bank statements.
2. RAO reconciles the monthly FMO sub-ledger with the redress status of each individual matter.

3. BCP budget staff reconciles the civil penalty spreadsheet with a separately maintained spreadsheet that includes a list of all civil penalty orders in the current fiscal year. BCP budget staff also reconciles the civil penalty spreadsheet with data maintained by FMO and with memos received by the Department of Justice, which contain copies of the checks and electronic fund transfers for civil penalty disgorgements.

Data limitations: The amount of money is not a perfect measure of the effectiveness of the agency's work protecting consumers. If the FTC steps in and stops scams in their incipiency, there is less injury and therefore less redress provided in those situations but consumers are undoubtedly better off. Also, the amount of money returned/forwarded to the U.S. Treasury may depend on the amount of money the defendants have to satisfy the judgment.

OBJECTIVE 1.2 – PROVIDE THE PUBLIC WITH KNOWLEDGE AND TOOLS TO PREVENT HARM TO CONSUMERS.

Performance Goal 1.2.2: Number of federal, state, local, international, and private partnerships to maximize the reach of consumer and business education campaigns.

Definition and background: This measure helps determine the extent to which the FTC's education tools reach consumers through partnerships with federal, state, local, international, and private organizations. These organizations work as partners with the FTC by distributing these materials to their clients and customers. BCP maximizes its reach to consumers and businesses by providing free bulk quantities of education materials via an online order system.

Data sources: The data is compiled from the number of organizations ordering consumer and/or business education materials for distribution. This data comes from the database of customer orders.

Verification and validation: The data for organizations disseminating materials is obtained from the data file generated by the FTC's online order site for bulk quantities of publications. That information is filtered to include only orders by organizations – not individuals – and duplicates are excluded. The result is a list of unique organizations that ordered the FTC's education publications for dissemination to consumers and businesses.

Data limitations: The data is compiled from customer input via the online order website. If customers fail to enter an organization name, they are not included in this measure, which could result in under reporting. There is no feasible workaround to mitigate this limitation.

OBJECTIVE 1.3 – COLLABORATE WITH DOMESTIC AND INTERNATIONAL PARTNERS TO ENHANCE CONSUMER PROTECTION.

Performance Goal 1.3.2: Number of investigations or cases in which the FTC obtained foreign-based evidence or information or engaged in other mutual assistance that contributed to FTC law enforcement actions, or in which the FTC cooperated with foreign agencies and/or multilateral organizations on enforcement matters.

Definition and background: This measure tracks investigations or cases in which the FTC obtains foreign-based evidence; engages in mutual assistance that contributes to FTC law enforcement actions; or in which the FTC cooperates with foreign agencies and/or multilateral organizations on enforcement matters.

Data sources: Office of International Affairs (OIA) weekly reports and internal tracking sheets.

Verification and validation: Consumer protection team members report matters they worked on in which information was shared. Staff reviews and compiles the matters reported. Managers review these matters to ensure that they qualify as part of the measure and have not been previously counted.

Data limitations: Review is necessary to avoid double counting of particular matters.

STRATEGIC GOAL 2: MAINTAIN COMPETITION

OBJECTIVE 2.1 – IDENTIFY AND TAKE ACTIONS TO ADDRESS ANTICOMPETITIVE MERGERS AND PRACTICES THAT HARM CONSUMERS.

Performance Goal 2.1.1: Percentage of actions taken to maintain competition in substantial merger and nonmerger investigations.

Definition and background: This measure ensures that FTC actions promote vigorous competition by preventing anticompetitive mergers and stopping business practices that diminish competition. This measure reflects actions to promote competition, including litigated victories, consent orders, abandoned transactions, or restructured transactions (either through a fix-it-first approach or through restructuring) in a significant percentage of substantial merger and nonmerger investigations.

Calculation/Formula: The measure is calculated by taking the number of substantial investigations concluded with an action (as described in the definition above) divided by the total number of substantial investigations closed.

Data sources: To ensure consistent reporting within the Bureau of Competition (BC), the FTC's press releases are the primary source of information for public actions, such as consent orders and judicial review outcomes. Internal communications from staff attorneys are used to identify those investigations that were closed because parties abandoned a transaction or because staff did not find the transaction likely to harm competition. This information is then used to populate BC's enforcement database. It is cross-referenced with both the list of known second request and compulsory process merger investigations as recorded in the agency's matter tracking database and the list of nonmerger investigations with more than 150 hours, as identified using the agency's staff time reporting system.

Verification and validation: The data is entered into a BC database by staff and reviewed monthly by analysts, attorneys, economists, and senior management.

Data limitations: This measure does not include actions that are still in litigation or on appeal.

Performance Goal 2.1.3: Total consumer savings compared to the amount of FTC resources allocated to the merger program.

Definition and background: This measure ensures that the FTC's actions are in part guided by the requirement that estimated consumer savings exceed how much is spent on the merger program.

Calculation/Formula: Estimated consumer savings are divided by the amount of resources spent on the merger program for the current fiscal year. When available, case-specific data is used to generate the estimate of consumer savings. Otherwise, staff uses a formula of three percent of the volume of commerce of the relevant product market(s) for two years.

Data sources: The lead attorney estimates consumer savings for a particular case using the applicable estimation formula and submits it to BE for concurrence. The FTC's financial system provides the amount of resources expended on the merger program.

Verification and validation: See goal 2.1.1.

Data limitations: The data is dependent on the estimates of consumer savings made by staff in accordance with the applicable estimation formulas. Additionally, a five-year average is used because an individual year may be heavily influenced by significant cases in that year.

Performance Goal 2.1.5: Total consumer savings compared to the amount of FTC resources allocated to the nonmerger program.

Definition and background: This measure ensures that the FTC's actions are in part guided by the requirement that estimated consumer savings exceed how much is spent on the nonmerger program.

Calculation/Formula: This measure is calculated by taking the estimated consumer savings divided by the amount of resources spent on the nonmerger program. When available, case-specific data is used to generate the estimate of consumer savings. Otherwise, staff uses a formula of one percent of the volume of commerce of the relevant product market(s) for one year.

Data sources: The lead attorney estimates consumer savings for a case using the applicable estimation formula and submits it to BE for concurrence. The FTC's financial system provides the amount of resources expended on the nonmerger program.

Verification and validation: See goal 2.1.1.

Data limitations: The data is dependent on the estimates of consumer savings made by staff in accordance with the applicable estimation formulas. Additionally, a five-year average is used because an individual year may be heavily influenced by significant cases in that year.

OBJECTIVE 2.3 – COLLABORATE WITH DOMESTIC AND INTERNATIONAL PARTNERS TO PRESERVE AND PROMOTE COMPETITION.

Performance Goal 2.3.1: Percentage of FTC cases involving at least one substantive contact with a foreign antitrust authority in which the agencies followed consistent analytical approaches and reached compatible outcomes.

Definition and background: This measure tracks the number of cases in which at least one substantive contact has taken place and where, in the judgment of OIA management, consistent analytical approaches were observed, compared with the total number of cases. The phrase "reached compatible outcomes" means that the reviewing agencies' remedial measures are not inconsistent; professional judgment from OIA senior management is used to make a final decision on compatibility for FTC measurement purposes.

Calculation/Formula: Number of cases where a foreign antitrust authority or agency followed consistent analytical approaches and reached compatible outcomes as a percentage of the total number of cases the FTC has at least one substantive contact.

Data sources: OIA weekly reports and internal logs.

Verification and validation: International antitrust team members report matters they worked on in which substantial contact took place. Staff reviews and compiles the matters reported, as overseen by an international antitrust attorney. Managers review and ensure that the matters reported qualify for the measure.

Data limitations: Review is necessary to ensure that the matters reported included substantive contact with a foreign antitrust authority.

STRATEGIC GOAL 3: ADVANCE ORGANIZATIONAL PERFORMANCE

OBJECTIVE 3.1 – OPTIMIZE RESOURCE MANAGEMENT AND INFRASTRUCTURE.

Performance Goal 3.1.4: Average number of days for the FTC to release information in response to a simple FOIA request.

Definition and background: The FTC receives a number of FOIA requests that upon initial review appear to be requests the agency can fulfill quickly. For example, a number of consumers file identity theft complaints or a complaint against a company they believe has engaged in bad acts and then request copies of what they submitted to the FTC. Responding to these requests is fairly simple and straightforward, and the requests represent a significant percentage of the types of requests the agency fills. This measure tracks the agency's response time in processing a simple FOIA request for access to public records. The agency also keeps track of a number of other measures on an annual basis, including: the FTC's response time for simple and complex requests; steps that the FTC has taken to make its response system effective; steps taken to increase proactive disclosures; steps taken to decrease the FTC's backlog and improve timeliness in responding to requests, and other measures.

Calculation/Formula: Sum of the number of days to process each request divided by the total number of requests processed.

Data sources: All of the FOIA requests that the FTC receives are logged into and processed through a system called FOIAxpress. FOIAxpress is one of the electronic systems that various agencies use to track their FOIA requests and responses.

Verification and validation: Generally, under the Freedom of Information Act an agency has 20 business days to respond to each request. When the FOIA Unit receives a FOIA request, it logs the request into the FOIAxpress system, scans it, and assigns a number to each request.

These steps, once completed, trigger the clock to run for processing each request. FOIAxpress automatically counts the number of days it takes for the agency to process all FOIA requests.

Data limitations: Occasionally, when the agency upgrades FOIAxpress, the upgrade does not proceed smoothly and the agency has to repeat processing steps that have already occurred.

OBJECTIVE 3.2 – CULTIVATE A HIGH-PERFORMING, DIVERSE, AND ENGAGED WORKFORCE.

Performance Goal 3.2.2: The extent employees believe the FTC has the talent necessary to achieve organizational goals.

Definition and background: This measure gauges the extent employees think the organization has the talent necessary to achieve organizational goals so that the FTC has a strong foundation of organizational, individual, and management excellence driving mission success.

Data sources: The Federal Employee Viewpoint Survey (FEVS) Talent Management Index is the data source. The FEVS is administered annually by the U.S. Office of Personnel Management (OPM). It is a tool that measures employees' perceptions of whether, and to what extent, conditions that characterize successful organizations are present. The survey was conducted for the first time in 2002 as the Federal Human Capital Survey.

Originally, OPM administered the survey in even years and agencies administered their own equivalent survey in odd years. In 2010 it was renamed the "Federal Employee Viewpoint Survey," which is now administered each year. The FEVS is a tool that measures employees' perceptions of whether, and to what extent, conditions characterizing successful organizations are present in their agencies. Survey results provide valuable insight into the challenges agency leaders face in ensuring the Federal Government has an effective civilian workforce. The most recent survey was conducted in 2015 and OPM transmits the agency results to the FTC's Human Capital Management Office.

Verification and validation: Data collected is weighted by statisticians to produce survey estimates that accurately represent the survey population and adjust for differences between the characteristics of the survey respondents and the population of federal employees surveyed. The weights developed take into account the variable probabilities of selection across sample domains, nonresponse, and known demographic characteristics of the survey population.

Data limitations: The survey results represent a snapshot in time of the perceptions of the workforce. The government-wide results have a plus or minus 1 percent margin of error.

APPENDIX B: ACRONYMS

ACRONYMS	DEFINITIONS
AFR	Agency Financial Report
APP	Annual Performance Plan
APR	Annual Performance Report
ASO	Administrative Services Office
BC	Bureau of Competition
BCA	Business Case Analysis
BCP	Bureau of Consumer Protection
BE	Bureau of Economics
BPA	Blanket Purchase Agreement
CAO	Chief Acquisitions Officer
CAP	Cross-Agency Priority
CFR	Code of Federal Regulations
CICOM	Check In Check Out Moves
CIGIE	Counsel of the Inspectors General on Integrity and Efficiency
CIO	Chief Information Officer
CLM	Contract Lifecycle Management
CO	Contracting Officer
COPPA	Children's Online Privacy Protection Act
COR	Contracting Officer's Representative
CPIC	Capital Planning and Investment Control
CSAM	Cyber Security Assessment and Management
CSRS	Civil Service Retirement System
CUI	Controlled Unclassified Information
DCRO	Division of Consumer Response and Operations
DG	Distributed Generation
DHS	Department of Homeland Security
DNC	Do Not Call
DOJ	Department of Justice
DOL	Department of Labor
eDSS	eDiscovery Support System
EFT	Electronic Funds Transfer
EODS	Entrance on Duty System
ERM	Enterprise Risk Management
FAR	Federal Acquisition Regulations
FASAB	Federal Accounting Standards Advisory Board
FBwT	Fund Balance with Treasury
FECA	Federal Employees' Compensation Act
FEVS	Federal Employee Viewpoint Survey

ACRONYMS	DEFINITIONS
FedRAMP	Federal Risk and Authorization Management Program
FEGLIP	Federal Employees' Group Life Insurance Program
FEHBP	Federal Employees' Health Benefit Program
FERS	Federal Employees' Retirement System
FERS-RAE	Federal Employees' Retirement System – Revised Annuity Employees
FERS-FRAE	Federal Employees' Retirement System – Further Revised Annuity Employees
FFMIA	Federal Financial Management Improvement Act of 1996
FISMA	Federal Information Security Management Act
FMFIA	Federal Managers' Financial Integrity Act
FMO	Financial Management Office
FOIA	Freedom of Information Act
FPPS	Federal Personnel/Payroll System
FTC	Federal Trade Commission
FTE	Full-Time Equivalent
FY	Fiscal Year
GAAP	Generally Accepted Accounting Principles
GAO	Government Accountability Office
GPRA	Government Performance and Results Act
GSA	General Services Administration
HSR	Hart-Scott-Rodino Act
IBC	Department of the Interior Business Center
IG	Inspector General
IP	Intellectual Property
IPERIA	Improper Payments Elimination and Recovery Improvement Act
ISCM	Information Security Continuous Monitoring
ISSO	Information System Security Officer
IT	Information Technology
ITA	Information Technology Architecture
ITC	Information Technology Council
ITBC	Information Technology Business Council
ITGB	Information Technology Governance Board
ITP	Insider Threat Program
N/A	Not Applicable or Not Available
NARA	National Archives and Records Administration
NIST	National Institute of Standards and Technology
OBIA	Oracle Business Intelligence Application
OBIEE	Oracle Business Intelligence Enterprise Edition
OCIO	Office of the Chief Information Officer
OECD	Organization for Economic Cooperation and Development

ACRONYMS	DEFINITIONS
OFF	Oracle Federal Financials
OIA	Office of International Affairs
OIG	Office of Inspector General
OMB	Office of Management and Budget
OPM	Office of Personnel Management
PAE	Patent Assertion Entity
PALT	Procurement Administrative Lead Time
PIO	Performance Improvement Officer
PIV	Personal Identity Verification
PMRO	Performance Measure Reporting Official
POAM	Plans of Actions and Milestones
PP&E	Property, Plant, and Equipment
RAO	Redress Administration Office
RFO	Records and Filings Office
ROI	Return on Investment
SAT	Senior Assessment Team
SBR	Statement of Budgetary Resources
SCM	Service Category Manager
SFFAS	Statement of Federal Financial Accounting Standard
SOS	Schedule of Spending
SSAE	Statement on Standards for Attestation Engagements
SSP	System Security Plan
TAS	Treasury Account Symbol
TSP	Thrift Savings Plan
VPM	Vendor and Program Management
WTTS	Workforce Transformation Tracking System

APPENDIX C: OTHER USEFUL LINKS

Introduction

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- This report: https://www.ftc.gov/reports/agency-financial-report-fy2016
- Federal Managers' Financial Integrity Act of 1982: https://www.whitehouse.gov/omb/financial_fmfia1982
- Government Performance and Results Act of 1993: https://www.whitehouse.gov/omb/mgmt-gpra/gplaw2m
- Government Management Reform Act of 1994: https://www.congress.gov/bill/103rd-congress/senate-bill/02170
- Federal Financial Management Improvement Act of 1996: https://www.whitehouse.gov/omb/financial_ffs_ffmia
- Reports Consolidation Act of 2000: https://www.gpo.gov/fdsys/pkg/PLAW-106publ531/pdf/PLAW-106publ531.pdf
- Accountability of Tax Dollars Act of 2002: https://www.whitehouse.gov/sites/default/files/omb/assets/about_omb/107-2891.pdf
- Improper Payments Information Act of 2002, as amended by IPERIA: https://www.whitehouse.gov/omb/financial_fia_improper
- Government Performance and Results Modernization Act of 2010: https://www.gpo.gov/fdsys/pkg/PLAW-111publ352/pdf/PLAW-111publ352.pdf
- Federal Civil Penalties Inflation Adjustment Act Improvements Act of 2015: https://www.whitehouse.gov/sites/default/files/omb/memoranda/2016/m-16-06.pdf
- FY 2017-2018 Annual Performance Plan (APP): http://www.ftc.gov/about-ftc/performance
- Association of Government Accountants' Certificate of Excellence in Accountability Reporting: https://www.agacgfm.org/Tools-Resources/CEAR-Program.aspx

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- FTC Enforcement Statutes: http://www.ftc.gov/enforcement/statutes

Management's Discussion and Analysis

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- FTC Bureaus and Offices: https://www.ftc.gov/about-ftc/bureaus-offices

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- FTC's Strategic Plan for Fiscal Years 2014 to 2018: http://www.ftc.gov/reports/2014-2018-strategic-plan

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- Volkswagen to Provide Up to $10 Billion to Remedy False Ad Campaign: https://www.ftc.gov/news-events/press-releases/2016/06/volkswagen-spend-147-billion-settle-allegations-cheating

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- Herbalife Restructuring its Multi-level Marketing Operations: https://www.ftc.gov/news-events/press-releases/2016/07/herbalife-will-restructure-its-multi-level-marketing-operations
- FTC Helps Develop International Guidelines for Electronic Commerce: https://www.ftc.gov/news-events/press-releases/2016/04/%20ftc-welcomes-revised-oecd-guidelines-e-commerce

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- FY 2016-2017 Performance Plan and FY 2015 Performance Report: https://www.ftc.gov/reports/fy-2016-2017-performance-plan-fy-2015-performance-report-0
- FTC Successfully Prevents Anticompetitive Staples/Office Depot Merger…Again: https://www.ftc.gov/news-events/press-releases/2016/05/after-staples-office-depot-abandon-proposed-merger-ftc-dismisses

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- FTC Ends Exclusive Dealing Scheme by Supplier of Polymer used in Medical Implants: https://www.ftc.gov/news-events/press-releases/2016/04/supplier-high-performance-polymer-medical-implants-settles-ftc

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- PrivacyCon: https://www.ftc.gov/news-events/events-calendar/2017/01/privacycon
  https://www.ftc.gov/news-events/blogs/business-blog/2016/04/announcing-next-privacycon

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- Children's Online Privacy Protection Act (COPPA) Rule: https://www.ftc.gov/enforcement/rules/rulemaking-regulatory-reform-proceedings/childrens-online-privacy-protection-rule
- Financial Technology Series: https://www.ftc.gov/news-events/events-calendar/2016/06/fintech-series-marketplace-lending
  https://www.ftc.gov/news-events/events-calendar/2016/10/fintech-series-crowdfunding-peer-peer-payments

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- Telemarketing Sales Rule: https://www.ftc.gov/enforcement/rules/rulemaking-regulatory-reform-proceedings/telemarketing-sales-rule
- FTC's Guides for the Use of Environmental Marketing Claims: https://www.ftc.gov/enforcement/rules/rulemaking-regulatory-reform-proceedings/green-guides

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- FTC Wins Appellate Victory in Regional Hospital Challenge: https://www.ftc.gov/news-events/press-releases/2016/10/statement-ftcs-bureau-competition-director-debbie-feinstein
- FTC v. Phoebe Putney Health System, Inc.: https://www.ftc.gov/enforcement/cases-proceedings/111-0067/phoebe-putney-health-system-inc-phoebe-putney-memorial
- North Carolina State Board of Dental Examiners v. FTC: https://www.ftc.gov/enforcement/cases-proceedings/north-carolina-state-board-dental-examiners
- Hart-Scott-Rodino (HSR) Act: https://www.ftc.gov/enforcement/statutes/hart-scott-rodino-antitrust-improvements-act-1976

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- FTC Focuses on PAE Business Models and Activity: https://www.ftc.gov/news-events/press-releases/2016/10/ftc-report-sheds-new-light-how-patent-assertion-entities-operate
- "Something New Under the Sun" Workshop: https://www.ftc.gov/news-events/events-calendar/2016/06/something-new-under-sun-competition-consumer-protection-issues
- Energy Policy Act of 2005: https://www.epa.gov/laws-regulations/summary-energy-policy-act
- Ethanol Market report: https://www.ftc.gov/system/files/documents/reports/federal-trade-commission-report-congress-ethanol-market-concentration-december-2015/2015ethanolreport.pdf

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- FTC Hosts Workshops to Study Automobile Sales and Rooftop Solar Panels: https://www.ftc.gov/news-events/events-calendar/2016/01/auto
  https://www.ftc.gov/news-events/events-calendar/2016/06/something-new-under-suncompetition-consumer-protection-issues

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- Federal Managers Financial Integrity Act: https://www.whitehouse.gov/omb/financial_fmfia1982
- OMB Circular A-123 - Management's Responsibility for Internal Control: https://www.whitehouse.gov/omb/circulars_a123_rev
- Federal Information Security Management Act: http://csrc.nist.gov/drivers/documents/FISMA-final.pdf

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- Federal Risk and Authorization Management Program (FedRAMP): https://www.fedramp.gov/
- The Debt Collection Improvement Act of 1996: https://fiscal.treasury.gov/fsservices/gov/debtColl/pdf/dca/dmdcia.txt
- Prompt Payment Act: https://www.fiscal.treasury.gov/fsservices/gov/pmt/promptPayment/5cfr1315.pdf
- Improper Payments Elimination and Recovery Improvement Act (IPERIA) of 2012: https://www.congress.gov/112/plaws/publ248/PLAW-112publ248.pdf
- OMB A-123 Appendix C: https://www.whitehouse.gov/sites/default/files/omb/memoranda/2015/m-15-02.pdf

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- Interior Business Center: https://www.doi.gov/ibc
- DATA Act: https://www.usaspending.gov/Pages/Data-Act.aspx

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- FTC's FY 2017 Congressional Budget Justification, page 7, "Appropriations Language Provisions: https://www.ftc.gov/system/files/documents/reports/fy-2017-congressional-budget-justification/2017-cbj.pdf#page=13

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- OMB Circular A-136: https://www.whitehouse.gov/sites/default/files/omb/assets/OMB/circulars/a136/a136_revised_2016.pdf
- Chapter 31 of the U.S. Code Section 3515(b): https://www.law.cornell.edu/uscode/text/31/3515

Financial Section

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- Federal Trade Commission Act of 1914: https://www.ftc.gov/enforcement/statutes/federal-trade-commission-act
- National Do Not Call Registry: https://www.donotcall.gov

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- Federal Employees' Compensation Act (FECA): https://www.dol.gov/owcp/dfec/regs/statutes/feca.htm

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- 28 U.S.C. 1961: https://www.law.cornell.edu/uscode/text/28/1961

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- Do Not Call (DNC) Registry Fee Extension Act of 2007: https://www.gpo.gov/fdsys/pkg/PLAW-110publ188/html/PLAW-110publ188.htm
- Do Not Call Implementation Act: https://www.law.cornell.edu/uscode/text/15/6151

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- Statement of Federal Financial Accounting Standard (SFFAS) 1, Accounting for Selected Assets and Liabilities: www.fasab.gov/pdffiles/codification_report2007.pdf

Other Information

Appendix A: Data Quality Information

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- Other FOIA measures: http://www.ftc.gov/foia/chiefreports.shtm

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- The Federal Employee Viewpoint Survey (FEVS) Talent Management Index: http://www.fedview.opm.gov/

APPENDIX D: CONTACT INFORMATION AND ACKNOWLEDGEMENTS

FEDERAL TRADE COMMISSION	600 Pennsylvania Avenue, NW Washington, D.C. 20580
General Information Number	202-326-2222
Internet Home Page	www.ftc.gov
FTC Spanish Home Page	www.ftc.gov/espanol
Strategic Plan Internet Site	www.ftc.gov/strategicplan
FTC Press Releases	www.ftc.gov/news-events/press-releases

AGENCY FINANCIAL REPORT (AFR) SPECIFIC

The FTC welcomes comments or suggestions for improvement of its AFR. Please contact the agency to provide feedback or to request additional copies.

AFR Internet Site	https://www.ftc.gov/reports/agency-financial-report-fy2016
Performance Internet Site	http://www.ftc.gov/about-ftc/performance
AFR Contact	Joseph O'Leska
AFR Telephone	202-326-2716
Performance Contact	Valerie Green
Performance Telephone	202-326-2901
AFR Email Address	AFR@ftc.gov
AFR Fax Number	202-326-3529
AFR Mailing Address	Federal Trade Commission Attn: AFR, M/D H-774 600 Pennsylvania Avenue, NW Washington, D.C. 20580

REGIONS

East Central (Cleveland, OH)	216-263-3455
Midwest (Chicago, IL)	312-960-5634
Northeast (New York, NY)	212-607-2829
Northwest (Seattle, WA)	206-220-6350
Southeast (Atlanta, GA)	404-656-1390
Southwest (Dallas, TX)	214-979-9350
Western (San Francisco, CA)	415-848-5100
Western (Los Angeles, CA)	310-824-4343

CONSUMER RESPONSE CENTER

General Complaints	877-FTC-HELP (877-382-4357)
Identity Theft Complaints	877-ID-THEFT (877-438-4338)
TTY (Teletype Consumer Response Center)	866-653-4261
FTC Complaint Assistant	www.ftc.gov/complaint
Identity Theft Education, Complaints, and Recovery Plan	https://www.identitytheft.gov/
National Do Not Call Registry	www.donotcall.gov

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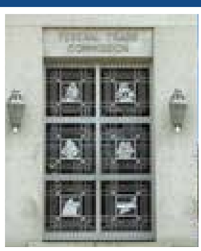
FEDERAL TRADE COMMISSION



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