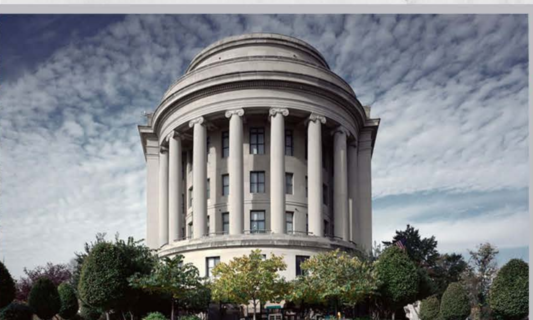


FISCAL YEAR 2017

AGENCY FINANCIAL REPORT

FEDERAL TRADE COMMISSION

FEDERAL TRADE COMMISSION

INTRODUCTION

FISCAL YEAR 2017

FEDERAL TRADE COMMISSION

INTRODUCTION

ABOUT THIS REPORT

The Federal Trade Commission's (FTC) fiscal year (FY) 2017 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
- Prompt Payment 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
- Government Performance and Results Modernization Act of 2010
- Improper Payments Elimination and Recovery Improvement Act (IPERIA) of 2012
- Digital Accountability and Transparency Act of 2014
- Federal Information Security Modernization Act of 2014
- Federal Civil Penalties Inflation Adjustment Act Improvements Act of 2015

This is the fourth year the FTC is producing an AFR and an Annual Performance Report (APR) in lieu of a combined Performance and Accountability Report. The FY 2017 APR will be combined with the FY 2019 Annual Performance Plan (APP) and included in the FY 2019 Congressional Budget Justification in February 2018. The combined APP and APR will be available at the FTC's website at https://www.ftc.gov/about-ftc/performance, along with other performance documents.

Certificate of Excellence


AGA

Certificate of Excellence in Accountability Reporting®

presented to the

Federal Trade Commission

in recognition of outstanding effort in preparing the Agency Financial Report for the fiscal year ending September 30, 2016.

Diane L. Dudley, CGFM, CPA
Chair, CEAR Board

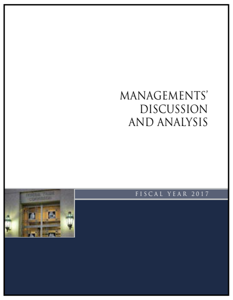
Ann M. Ebberts, MS, PMP
Chief Executive Officer, AGA

The FTC received the *Association of Government Accountants' Certificate of Excellence in Accountability Reporting* for its FY 2016 AFR

INTRODUCTION

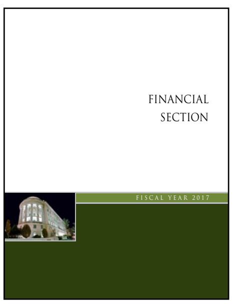
HOW THIS REPORT IS ORGANIZED

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



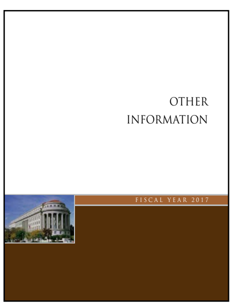
1. MANAGEMENT'S DISCUSSION AND ANALYSIS

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.



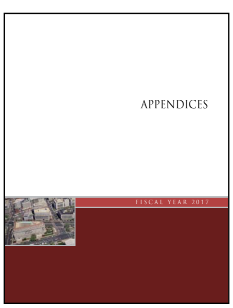
2. FINANCIAL SECTION

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



3. OTHER INFORMATION

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



4. APPENDICES

Appendix A provides the data quality information for the FTC's key performance goals and efficiency measures; Appendix B lists the acronyms cited throughout this report; Appendix C 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 an independent 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 Federal Trade Commission Act, Clayton Act, Telemarketing 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 had 1,141 staff on board at the end of FY 2017.
- Total new budget authority for FY 2017 was $313 million.

The FTC is the only federal agency with both consumer protection and competition jurisdiction in broad sectors of the economy. In FY 2017, the FTC continued to exemplify good government by advancing consumer interests and encouraging innovation and competition in our economy while making more efficient use of limited resources to better serve the public. This Agency Financial Report highlights the FTC's major accomplishments, illustrates how the agency manages its resources, and outlines its plans to address the challenges ahead.

MAUREEN K. OHLHAUSEN
ACTING CHAIRMAN

FY 2017 PERFORMANCE HIGHLIGHTS

CONSUMER PROTECTION

The FTC's consumer protection enforcement initiatives are primarily focused on addressing trends we see in the marketplace: stopping fraud targeting specific populations, protecting consumers in the financial marketplace, safeguarding consumers' privacy and data security, and prosecuting deceptive marketing and 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 January, the Western Union Company (Western Union), a global money services business, agreed to pay $586 million to settle FTC and Department of Justice charges that the company allowed scammers to use its money transfer system to collect money from their victims. The FTC alleged that the company's failures, including not taking effective action against its own complicit agents, resulted in hundreds of millions in fraudulent transfers since 2004. As part of this global settlement, the FTC required Western Union to implement an effective anti-fraud program. The $586 million settlement will provide redress to injured consumers.

DeVry University agreed to pay $100 million to settle FTC charges that it misled prospective students with ads that touted high employment success rates and income levels upon graduation. The FTC mailed 173,000 refund checks totaling more than $49 million to students in compensation for DeVry's allegedly misleading ads, and will provide $51 million in debt relief. The debt being forgiven includes the full balance owed—$30.35 million—on all private unpaid student loans that DeVry issued to undergraduates between September 2008 and September 2015, and $20.25 million in student debts for items such as tuition, books, and lab fees.

In a case brought by the Department of Justice on behalf of the FTC and four states, an Illinois federal court ordered Dish Network to pay $280 million in civil penalties and to stop alleged violations of the FTC's Telemarketing Sales Rule and other federal and state laws. The satellite TV provider allegedly made millions of illegal calls, including to numbers on the Do Not Call Registry, and used unscrupulous tactics to generate programming sales. The court also ordered Dish to ensure its marketing practices comply with the law. The civil penalty award included a record-setting $168 million to the U.S. Treasury, with the remainder going to the states.

Volkswagen Group of America agreed to fully compensate consumers who purchased 3.0-liter TDI diesel vehicles through a combination of repairs, additional monetary compensation, and buybacks for certain models. Consumers will receive up to $1.2 billion in compensation for Volkswagen's allegedly misleading "clean diesel" claims, in addition to the more than $10 billion redress fund already created for 2.0 liter consumers. In all, consumers who bought affected "clean diesel" vehicles will receive up to $11.5 billion, and the court may hold Volkswagen in contempt if it makes deceptive environmental claims in the future.

The FTC, along with federal, state, and international law enforcement partners, announced "Operation Tech Trap," a nationwide and international crackdown on tech support scams that trick consumers into believing their computers are infected with viruses and malware, and then charge them hundreds of dollars for unnecessary repairs. As part of this effort, the FTC and its partners announced 16 actions, including complaints, settlements, indictments, and guilty pleas, against deceptive tech support operations.

The FTC is the lead government agency protecting consumer privacy through enforcement, policy, and business education initiatives. In September, the FTC, along with privacy law enforcement agencies in Australia and Canada, received a global data protection award from the International Conference of Data Protection and Privacy Commissioners, a global forum representing 119 data protection entities. The award recognized the cross-border investigation of the AshleyMadison.com data breach in 2015, which affected consumers in nearly 50 countries. The FTC alleged that the dating website deceived consumers and failed to protect customer information in 36 million users' accounts. The court settlement required the defendants to pay $1.6 million and implement a comprehensive data security program.

The FTC and 32 state attorneys general alleged that Lenovo, one of the world's largest computer makers, harmed consumers by pre-loading software on some laptops that compromised security protections in order to deliver ads. In its complaint, the FTC alleged that beginning in 2014, Lenovo began selling consumer laptops with a pre-installed software program, VisualDiscovery, that allowed access to consumers' sensitive personal information transmitted over the Internet, including login credentials, Social Security numbers, and medical information. As part of the settlement, Lenovo is prohibited from misrepresenting any features of software preloaded on laptops that will inject advertising into consumers' Internet browsing sessions or transmit sensitive consumer information to third parties. The company must also get consumers' affirmative consent before pre-installing this type of software.

In another privacy case, Uber Technologies agreed to implement a comprehensive privacy program and obtain regular, independent audits to settle FTC charges that the ride-sharing company deceived consumers by failing to monitor employee access to consumer personal information and by failing to reasonably secure sensitive consumer data stored in the cloud. In its complaint, the FTC alleged that the San Francisco-based firm failed to live up to its claims that it closely monitored employee access to consumer and driver data and that it deployed reasonable measures to secure personal information it stored on a third-party cloud provider's servers. The FTC's complaint alleges that Uber's failure to provide reasonable data security enabled a hacker to get personal information about Uber drivers, including more than 100,000 drivers' names and license numbers.

The FTC also announced the winner of an Internet of Things (IoT) Home Inspector Challenge where contestants competed for a top prize of $25,000 to develop a tool to help consumers protect the security of their IoT devices. The winning product, a mobile app, will help users with limited technical expertise to identify devices with out of date software and other common security vulnerabilities and provide instructions on how to update the software and fix the vulnerabilities. The FTC also granted a $3,000 honorable mention award to a team that proposed an alternative method of securing home networks from vulnerable IoT devices. Awards were provided under the America COMPETES (Creating Opportunities to Meaningfully Promote Excellence in Technology, Education, and Science) Act.

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.

As a major policy initiative, the FTC launched the Economic Liberty Task Force to focus on the proliferation of occupational licensing. Nearly 30 percent of American jobs now require a license. While certain licensing requirements are necessary to protect the public, unnecessary and excessive occupational licensing destroys jobs, increases costs for consumers, and threatens economic liberty. These harms often affect those least able to bear them – low and middle income Americans, veterans, and military families. Building on the FTC's long history of advocacy to reduce or eliminate unnecessary state-based occupational licensing requirements, the Task Force seeks bring even greater attention to this important issue.

The Commission has long prioritized promoting competition in healthcare markets because of its critical impact on American consumers. In 2017, the FTC prevailed in two high-profile cases, ultimately blocking hospital mergers in Harrisburg, Pennsylvania and the North Shore area of Chicago, Illinois. In both cases, the FTC alleged that the mergers would reduce competition for general acute care inpatient services sold to commercial health care plans and lead to higher costs and lower quality of care for patients. In both cases, the district courts initially rejected the FTC's proffered geographic markets. On appeal, two different circuit courts overturned the district courts' decisions and validated the FTC's geographic market analysis. The appellate decisions protected hospital competition by acknowledging that employers require, and commercial health care plans must offer, access to healthcare close to where plan participants live.

The Commission also continued to challenge anticompetitive practices in the pharmaceutical industry. In January, FTC filed a stipulated injunction in federal court settling charges that Mallinckrodt ARD Inc., formerly known as Questcor Pharmaceuticals, Inc., had acquired the rights to develop a drug that would have threatened the firm's existing monopoly of drugs used to treat a rare seizure disorder. In addition to a $100 million monetary payment, the stipulated court order requires that Questcor grant a license to develop that drug to a licensee approved by the Commission.

The FTC has also successfully challenged several mergers and negotiated merger settlement agreements in a variety of industries including agricultural chemicals, animal vaccines, and fantasy sports. For example, Draft Kings and Fan Duel, the two largest daily fantasy sports sites, abandoned their planned transaction, after the Commission sought a preliminary injunction in federal district court. The combination would have controlled more than ninety percent of the U.S. market for paid daily fantasy sports contests, according to the complaint.

The FTC is also committed to evaluating the effectiveness of its work, whether through enforcement, education, or advocacy. For example, in February the agency issued: The FTC's Merger Remedies 2006-2012. The Merger Remedy Study analyzed 89 merger orders issued between 2006 and 2012 to determine whether the remedies utilized had maintained or restored competition in the subject markets. The study found that the agency's process for maintaining competition when companies merge is generally effective, as is the process by which the Commission designs and implements remedies. The study also resulted in the development of agency best practices for divestiture.

OUTREACH AND PARTNERSHIPS

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

This fiscal year, the FTC launched two new education websites, one aimed at military consumers – Military.Consumer.gov, and one for small businesses – FTC.gov/SmallBusiness. The Military Consumer site provides advice about financial readiness, including car buying and managing finances during deployment, as well as a guide for financial counselors advising the military community. The small business site includes information on how small business owners can avoid scams and protect their computers and networks from cyberattacks and other threats. The site, which includes a new Small Business Computer Security Basics guide, also has information on other cyber threats, such as ransomware and phishing schemes that target small businesses.

FINANCIAL MANAGEMENT

Being responsible stewards of the public resources that the American taxpayers and Congress entrusted to us is one of our most important jobs. For the FY 2017 independent financial audit, we received our 21st consecutive unmodified opinion, the highest audit opinion available. The independent auditors did not identify any material weaknesses, significant deficiencies, or instances of non-compliance with internal controls, financial systems, or laws and regulations. In FY 2016, 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. The FTC corrected the material weakness, and the independent auditors confirmed that the material weakness has been remediated. I am pleased to report that management's assessment of risks and review of controls and financial systems disclosed no material weaknesses, and that the financial and performance data presented here is reliable and complete. (see Statement of Assurance, p. 35).

FUTURE CHALLENGES

In pursuing its strategic goals and objectives, many of the FTC's challenges are defined by the conditions of the marketplace, and thus are ever changing. The agency works to stay informed about new technologies that can bring tremendous benefits to consumers, but also pose challenges on both the competition and consumer protection fronts. For a more detailed description of the mission challenges identified by agency senior management, see p. 26.

In addition, the Office of the Inspector General (OIG) identified three key management challenges this year: (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; and (3) improving acquisition planning and contract management. 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 FTC's partners and colleagues in Congress, industry, and domestic and international law enforcement, the agency will continue to strive to protect American consumers and promote competition.

Maureen K. Ohlhausen
November 13, 2017

FEDERAL TRADE COMMISSION

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MANAGEMENT'S DISCUSSION AND ANALYSIS

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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.

OUR ORGANIZATION

The FTC is an independent Federal law enforcement agency that reports to the President and to Congress on its actions, with both consumer protection and competition jurisdiction in broad sectors of the economy. The agency administers a wide variety of laws, such as the Federal Trade Commission Act (FTC Act), Fair Credit Reporting Act, and Clayton Act. In total, the Commission has enforcement or administrative responsibilities under more than 70 laws. The FTC also enforces rules issued pursuant to the Federal Trade Commission Act or other laws, including the Business Opportunity Rule and the Telemarketing Sales Rule. FTC 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

The FTC Commission as of September 30, 2017: (left to right) Maureen K. Ohlhausen, Acting Chairman; Terrell McSweeny, Commissioner.

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. Maureen K. Ohlhausen was designated Acting Chairman on January 25, 2017, and Terrell McSweeny has been a Commissioner since April 28, 2014. There are currently three open Commissioner positions.

The FTC's workforce is its greatest asset. The agency's workforce consists of 1,141 civil service employees dedicated to carrying out the agency's mission.

The FTC's mission is carried out by three bureaus:

The **Bureau of Competition** enforces the nation's antitrust laws, which form the foundation of our free market economy. The antitrust laws promote the interests of consumers; they support unfettered markets and result in lower prices and more choices. By enforcing the antitrust laws, the Bureau promotes competition and protects consumers' freedom to choose goods and services in an open marketplace at a price and quality that fit their needs. The Bureau seeks to prevent anticompetitive mergers and other anticompetitive business practices in the marketplace.

The **Bureau of Consumer Protection**'s mandate is to protect consumers against unfair, deceptive or fraudulent practices. The Bureau enforces a variety of consumer protection laws enacted by Congress, as well as trade regulation rules issued by the Commission. Its actions include individual company and industry-wide investigations, administrative and federal court litigation, rulemaking proceedings, and consumer and business education. In addition, the Bureau contributes to the Commission's on-going efforts to inform Congress and other government entities of the impact that proposed actions could have on consumers.

The **Bureau of Economics** helps the FTC evaluate the economic impact of its actions. To do so, the Bureau provides economic analysis and support to antitrust and consumer protection investigations and rulemakings. It also analyzes the impact of government regulation on competition and consumers and provides Congress, the Executive Branch and the public with economic analysis of market processes as they relate to antitrust, consumer protection, and regulation.

The work of the bureaus is aided by:

The **Office of Congressional Relations** works closely with members of Congress and their staffs. The Office informs Commissioners and FTC staff of Capitol Hill issues and policies, and helps provide information on legislation of interest to the Commission. It also coordinates the preparation of both Congressional testimony and responses to Congressional inquiries concerning FTC policies and programs.

The **Office of Public Affairs** is responsible for informing the public about the FTC's diverse law enforcement actions and policy work. The office is the agency's main point of contact with the news media.

The **Privacy Office** is responsible for ensuring that the agency's practices and policies comply with applicable federal information privacy and security requirements.

The **Office of Policy Planning** assists the Commission to develop and implement long-range competition and consumer protection policy initiatives and advises staff on cases raising new or complex policy and legal issues.

The **Office of International Affairs** leads and coordinates the FTC's work in international antitrust, consumer protection, and technical assistance projects. The FTC works with competition and consumer protection agencies around the world to promote cooperation and convergence toward best practices.

The **Office of the Secretary** oversees swift and prompt processing of all matters presented to the Commission and supports the Commission decision-making process and ensures it operates efficiently. The Office also responds to most Congressional and White House correspondence raising constituent issues.

The **Office of the General Counsel** is the Commission's chief legal officer and adviser. The office's major functions are representing the Commission in court and providing legal counsel to the Commission, the three bureaus, and other offices.

The **Regional Offices** work with the Bureaus of Competition and Consumer Protection to conduct investigations and litigation, provide advice to state and local officials on the competitive implications of proposed actions, recommend cases, provide local outreach services to consumers and businesspersons, and coordinate activities with local, state, and regional authorities.

The **Office of the Executive Director** is responsible for the administration and management of the Commission through four organizations, which manage the Commission's human capital, information technology, financial management and administrative/records management services.

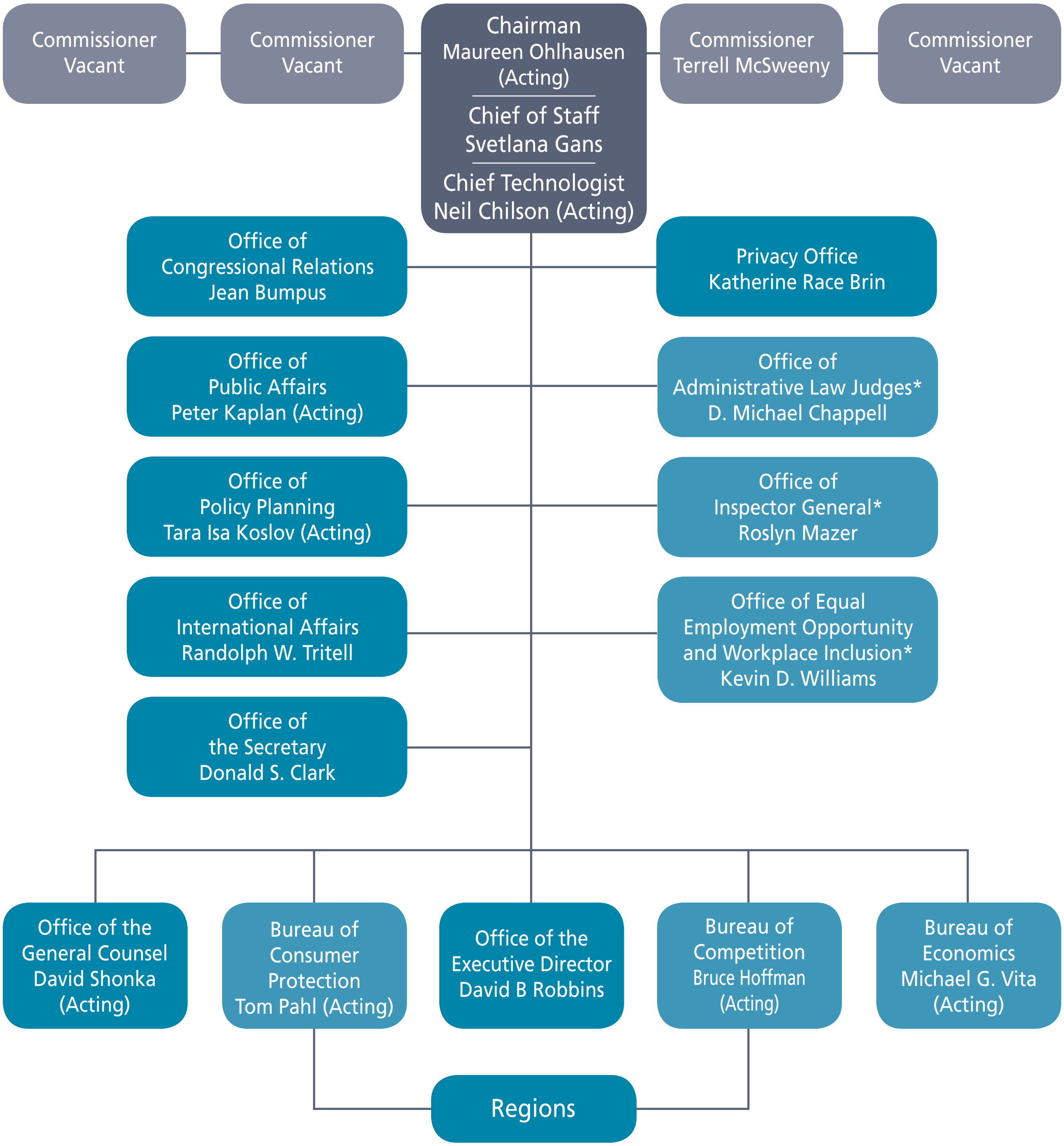
The **Office of Administrative Law Judges** performs the initial adjudicative fact-finding in Commission administrative complaint proceedings, guided by the FTC Act, the Administrative Procedure Act, relevant case law interpreting these statutes, and the FTC's Rules of Practice. Administrative Law Judges are independent decision makers, appointed under the authority of the Office of Personnel Management.

The **Office of Inspector General** is an independent and objective organization within the FTC, established in compliance with the Inspector General Act Amendments of 1988. Under the Inspector General Act, the office is responsible for conducting audits and investigations relating to the programs and operations of the FTC.

The **Office of Equal Employment Opportunity and Workplace Inclusion** advises and assists the FTC in carrying out its responsibilities and duties relative to Title VII of the Civil Rights Act of 1964, as amended, other laws, executive orders, and regulatory guidelines affecting affirmative employment and the processing of EEO complaints.

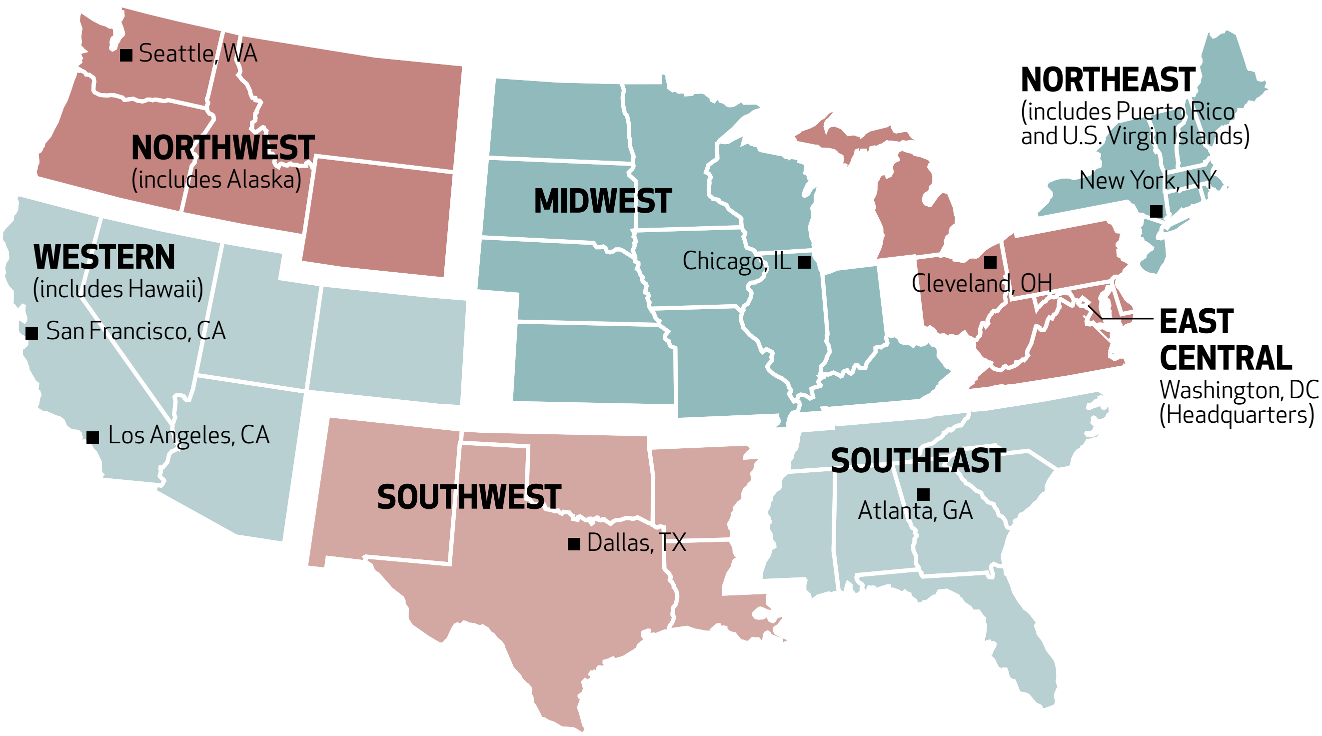
For more information about the agency's components, visit the FTC's Bureaus and Offices webpage.

FEDERAL TRADE COMMISSION ORGANIZATIONAL CHART



*An independent organization within the FTC

The agency is headquartered in Washington, DC, and operates with seven regions across the U.S. The graphic below illustrates the locations of the FTC regions.



OUR BUILDING

The FTC established its headquarters at 600 Pennsylvania Avenue, N.W., with President Franklin D. Roosevelt laying the cornerstone himself.

Roosevelt remarked, "May this permanent home of the Federal Trade Commission stand for all time as a symbol of the purpose of the government to insist on a greater application of the golden rule to conduct the corporation and business enterprises in their relationship to the body politic."

The building which is particularly known for its two art deco style statues, called "Man Controlling Trade," is located at the apex of the Federal Triangle, and was the culmination of the massive Depression-era government building project. Commissioners and staff officially moved in on April 21, 1938, and the building continues to function as the FTC's headquarters, serving the agency's adjudicative, executive, policy, and administrative functions.

PERFORMANCE HIGHLIGHTS

As stated in the introduction to this report, this is the fourth year the FTC has chosen to produce an AFR and an APR in lieu of a combined Performance and Accountability Report. The FY 2017 APR will be combined with the FY 2019 APP and included in the FY 2019 Congressional Budget Justification to be published in 2018. 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 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: $167	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: $19	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 Full-Time Equivalent (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 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 Chairman 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, 22 met or exceeded target, three did not meet target, and data was not available at the time of publication for four. 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 2017	FY 2016	FY 2015*
GOAL 1: PROTECT CONSUMERS	Target Met/Exceeded	10	10	10
	Target Not Met	1	1	1
	Data Not Available at Time of Publication	1	1	0
	Data Not Available	0	0	1
GOAL 2: MAINTAIN COMPETITION	Target Met/Exceeded	7	8	10
	Target Not Met	2	1	0
	Data Not Available at Time of Publication	1	1	0
GOAL 3: ADVANCE ORGANIZATIONAL PERFORMANCE	Target Met/Exceeded	5	6	7
	Target Not Met	0	0	0
	Data Not Available at Time of Publication	2	1	0
TOTAL	Target Met/Exceeded	22	24	27
	Target Not Met	3	2	1
	Data Not Available at Time of Publication	4	3	0
	Data Not Available	0	0	1
	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 for which the result became available after publication and one performance goal for which the result was incorrectly reported as Not Met in the FY 2015 AFR.

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 2017 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 three 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

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)

2017		2016		2015	
Target	Actual	Target	Actual	Target	Actual
650.0%	1,278.3% ✔	650.0%	1,083.8% ✔	650.0%	723.4% ✔

Key Performance Goal 1.1.4

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

2017		2016		2015	
Target	Actual	Target	Actual	Target	Actual
$60.0 million	$366.0 million ✔	$60.0 million	$57.6 million ✖	$60.0 million	$76.2 million ✔

Note: The agency missed its target in FY 2016 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.

FTC Launches Economic Liberty Task Force

Economic LIBERTY Opens Doors

In March 2017, as Acting Chairman Maureen Ohlhausen's first major policy initiative, the FTC launched a new Economic Liberty Task Force and a related website to focus on the proliferation of occupational licensing. Nearly thirty percent of American jobs require a license today, up from less than five percent in the 1950s. For some professions, occupational licensing is necessary to protect the public against legitimate health and safety concerns. But in many situations, the expansion of occupational licensing threatens economic liberty. Unnecessary or overbroad restrictions erect significant barriers and impose costs that harm American workers, employers, consumers, and our economy as a whole, with no measurable benefits to consumers or society. Building on the FTC's long history of advocacy to reduce or eliminate unnecessary state-based occupational licensing requirements, the Task Force is amplifying the FTC's voice and bringing greater attention to these important issues. The Task Force encourages greater reliance on competition to protect the public against unqualified service providers, and collaborates with state partners and other interested stakeholders to highlight the benefits of occupational licensing reform. In July 2017, the Task Force held its first public roundtable, which convened a panel of experts to discuss license portability across state lines. In September 2017, the Task Force announced a second public roundtable (scheduled for November 2017) that will focus on empirical evidence regarding the effects of occupational licensing.

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)

2017		2016		2015	
Target	Actual	Target	Actual	Target	Actual
12,500	12,944 ✔	11,500	14,509 ✔	11,500	16,321 ✔

Note: The FY 2016 result was incorrectly reported in the FY 2016 AFR due to a data entry error.

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)

2017		2016		2015	
Target	Actual	Target	Actual	Target	Actual
40	50 ✔	40	53 ✔	40	58 ✔

FTC Hosts Workshop on Hearing Health Care

In April 2017, the FTC hosted a public workshop to examine how enhanced competition and innovation might increase the availability and adoption of hearing aids by consumers who need them. Health and science authorities have observed that many consumers who could benefit from hearing aids do not use them, often citing price as a significant factor. The workshop brought together researchers, health care providers, industry representatives, consumer representatives, and policymakers to consider potential barriers to hearing aid availability and adoption, as well as ways that competition and innovation might lower those barriers. Workshop participants also discussed the benefits and risks of a policy proposal, which has since been enacted, to create a new federal regulatory category for over-the-counter (OTC) hearing aids, which could foster the development of lower-cost and more widely accessible hearing aids. FTC staff are reviewing public comments submitted in conjunction with the workshop, and will continue to contribute their competition and consumer protection expertise as implementing OTC regulations are developed.

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)

2017		2016		2015	
Target	Actual	Target	Actual	Target	Actual
40.0-60.0%	49.1% ✔	40.0-60.0%	54.6% ✔	40.0-60.0%	57.7% ✔

**"Actions" includes litigated victories, consent orders, abandoned transactions, and restructured transactions. 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.

Key/Efficiency Performance Goal 2.1.3

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

2017		2016		2015	
Target	Actual	Target	Actual	Target	Actual
4,200.0%	5,563.0% ✔	2,600.0%	4,640.3% ✔	2,600.0%	5,131.6% ✔

Court Orders Dish to Pay $280M and Stop Violations

In a historic decision, an Illinois Federal court ordered Dish Network to pay $280 million in civil penalties and to stop alleged violations of the FTC's Telemarketing Sales Rule and other federal and state laws. The Department of Justice filed charges on behalf of the FTC and four states against the satellite TV provider. Dish allegedly made millions of illegal calls, including to numbers on the Do Not Call Registry, and used unscrupulous tactics to generate programming sales. The court also ordered Dish to ensure its marketing practices comply with the law. The civil penalties include a record-setting $168 million payment to the U.S. Treasury General Fund, with the remainder going to the states.

FTC and DOJ Update Two Sets of Antitrust Guidelines

In January 2017, the FTC and the Department of Justice Antitrust Division jointly issued revised Antitrust Guidelines on two subjects: the Licensing of Intellectual Property and International Enforcement and Cooperation. The updated IP licensing guidelines maintain the Agencies' economically-grounded approach to IP licensing issues, and include focused revisions based on legal changes over the past 20 years. The revised international guidelines reflect developments in the law and the Agencies' practices since the guidance was last updated in 1995, including on the application of U.S. antitrust law to conduct involving foreign commerce. These updated guidelines provide practical guidance on the Agencies' international antitrust enforcement policies and related investigative tools, and include a new chapter dedicated to international cooperation and related concerns, such as confidentiality safeguards and the Agencies' approach to extraterritorial remedies.

Key/Efficiency Performance Goal 2.1.5

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

2017		2016		2015	
Target	Actual	Target	Actual	Target	Actual
4000.0%	3,959.0% ✖	400.0%	5,228.6% ✔	400%	4,863.3% ✔

Note: The agency raised its target from 400% to 4000% in FY 2017, because the significant consumer savings from the Cephalon investigation will continue to impact the rolling average reported for this goal through FY 2019. The agency missed this new higher target in FY 2017, in part because of significant litigation in conduct matters, which drove an increase in costs for the program and resulting in a lowering of the savings/costs ratio.

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)

2017		2016		2015	
Target	Actual	Target	Actual	Target	Actual
95.0%	96.0% ✔	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 Freedom of Information Act (FOIA) request. (Efficiency measure)

2017		2016		2015	
Target	Actual	Target	Actual	Target	Actual
6.0 days	5.4 days ✔	6.0 days	5.9 days ✔	6.0 days	5.5 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)

2017		2016		2015	
Target	Actual	Target	Actual	Target	Actual
59.0%	77.0% ✔	58.0%	74.0% ✔	57.0%	72.0% ✔

Note: The FTC set its organizational target to exceed the government-wide results on the Federal Employee Viewpoint Survey's Talent Management Index. In 2017 the government-wide score was 59.0%.

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 consumers as technology evolves; protecting consumer privacy and improving data security including combating identity theft; 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 fraud, focusing on those that cause or are likely to cause the greatest consumer harm. The FTC continues to receive consumer complaints about imposter scams in which the perpetrators pose as government agencies, legitimate technical support companies, family members, or others. 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 focus on frauds targeting specific populations, including military consumers, seniors, non-English speaking consumers, and small businesses. Con artists continue to target consumers in financial distress. Therefore, the FTC will continue to take law enforcement actions to stop deceptive or other unlawful conduct in mortgage, student loan assistance relief and debt relief services, payday lending, and debt collection. This unlawful conduct can have severe consequences for consumers who can least afford it.

Western Union Settles Consumer Fraud Charges

The Western Union Company, a global money services business headquartered in Englewood, Colorado, agreed to pay $586 million to settle FTC and Department of Justice charges that the company allowed scammers to use its money transfer system to collect money from their victims. The FTC says that the company's failures, including not taking effective action against complicit agents, resulted in hundreds of millions of dollars in fraudulent transfers since 2004. As part of this global settlement, the FTC also requires Western Union to implement an effective anti-fraud program. The Department of Justice will use the $586 million payment to provide remission to the victims.

The FTC is committed to protecting military consumers from scams. The FTC's website MilitaryConsumer.gov is a tool to help service members and their families avoid fraud and make wise purchases. With deployments and frequent relocations, military families regularly need to rent or buy a new place to live, manage money while on the move, and be vigilant about dealing with businesses in new locales. The FTC will devote more resources on outreach to military consumers.

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 will continue to offer materials to help businesses avoid becoming victims of fraud in the FTC's Business Center at business.ftc.gov. The FTC is prioritizing outreach and education for small businesses. The FTC recently launched a web page with resources to help small businesses stay ahead of the latest scams, reduce the risk of cyber threats, and respond in case of a data breach. The FTC also will combat frauds targeting seniors 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 CONSUMERS AS TECHNOLOGY EVOLVES:

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 its focus on the consumer protection issues associated with the use of new technology, including a careful consideration of the costs and benefits of practices and the importance of fostering innovation. The FTC will take enforcement actions against deceptive advertisements that appear in new formats and new media (e.g., apps, games, streaming videos, and social networks).

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. The FTC will continue to conduct research on emerging technologies to assist with enforcement actions, inform policy, and educate consumers. (Objectives 1.1, 1.2, and 1.3)

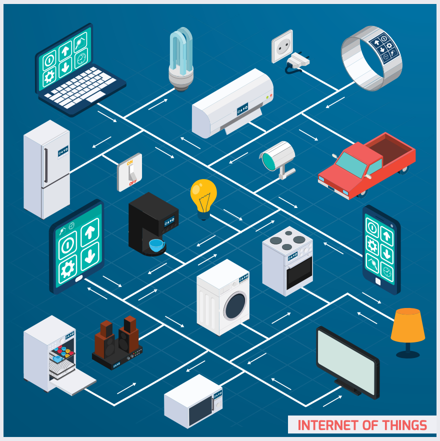
Protecting Military Consumers

MILITARY CONSUMER
YOUR TOOL FOR FINANCIAL READINESS

The FTC hosted a workshop in San Antonio, Texas to examine financial issues and scams that can affect military consumers, including active duty servicemembers in all branches and veterans. The workshop also discussed FTC resources available to military consumer advocates and representatives on financial readiness and fraud prevention, including the FTC's Military Consumer Toolkit, available at MilitaryConsumer.gov. The FTC, state, and local authorities convened a second conference in Los Angeles, California to help educate military consumers and train military attorneys, law enforcement personnel, and consumer protection officials to address consumer fraud and other issues that affect servicemembers and their families.

Internet of Things Challenge

The FTC announced the winner of an Internet of Things (IoT) Home Inspector Challenge where contestants competed for a top prize of $25,000 to develop a tool that would help consumers protect the security of their IoT devices. The winning product, a mobile app, would enable users with limited technical expertise to identify devices with out of date software and other common security vulnerabilities and provide instructions on how to update each device's software and fix other vulnerabilities. The FTC also awarded a $3,000 honorable mention to a team that proposed an alternative method of securing home networks from vulnerable IoT devices.



PROTECTING CONSUMER PRIVACY AND IMPROVING DATA SECURITY:

The FTC will continue to take a leading role in efforts to protect consumers from unfair or deceptive practices related to the security and privacy of their personal information, while preserving the many benefits that technological advances offer. The agency will stop unfair and deceptive consumer privacy and data security practices through law enforcement focusing on matters that cause or are likely to cause concrete harm to consumers. It will promote strong and balanced privacy and security protections through policy initiatives on a range of topics. The FTC will continue to emphasize data security educational tools with the Start with Security and Stick With Security campaigns. For these campaigns, the agency will continue to host events around the country on security topics and best practices. The FTC recently launched a web page with resources to help small businesses stay ahead of the latest scams, reduce the risk of cyber threats, and respond in case of a data breach. The agency will bring enforcement actions as appropriate against entities that violate the Children's Online Privacy Protection Act (COPPA) Rule. The agency also will participate in interagency groups, promote self-regulatory efforts, and provide technical assistance to Congress on draft legislation, as well as participate in international privacy initiatives and execute with diligence its enforcement role in the Privacy Shield framework.

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. 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

New FTC Website Helps Small Businesses Avoid Scams and Cyber Attacks

The FTC launched ftc.gov/SmallBusiness, a new website with articles, videos, and other information aimed at helping small business owners avoid scams and protect their computers and networks from cyberattacks and other threats. It also includes a Small Business Computer Security Basics guide, which helps employees of very small companies be mindful about sharing account information, using strong passwords and keeping their wireless networks protected.

protection matters involving emerging technologies. 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)

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, seniors, military members, and rural consumers; 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. For example, the FTC has formed an Economic Liberty Task Force to consider how occupational licensing reform could reduce barriers to entry, enhance competition, and promote economic opportunity for all Americans. As a part of this effort, in July 2017, the FTC held a roundtable to highlight approaches that make it easier for workers in state-licensed occupations to offer their services across state lines or move between states.

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 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 or the abuse of government regulatory processes used to delay generic entry into pharmaceutical markets. Such practices deny consumers access to lower priced generic drugs. The FTC reviews, investigates, and challenges these harmful practices where appropriate.

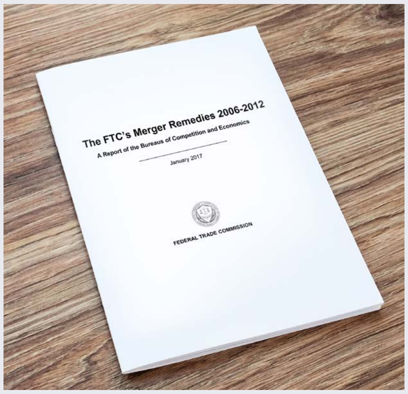
The FTC also prioritizes stopping anticompetitive health care mergers that could lead to higher costs or reduced quality, including those involving health care providers and pharmaceutical and medical device companies. In recent years, the FTC has required significant divestitures in a large number of pharmaceutical transactions.

Recently, the FTC successfully challenged two large hospital mergers, ultimately winning circuit court endorsement for its analytical approach in two separate circuits. Stopping anticompetitive mergers of health care providers remains an area of considerable focus for the agency.

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

Merger Remedy Study

In February 2017, the Commission issued a study by the FTC's Competition and Economics Bureaus that looks back at Commission merger orders issued between 2006 and 2012. The study confirmed that the agency's processes for designing and enforcing merger remedies are generally effective and in most cases resulted in remedies that preserved or restored competition that would have been lost due to the merger. Where the study provided valuable insight on how to improve the FTC's divestiture process, the agency has begun to make those improvements.



Twin Appellate Hospital Merger Victories

The FTC prevailed in two high-profile hospital merger cases during FY 2017, ultimately blocking mergers in Harrisburg, Pennsylvania[i] and the North Shore area of Chicago, Illinois.[ii] In each case, the FTC alleged that the proposed merger would substantially reduce competition for general acute care inpatient hospital services sold to commercial health plans, leading to higher healthcare costs and lower quality service in local communities. In both cases, the district court initially rejected the FTC's proffered geographic market. On appeal, two different circuit courts each overturned the district court's decision and validated the FTC's geographic market analysis. The decisions acknowledged the commercial reality of U.S. hospital competition: that because patients prefer to receive hospital services close to home, employers require—and commercial health plans must offer—access to in-network hospitals close to where their employees live. The FTC's cases protected this type of hospital competition.

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 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. In April 2017, the Commission held a workshop entitled "Now Hear This" to examine competition, innovation, and consumer protection issues raised by hearing health and technology, for example.(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 complicated 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 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

[i] FTC v. Penn State Hershey Med. Ctr., 838 F.3d 327 (3d Cir. 2016).

[ii] FTC v. Advocate Health Care Network, 841 F.3d 460 (7th Cir. 2016).

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. Earlier this year, in the face of an FTC challenge, the two largest providers of daily fantasy sports abandoned their planned merger. The two companies operated the largest on-line platforms for daily fantasy sports.

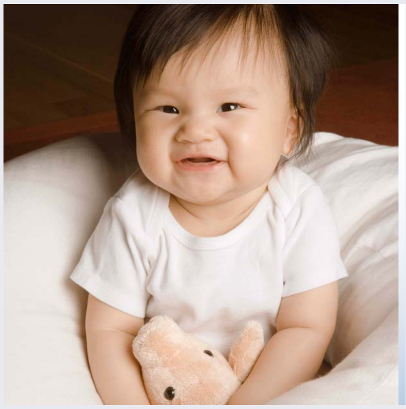
Antitrust and competition policy matters in the technology marketplace increasingly intersect with complex intellectual property (IP) concerns. IP concerns remain a Commission priority due to their widespread impact on competition and consumer protection. For example, the FTC conducted a study of approximately twenty-five patent 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. In October 2016, the FTC issued a report on the study that provides an empirical foundation for ongoing policy discussions and makes recommendations for patent litigation reforms designed to balance the needs of patent holders with the goal of reducing nuisance litigation. (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 (involving light petroleum product terminals) and Energy Transfer Equity, L.P./The Williams Companies, Inc. and Enbridge Inc./Spectra Energy Corp. (both cases involving the pipeline transportation of natural gas). 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. In FY 2016, the FTC sponsored a workshop entitled "Something New Under the Sun" which examined competition and consumer protection issues in the

Mallinckrodt Pays $100 Million to Settle Charges It Illegally Maintained its Monopoly



In January 2017, the Commission filed a stipulated injunction in federal court in which Malinckrodt ARD Inc., formerly Questcor Pharmaceuticals, Inc., agreed to settle Commission charges that it monopolized the market for adrenocorticotropic hormone (ACTH) drugs. These drugs are typically the last of defense in treating infantile spasms, a rare and serious seizure disorder. According to the Commission's complaint, the company purchased the rights to develop Synacthen Depot, a drug that threatened the firm's existing monopoly in the U.S. market. The Commission charged that the company undertook this acquisition to prevent any other company from using the Synacthen assets to develop a synthetic ACTH drug in the United States, thereby preserving Questcor's monopoly and allowing it to raise and maintain extremely high prices. Questcor raised its prices from $40 a vial to more than $34,000 a vial between 2001 and 2017, when it faced no competition for this critical infant medicine. To resolve this matter, Malinckrodt ARD Inc. agreed to grant a license to Synacthen Depot to a Commission-approved licensee and to pay $100 million in disgorgement.

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 twelfth annual Ethanol Market report in 2016, 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:

Competition in 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 service, and expanding innovation and consumer choices. In recent years, the Commission has successfully challenged several large retail mergers including Staples/Office Depot, along with 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)

DraftKings and FanDuel Abandon Merger

In June 2017, the FTC authorized staff to seek a preliminary injunction to block the merger of the two largest daily fantasy sports sites, DraftKings and FanDuel. The FTC alleged that the combined firm would control more than 90 percent of the U.S. market for paid daily fantasy sports contests and that post-merger consumers would likely have to pay higher commission rates and receive lower promotional offers. According to the complaint, the two firms compete head-to-head to offer the best prices and product quality, including the largest prize pools and greatest variety of contests--competition. Post-merger, this competition would have been lost. Approximately one month after the Commission authorized legal action, the parties abandoned their proposed transaction, and the Commission subsequently withdrew its complaint.

MANAGEMENT ASSURANCES

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

The FTC's Enterprise Risk Management (ERM) and internal controls are integral to daily management of operations and to carrying out activities that achieve 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 Management Council (SMC) provides oversight to the Senior Assessment Team (SAT) activities and is instrumental in the strategic direction and mitigation strategies for the agencies most significant risks. The SAT executes the agency's enterprise risk and internal control program activities. This includes assessing and improving compliance with applicable guidance (e.g., Office of Management and Budget Circular A-123, Management Responsibilities for Enterprise Risk Management and Internal Controls), monitoring and remediation of identified risk, and communicating the results of reviews to senior management and the head of the agency.

During FY 2017, 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 the remediation progress.

This year, the FTC continued with the implementation of an ERM program plan and strategy. Activities for FY 2017 included implementing the third year of the multi-year internal control assessment plan, identification and analysis of risk, entity level control assessment, and corrective action monitoring. 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., reviews conducted in accordance with Statement on Standards for Attestation Engagements (SSAE) No. 18), and other relevant evaluations and control assessments were considered by the SAT and the agency head in determining if there were any management control deficiencies or nonconformances that must be disclosed in the annual assurance statement.

The Chairman's assurance statement below is supported by the processes and reviews described above, which were carried out in FY 2017. Management assurances tables appear in the Other Information section.

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

Office of the Chairman

CHAIRMAN'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 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, 2017, were operating effectively and that no material weaknesses were found in the design or operation of our internal controls. 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 provide an unmodified statement of assurance (no material weaknesses or lack of compliance reported) that the FTC financial management systems substantially conform with the *Federal Financial Management Improvement Act of 1996 (FFMIA),* applicable financial systems requirements, applicable Federal accounting standards and the U.S. Standard General Ledger at the transaction level.

Signed

Maureen K. Ohlhausen
Acting Chairman
November 7, 2017

SUMMARY OF MATERIAL WEAKNESS AND NONCONFORMANCES

As noted in the Chairman's FMFIA Statement of Assurance, the FTC's management has no material weaknesses or nonconformances to report for FY 2017. During the third quarter of FY 2016, 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. Management took remedial action in the fourth quarter to record accounts receivable balances held by receivers as of September 30, 2016. In FY 2017, steps were taken to improve the controls over receivership receivables such as; implementation of an updated policy, established an alert process to be notified of judgements issued by the court, and established a receiver asset survey to report the estimated cash value of assets. All actions were completed as of June 30, 2017 resulting in the remediation of the material weakness.

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 OMB Circular A-130 requirements and National Institute of Standards and Technology (NIST) guidance. During FY 2017, the FTC performed five assessment and authorization efforts and currently has thirteen systems authorized to operate. The FTC leverages four Federal Risk and Authorization Management Program (FedRAMP) Joint Authorization Board provisional authorizations – one for the cloud hosting of our public web sites, two for the Sentinel Network Services systems, and one for Acutrak.

DIGITAL ACCOUNTABILITY AND TRANSPARENCY ACT OF 2014 (DATA ACT)

The DATA Act expands the *Federal Funding Accountability and Transparency Act of 2006* to increase accountability and transparency in Federal spending, making Federal expenditure information more accessible to the public; improve the quality of the information on USASpending.gov, as verified through regular audits of the posted data; and to streamline and simplify reporting requirements through clear data standards. The FTC completed its implementation plan, successfully transmitted the data files, and certified the fiscal year end submission as required by the government-wide requirements set by OMB and U.S. Department of Treasury.

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. Eligible, nonexempt debts more than 120 days old are 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 2017, the FTC processed 3,452 invoices totaling $80 million that were subject to prompt payment. Of these invoices, 99.08 percent were paid on time. During FY 2017, the FTC paid a total of $3,292 in interest penalties, or .0041 percent of the total dollar amount invoiced.

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 the IBC for its Federal Personnel/Payroll System (FPPS) since 1998, and financial data from FPPS is interfaced into OFF.

The FTC, with the IBC's support, continues to modernize and integrate our portfolio of financial management systems. In FY 2018, the IBC and the FTC will make several improvements to the financial systems. The IBC will upgrade OFF from version 12.1 to 12.2. Once complete, this will provide the FTC with additional functionality. The FTC will be furthering its capability of using business analytics by participating in the IBC's effort to migrate 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 the front line users to senior management. In addition, the FTC, in conjunction with the IBC, will implement the Invoice Processing Platform (IPP), a secure web-based service that more efficiently manages government invoicing from purchase order through payment notifications. The IPP capability will automate vendor invoicing and payments which should reduce transactional costs, improve accuracy of payments, and help the FTC comply with OMB Memorandum M-15-19, which directs federal agencies to implement electronic invoicing by the end of FY 2018.

FEDERAL CIVIL PENALTIES INFLATION ADJUSTMENT ACT OF 1990

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 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

These financial highlights provide an overview of the FTC's FY 2017 financial statements. An independent audit was conducted on the FTC's financial statements for the fiscal years ending September 30, 2017 and 2016. For the 21st straight year, the FTC received a "clean" unmodified opinion on its audited financial statements. An unmodified opinion is when the auditor concludes that an entity's financial statements are presented fairly, in all material aspects, in accordance with Generally Accepted Accounting Principles (GAAP). A summary of the information contained in the financial statements is presented in the tables below. The complete audited financial statements with accompanying notes including, the independent auditor's report, are presented in the *Financial Section* of this report.

RESTATEMENT OF NON-ENTITY FUNDS

The FTC has engaged in a multiyear effort to re-evaluate the accounting treatment of its non-entity funds, and as a result, several improvements have been made to the agency's accounting practices. Non-entity funds are those that the FTC holds on behalf of third parties and are not available for the agency's use. In FY 2016, the FTC updated its policy for the recording of accounts receivable (and offsetting liability) related to the agency's non-entity consumer redress program. The FTC was not recording the estimated accounts receivable and the offsetting liability for judgments requiring assets to be liquidated by a court appointed receiver. The FTC updated its accounting process prior to September 30, 2016, which resulted in a restatement of the FY 2015 balance sheet.

In FY 2017, the FTC continued with the improvement initiative that began in FY 2016. During FY 2017, the agency updated its practice of accounting for non-entity funds held by the redress third party administrators to be consistent with the Federal Accounting Standards Advisory Board (FASAB) Statement of Federal Financial Accounting Standards 1 (SFFAS 1). These funds are not available to, or held by, the FTC and, therefore, are no longer reported on the FTC's balance sheet. This change required the FTC to restate the FY 2016 balance sheet in FY 2017, resulting in a reduction of $55 million in both non-entity assets and corresponding liabilities. The net effect of the restatement on the balance sheet is zero, and no other statements are impacted.

The FTC's internal review of its accounting practice for non-entity funds demonstrates the agency's commitment to sound financial management practices. As a result of its efforts, the FTC has improved the accuracy and transparency of its non-entity reporting.

BALANCE SHEET

The FTC's Balance Sheet includes both entity and non-entity assets and liabilities. Entity assets, by law, are authorized for the FTC to use in its operations, i.e., Property, Plant, and Equipment (PP&E). Entity liabilities consist of probable and measurable future outflows of FTC entity resources.

Non-entity assets (which are not available for the FTC's use) 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. Non-entity assets are equal to, and offset by, non-entity liabilities.

CONDENSED BALANCE SHEET
AS OF SEPTEMBER 30, 2017 AND 2016 (Restated)

(Dollars in Millions)	FY 2017	Restated FY 2016	% Change
Entity Assets			
Fund Balance with Treasury	$ 133	$ 133	0%
General property, plant, and equipment	51	57	-12%
Total Entity Assets	184	190	-3%
Non-Entity Assets			
Fund Balance with Treasury	432	797	-46%
Accounts receivable	70	99	-30%
Total Non-Entity Assets	502	896	-44%
Total Assets	$ 686	$ 1,086	-37%
Entity Liabilities			
Employee related liabilities	21	21	0%
Accounts payable and other	11	13	-17%
Total Entity Liabilities	32	34	-5%
Non-Entity Liabilities			
Redress collections not yet disbursed	432	797	-46%
Liability for amounts to be collected	70	99	-30%
Total Non-Entity Liabilities	502	896	-44%
Total Liabilities	$ 534	$ 930	-43%
Cumulative results of operations	152	156	-2%
Total Net Position	$ 152	$ 156	-2%
Total Liabilities and Net Position	$ 686	$ 1,086	-37%

BALANCE SHEET

ENTITY

Entity assets totaled $184 million, or 26 percent of all FTC assets as of September 30, 2017, a decrease of $6 million or 3 percent from the FY 2016 total of $190 million.

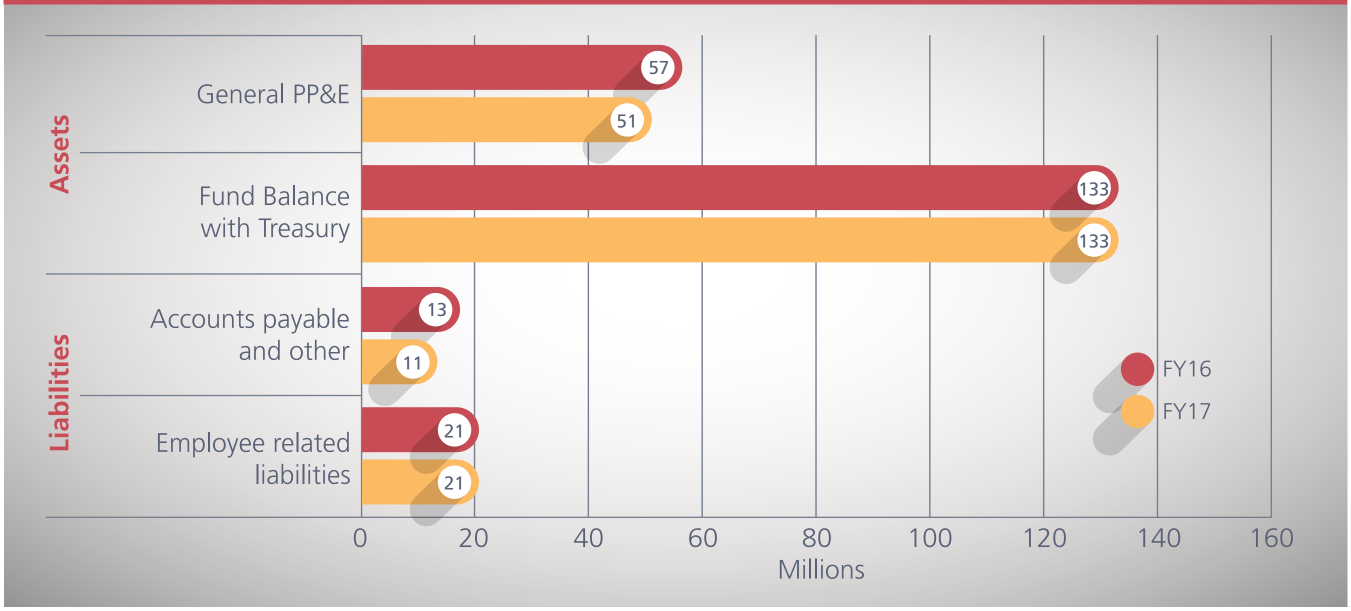
The Fund Balance with Treasury of $133 million is the aggregate amount available to the FTC to make expenditures and pay liabilities. There was no change in the Fund Balance with Treasury from FY 2016 to FY 2017.

PP&E, net of accumulated depreciation/amortization, is $51 million, which is comprised of $32 million in leasehold improvements, $12 million in equipment, and $7 million in software. Of the total PP&E, $27 million is associated with the FY 2014 relocation of staff to office space at Constitution Center. The $6 million decrease in PP&E is primarily due to the continued depreciation/amortization of assets related to the FY 2014 staff relocation.

Entity liabilities totaled $32 million, or 6 percent of all FTC liabilities as of September 30, 2017, a decrease of $2 million or 5 percent from the FY 2016 total of $34 million.

Employee related liabilities of $21 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 and other totaling $11 million consists of the amounts owed but not yet paid for goods or services the FTC has received.

BALANCE SHEET - ENTITY - FY17 AND FY16 COMPARISON



BALANCE SHEET

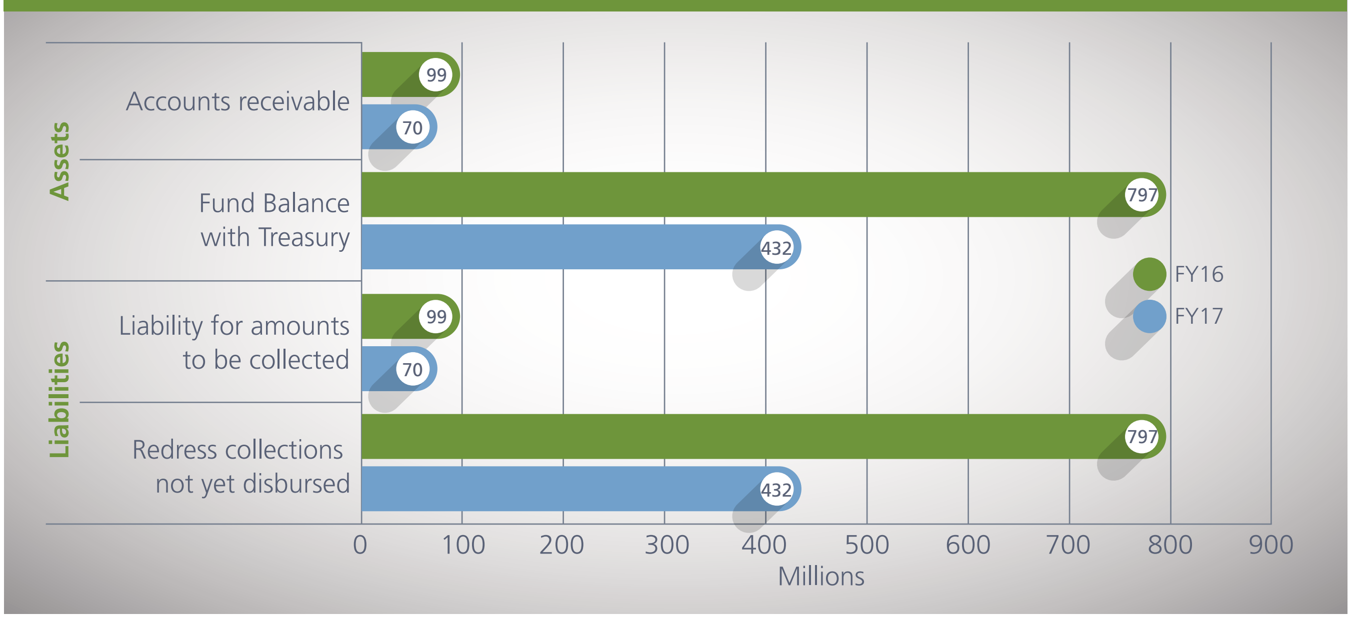
NON-ENTITY

Non-entity assets total $502 million, or 74 percent of all FTC assets as of September 30, 2017. This represents a decrease of $394 million or 44 percent from the FY 2016 total of $896 million.

Non-entity assets are equal to, and offset by, non-entity liabilities. The accounts receivable is offset by the liability for amounts to be collected, while the Fund Balance with Treasury is offset by the liability for redress collections not yet disbursed.

Net accounts receivable of $70 million reflects amounts to be paid to the FTC from court ordered judgments in the consumer redress program. This represents a $29 million decrease in net accounts receivable from the FY 2016 total of $99 million. The majority of the decrease is the result of a $22 million collection related to a 2016 judgment with AMG Services Inc., a payday lender that illegally charged consumers undisclosed and inflated fees.

BALANCE SHEET - NON-ENTITY - FY17 AND FY16 COMPARISON

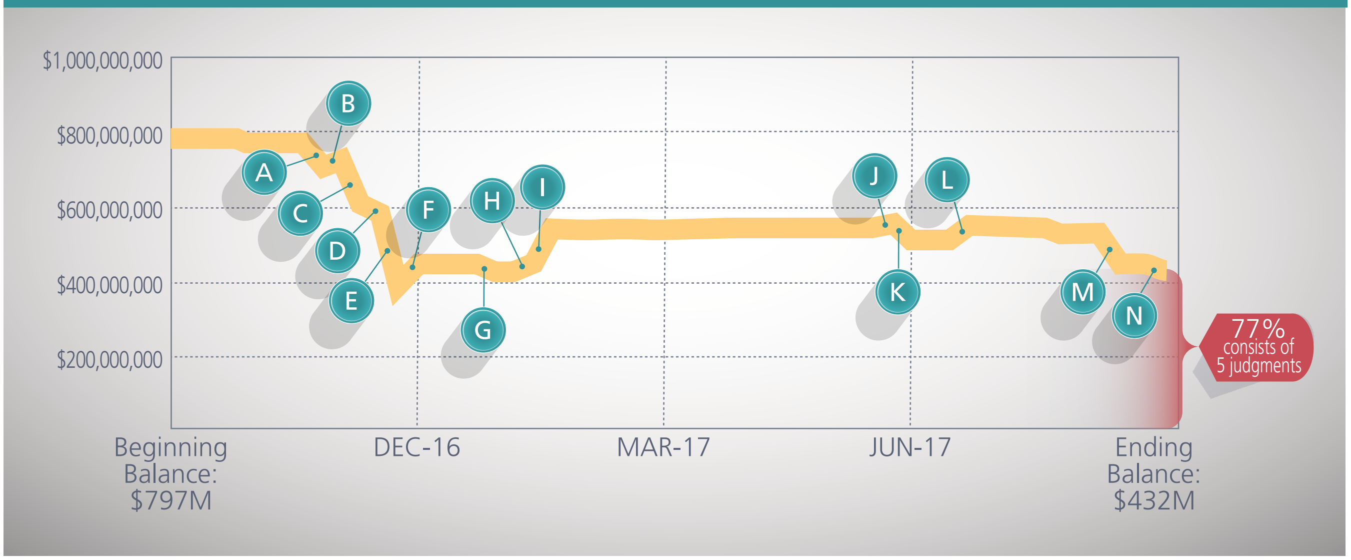


The Fund Balance with Treasury for consumer redress of $432 million is held temporarily by the FTC until distributed to consumers, other harmed parties, redress third party administrators (for distribution to consumers on behalf of the FTC), or disgorged to Treasury (if consumer redress is not practicable).

The decrease of $365 million in Fund Balance with Treasury (46% less than FY 2016) consists of $273 million in collections, offset by $638 million in disbursements. Five large judgments account for over 77% of the FY 2017 ending Fund Balance with Treasury of $432 million. The figure below shows the major collections and disbursements that occurred throughout the fiscal year and the five large judgments that the FTC held at fiscal year-end.

Non-entity assets are comprised of receivables due to the FTC and collections received by the FTC. Occasionally, the FTC will be a plaintiff in a case but the funds will not be collected by the FTC, therefore they are not recognized in the Balance Sheet. Examples include the Western Union (pg. 26), and Dish Network (pg. 23), cases where the FTC was a plaintiff but the funds were payable either to the Department of Justice or the U.S. Treasury General Fund.

NON-ENTITY ASSETS - FUND BALANCE WITH TREASURY
FY 2017 Activity



FY 2017 NON-ENTITY FUND BALANCE WITH TREASURY TIMELINE OF ACTIVITY

	$797M	**Beginning Balance – FY 2017 Non-Entity Fund Balance with Treasury**	
A	($88M)	AT&T	Disbursed $88M in refunds to more than 2.7 million AT&T consumers who had third-party charges added to their mobile bills without their consent, a tactic known as mobile cramming. The refunds relate to FTC settlements in 2014 with AT&T and two other companies involved in the cramming schemes, Tatto and Acquinity.
B	$22M	AMG Services, Inc.	Collected $22M as part of a 2016 judgment for a payday lending scheme that deceived consumers across the country and illegally charged them undisclosed and inflated fees.
C	($125M)	Cephalon, Inc.	Disbursed $125M to harmed parties as part of a $1.2 billion settlement in 2015 that resolved the FTC's antitrust suit charging Cephalon, Inc. with illegally blocking generic competition (pay for delay) to its sleep-disorder drug Provigil. The FTC collected $458M from the settlement, with the remaining $752M paid directly to harmed parties. Of the $458M the FTC collected, a total of $245M has been disbursed in FY 2016 and FY 2017.
D	($18M)	The Tax Club	Disbursed $18M in refunds to more than 20,000 people who lost money to The Tax Club, a scheme that targeted individuals who were trying to start home based businesses. The refunds are the result of a 2014 settlement with The Tax Club.
E	($200M)	Herbalife	Disbursed $200M in refunds to nearly 350,000 consumers who lost money running Herbalife businesses. The refunds are the result of a 2016 settlement that required Herbalife to pay $200M and fundamentally restructure its business.
F	$49M	DeVry University	Collected $49M as a result of a $100M 2016 settlement with DeVry University for deceiving students about the likelihood of finding jobs in their field of study and the income level they could achieve upon graduation. The remaining $51M consists of debt forgiveness from DeVry University to qualifying students on unpaid student loans and other debts
G	($20M)	T-Mobile	Disbursed $20M in refunds to more than 617,000 T-Mobile consumers who had third-party charges added to their mobile bills. These refunds are the result of a 2014 settlement with T-Mobile.
H	$20M	Uber	Collected $20M from a 2017 settlement with Uber Technologies to resolve the FTC's charges that Uber misled prospective drivers with exaggerated earnings claims and claims about financing through its Vehicle Solutions Program. The $20M will be used to provide refunds to affected drivers across the country.

FY 2017 NON-ENTITY FUND BALANCE WITH TREASURY TIMELINE OF ACTIVITY (CONTINUED)

I	$90M	Mallinckrodt ARD Inc	Collected $90M from a $100M January 2017 settlement with Mallinckrodt ARD Inc., formerly known as Questcor Pharmaceuticals, Inc. to settle the FTC's charge that it violated the antitrust laws when it acquired the rights to a drug that threatened its monopoly in the U.S. market for adrenocorticotropic hormone (ACTH) drugs. These drugs are typically the last defense in treating infantile spasms, a rare and serious seizure disorder. The remaining $10M will be paid to the five state co-plaintiffs in this matter.
J	$9M	Health Formulas, LLC	Collected $9M from a 2016 settlement with Health Formulas LLC, who the FTC alleged advertised using fake "free trials" that tricked people into disclosing credit card information, and enrolled them without their permission in a costly negative-option membership program.
K	($49M)	DeVry University	Disbursed $49M received from the 2016 settlement described above (F), to 173,000 students in compensation for DeVry University allegedly deceiving them about the likelihood of finding jobs in their field of study and the income level they could achieve upon graduation.
L	$33M	Lifelock	Collected $33M from a 2015 settlement to resolve the FTC's contempt charges that Lifelock violated the terms of a 2010 Federal court order that requires it to secure consumers' personal information and prohibits Lifelock from deceptive advertising. Lifelock will pay an additional $67M directly to consumers.
M	($90M)	Mallinckrodt ARD Inc	Disbursed $90M received from the settlement described above (H) to the U.S. Treasury General Fund.
N	($10M)	Health Formulas, LLC	Disbursed $10M to 227,000 consumers who bought "fat burning," "weight loss," and other dietary supplements, DVDs, or skin creams. The FTC received the funds as part of the settlement described above (J). In addition to the $9M collected in FY 2017, $1M was collected in FY 2016.
	$12M	Net of other collections $50M and disbursing ($38M) activities, related to over 200 additional matters	
	$432M	**Ending Balance – FY 2017 Non-Entity Fund Balance with Treasury**	

SIGNIFICANT CONTRIBUTORS TO THE ENDING NON-ENTITY FUND BALANCE WITH TREASURY

$213M	Cephalon, Inc.	$213M (49% of the ending balance) is held by the FTC from a 2015 settlement resolving antitrust charges that Cephalon, Inc. illegally blocked generic competition (pay for delay) to its drug Provigil. The settlement made available $1.2 billion to harmed parties. The FTC collected $458M from the settlement, with the remaining $742M paid directly paid to harmed parties. Of the $458M the FTC collected, a total of $245M was disbursed in FY 2016 and FY 2017. The remaining funds will be used to pay future claims. At the end of the settlement term, any remaining funds will be disgorged to the U.S. Treasury General Fund.
$47M	AMG Services, Inc.	$47M is held by the FTC from a 2016 judgment (and earlier settlements) for a payday lending scheme that deceived consumers across the country and illegally charged them undisclosed and inflated fees.
$33M	Lifelock	$33M is held by the FTC from a 2015 settlement to resolve the FTC's contempt charges that Lifelock violated the terms of a 2010 Federal court order that requires it to secure consumers' personal information and prohibits Lifelock from deceptive advertising.
$21M	Lights of America	$21M is held by the FTC from a 2014 judgment against Lights of America Inc. for overstating the light output and life expectancy of its LED bulbs on packages and in brochures, and falsely comparing the brightness of its LED bulbs with that of other light bulbs.
$20M	Uber	$20M is held by the FTC from a 2017 settlement with Uber Technologies to resolve the FTC's charges that Uber misled prospective drivers with exaggerated earnings claims and claims about financing through its Vehicle Solutions Program.
$98M	The remaining balance consists of 106 additional matters	
$432M	**Ending Balance – FY 2017 Non-Entity Fund Balance with Treasury**	

STATEMENT OF NET COST

STATEMENT OF NET COST SUMMARY
FOR THE YEARS ENDED SEPTEMBER 30, 2017 AND 2016

(Dollars in Millions)	FY 2017	FY 2016	% Change
Protecting Consumers:			
Gross costs	$ 182	$ 185	-2%
Less: earned revenue	(15)	(14)	4%
Protecting Consumers	167	171	-2%
Maintaining Competition:			
Gross costs	$ 145	$ 144	0%
Less: earned revenue	(126)	(115)	10%
Maintaining Competition	19	29	-33%
Net Cost of Operations	**$ 186**	**$ 200**	**-7%**

The Statement of Net Cost presents the FTC's gross costs less earned revenue 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 $186 million in FY 2017, which consists of $327 million in gross costs offset by $141 million in earned revenue.

The net cost of operations for the Protect Consumers strategic goal is $167 million, which consists of $182 million in gross costs offset by $15 million in earned revenue. Of the total earned revenue, $13 million 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. The remaining $2 million in earned revenue is from a reimbursable agreement with the Department of Justice (DOJ) for services provided from the Consumer Sentinel Network. The Consumer Sentinel Network is a unique database of consumer complaints filed with the FTC that provides law enforcement officials within the U.S. and abroad with access to millions of consumer complaints including identity theft, telemarketing scams, and immigration services.

The net cost of operations for the Maintain Competition strategic goal is $19 million, which consists of $145 million in gross costs offset by $126 million in earned revenue. Of the total earned revenue, $125 million comes from fees collected for premerger notification filings. The remaining $1 million is from multiple reimbursable agreements with other Federal agencies. Premerger notification filings are under the Hart-Scott-Rodino (HSR) Antitrust Improvement Act of 1976, which gives the Federal government the opportunity to investigate and challenge mergers that are likely to harm consumers before injury occurs. The HSR Act requires the filing of premerger notifications with the FTC and the DOJ Antitrust Division. 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.

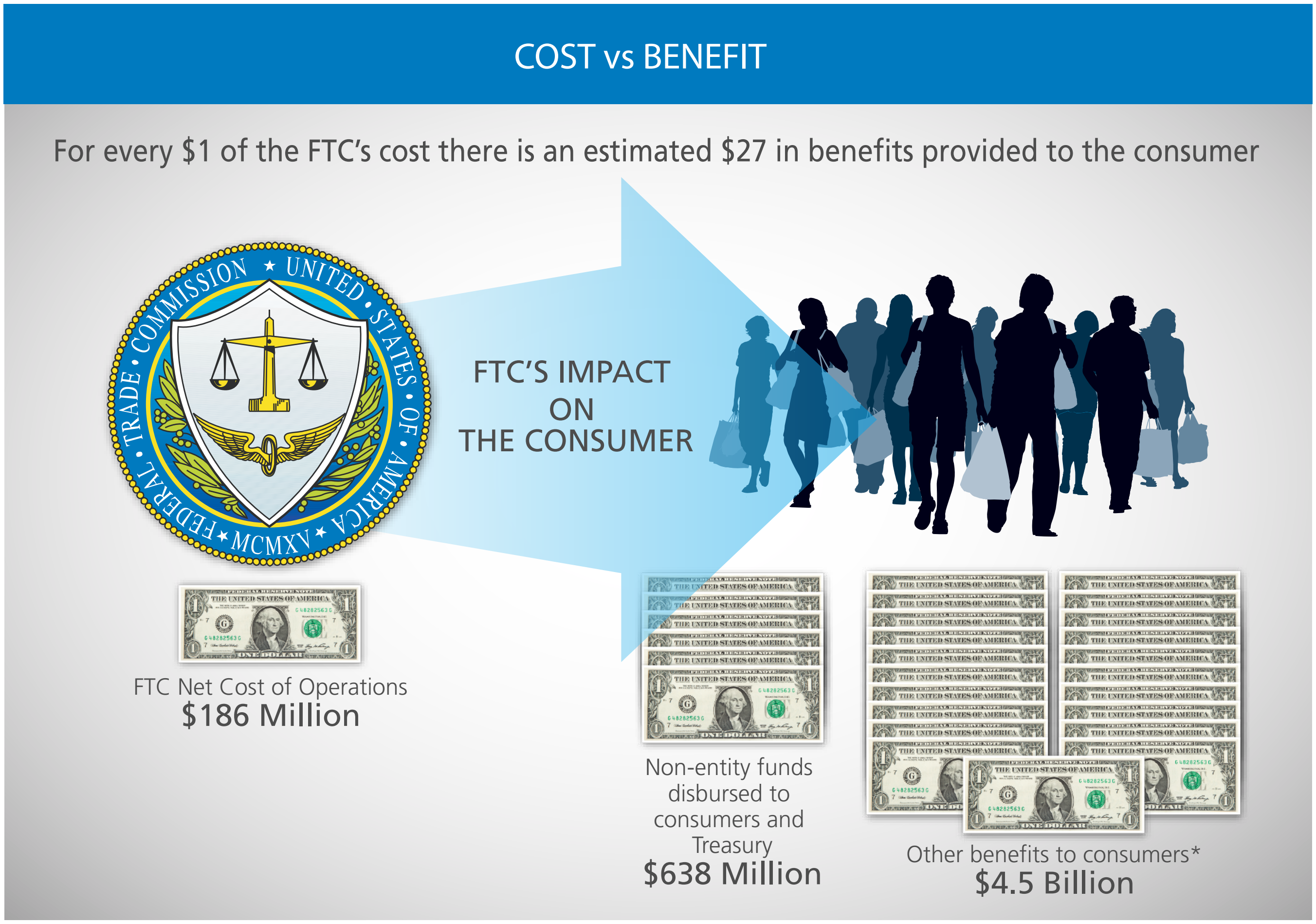
The gross costs for the Maintain Competition strategic goal increased to $145 million in FY 2017 from $144 million in FY 2016, an increase of only $1 million. Premerger revenue increased $11 million as a result of an increase in the number of premerger transactions from FY 2016 to FY 2017. The FTC used its resources wisely, at the same cost level as FY 2016, to effectively analyze and process an increased number of premerger transactions, demonstrating the FTC's commitment to a sound return on investment for consumers. The FTC continues to work to streamline its investigatory processes and minimize the burden imposed on legitimate business practices.

FTC NET COST OF OPERATIONS VS. BENEFIT TO CONSUMERS

The FTC had gross costs of $327 million offset by $141 million in earned revenue resulting in a total net cost of operations of $186 million. Additionally, a large portion of the FTC's operations result in activity whose benefits are not seen on the Statement of Net Cost. These benefits to the public are important in determining the overall impact of the agency's strategic goals.

The Statement of Net Cost only includes entity activity. During FY 2017, the FTC returned $638 million in non-entity collections to consumers and the U.S. Treasury General Fund. Additionally, the FTC saved consumers an estimated $3.6 billion* through its merger and nonmerger actions and an estimated $900 million* through its consumer protection law enforcement actions.

The FTC's cost to protect consumers and maintain competition is a small fraction of the amount the FTC has saved consumers. For FY 2017, the FTC provided an estimated total of $5.1 billion in benefits to consumers. When this benefit is compared to the $186 million in net costs, it equates to every $1 of the FTC's cost returning an estimated $27 in benefits provided by the FTC to consumers.



*These estimates were calculated for performance measures 1.1.3 (consumers savings from consumer protection law enforcement), 2.1.3 (consumer savings from merger enforcement), and 2.1.5 (consumer savings from non-merger enforcement). See Appendix A – Data Quality Information for more information on these measures and how these estimates were calculated.

BUDGET AUTHORITY

The FTC receives an annual appropriation that is available until expended, subject to the Office of Management Budget (OMB) apportionment and Congressional restrictions on the expenditure of funds (see FTC's FY 2018 Congressional Budget Justification, page 3, "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 2017 was $313 million, an increase of $2 million from the FY 2016 total of $311 million. The FY 2017 authority of $313 million is comprised of $175 million in general fund appropriations and $138 million in spending authority from offsetting collections, consisting of $125 million from fees collected for premerger notification filings under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, and $13 million from fees collected for the National Do Not Call Registry.

The $138 million in offsetting collections reduced the burden the FTC placed on the Federal budget for FY 2017, from the $313 million to $175 million.

NEW BUDGET AUTHORITY
(Dollars in millions)

LIMITATIONS OF FINANCIAL STATEMENTS

The FY 2017 financial statements have been prepared 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 GAAP for federal entities and 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.

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 2017

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)	99.08%
Percentage interest penalties paid to total dollars invoiced	.0041%
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%

FEDERAL TRADE COMMISSION

FINANCIAL SECTION

FISCAL YEAR 2017

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 2017. The AFR provides us the opportunity to provide the results of our commitment to the efficient and effective stewardship of resources entrusted to the FTC to carry out our mission. Our goal is to present the Agency's use of resources, operational effectiveness, financial stewardship, and internal controls in a manner that demonstrates the incredible value that the FTC provides to the American public. The financial statements and corresponding financial analysis, 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 over 100 years, the FTC has championed the interests of American consumers. The FTC is dedicated to advancing consumer interests while ensuring innovative and fair competition in our dynamic economy. Our greatest assets are the people that work tirelessly at the FTC to achieve our mission. The people at the FTC have an incredible dedication and focus on accomplishing the mission, which is evident in the FTC's Employee Engagement Score (83%) on the 2017 Federal Employee Viewpoint Survey. The FTC is the top performer among medium sized agencies. The level of employee engagement is evident throughout the FTC, and especially with our financial management team, who are dedicated to ensuring that we are good stewards of taxpayer dollars through accountability and transparency.

For the 21st consecutive year, an independent auditor rendered an unmodified opinion on FTC's Financial Statements. The auditor found no material weaknesses or significant deficiencies during their audit. Our unmodified audit opinion confirms that our statements present fairly the financial position of our Agency and are free of material misstatements. Our goal is continuous improvement, and during FY 2017, we demonstrated our commitment to that goal with the following accomplishments:

- No material weaknesses or significant deficiencies in Internal Controls Over Financial Reporting;
- No instances of noncompliance with laws and regulations that are required to be reported under Government Auditing Standards;
- Resolved the material weakness identified in FY 2016 regarding receivership reporting;
- Effectively implemented the Digital Accountability and Transparency Act of 2014 (DATA Act) and used the Government-wide financial data standards established by OMB and Treasury;
- Developed and implemented the FTC Risk Register; and
- Focused resources and encouraged collaboration on Corrective Action Plans, closing 48 recommendations from previous internal and external audits and reviews.

The FTC has engaged in a multiyear effort to re-evaluate the accounting treatment of its non-entity funds, and as a result, several improvements have been made to the Agency's accounting practices. In FY 2016, the FTC updated its policy for the recording of accounts receivable related to the Agency's non-entity consumer redress program. The FTC was not recording the estimated accounts receivable and the offsetting liability for judgments requiring assets to be liquidated by a court appointed receiver. The FTC updated its accounting process, which resulted in a restatement of the FY 2015 Balance Sheet. In FY 2017, the Agency updated its practice of accounting for non-entity funds held by the redress third party administrators. These funds are not available to, or held by, the FTC and, therefore, are no longer reported on the FTC's Balance Sheet. This change required the FTC to restate the FY 2016 Balance Sheet in FY 2017, resulting in a reduction of $55 million in both non-entity assets and corresponding liabilities.

In 2017, we initiated an entity-wide effort to identify an organizational Risk Register as required by OMB Circular A-123. We leveraged our Enterprise Risk Management (ERM) Implementation Plan and our ERM Guide in developing our Risk Register. We also convened a Senior Management Council to manage the highest organizational risks and to ensure that remediation plans are identified and implemented, if necessary.

We also convened a Strategic Plan Working Group and Executive Steering Committee to take a fresh look at our Strategic Plan. During FY 2017, we developed a new Strategic Plan (2018-2022) and submitted the draft plan to OMB for review.

Looking ahead to FY 2018, we will be implementing the Invoice Processing Platform through our Shared Service Provider (SSP). We will also be working with our SSP to upgrade to a more recent version of the Oracle Federal Financial software, providing additional functionality and stronger integration with the Contract Lifecycle Management module.

The accomplishments outlined in this report are the result of the FTC's employees' hard work and dedication to the mission. The unmodified audit opinion and financial accomplishments reflect the organizational commitment to sound financial management. We will continue to support the Agency's mission, while being exemplary stewards of the funds entrusted to us by the American people. I would like to thank all of the employees at the FTC and especially the employees within the Financial Management Office.

David Rebich
Chief Financial Officer
November 13, 2017

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

Office of Inspector General

November 13, 2017

MEMORANDUM

TO: Maureen K. Ohlhausen, Acting Chairman
Terrell McSweeny, Commissioner

FROM: Roslyn A. Mazer
Inspector General

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 2017 and 2016 financial statements. We commend the FTC for the noteworthy accomplishment of attaining an unmodified (clean) opinion for the 21st consecutive year.

We contracted with the independent certified public accounting firm of Brown & Company CPAs and Management Consultants, PLLC (Brown & Company) to audit the financial statements of the FTC as of September 30, 2017 and 2016, and for the years then ended, provide a report on internal control over financial reporting (including safeguarding assets) and compliance with laws and regulations, and report any reportable noncompliance with laws and regulations they tested. The contract required that the audit be done in accordance with U.S. generally accepted government auditing standards and Office of Management and Budget audit guidance and the GAO/PCIE *Financial Audit Manual.*

In its audit, Brown & Company found

- the fiscal years 2017 and 2016 financial statements were fairly presented, in all material respects, in accordance with U.S. generally accepted accounting principles;
- there were no material weaknesses in internal control over financial reporting and compliance with laws and regulations; and
- no reportable noncompliance with laws and regulations tested.

Brown & Company is responsible for the attached auditor's report dated November 13, 2017, and the conclusions expressed in the report. We do not express opinions on FTC's financial statements or conclusions about the effectiveness of internal control or conclusions on compliance with laws and regulations.

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

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 sheets of the Federal Trade Commission (FTC) as of September 30, 2017 and 2016 (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. 17-03, *Audit Requirements for Federal Financial Statements*. Those standards and OMB Bulletin No. 17-03 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, contracts and grant agreements 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.

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Opinion on the Financial Statements

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the FTC as of September 30, 2017 and 2016 (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 17 Restatement* the agency has restated the financial statements for FY 2016 due to updating its accounting policy for non-entity funds held by redress third party administrators consistent with SFFAS 1, as these funds are not available or held by the FTC and should not be reported on the FTC financial statements. This policy update is the result of management's multiyear effort to re-evaluate the accounting treatment of their non-entity funds to follow U.S. generally accepted accounting principles (GAAP). As a result, the FTC FY 2016 balance sheet has a reduction of $55 million in both non-entity assets and liabilities, with a net effect of zero. Due to this material correction in the reporting of cash and monetary assets held outside of Treasury, FTC's Consolidated Financial Statements, dated November 14, 2016, should not be relied on. Instead, users should rely on this report and refer to *Note 17 Restatement.*

Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles require that the information in the *Management's Discussion and Analysis* (MD&A), also regarded as *Required Supplementary Information* (RSI), 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 required supplementary information 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 Chief Financial Officer, Introduction*, *Other Information*, and the *Appendices* sections are presented for purposes of additional analysis and are not 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.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the FTC's internal control over financial reporting (internal control) to design audit procedures that are appropriate in the circumstances for the purpose of expressing an opinion on the financial statements, but not for the purpose of providing an opinion on internal control. Accordingly, we do not express such an opinion.

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. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of the internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. During the audit of the financial statements no deficiencies in internal control were identified that were considered to be a material weakness. However, material weaknesses may exist that have not been identified.

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, contracts and grant agreements, 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, contracts and grant agreements, and we do not express such an opinion.

The results of our tests disclosed no instances of noncompliance or other matters required to be reported under *Government Auditing Standards* or OMB Bulletin No. 17-03.

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.

BROWN & COMPANY
CERTIFIED PUBLIC ACCOUNTANTS AND MANAGEMENT CONSULTANTS, PLLC

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. 17-03 requires testing, and (3) applying certain limited procedures with respect to the MD&A.

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. 17-03 that we deemed applicable to FTC's financial statements for the fiscal year ended September 30, 2017. 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.

Status of Prior Year's Control Deficiencies and Noncompliance Issues

We have reviewed the status of FTC's corrective actions with respect to the findings included in the prior year's Independent Auditor's Report, dated November 14, 2016. The status of prior year findings is presented in Exhibit A.

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.

This report is intended solely for the information and use of the management of FTC, OMB, and the U.S. Congress, and is not intended to be, and should not be, used by anyone other than these specified parties.

Brown & Company

Largo, Maryland
November 13, 2017

BROWN & COMPANY
CERTIFIED PUBLIC ACCOUNTANTS AND MANAGEMENT CONSULTANTS, PLLC

EXHIBIT A – STATUS OF PRIOR YEAR FINDING

Finding No.	Type of Finding	FY 2016 Finding	FY 2017 Status
2016-02	Material Weakness	Improved Accounting and Controls are Needed Over Receivership Receivables.	Closed.

BROWN & COMPANY
CERTIFIED PUBLIC ACCOUNTANTS AND MANAGEMENT CONSULTANTS, PLLC

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 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.

BALANCE SHEET

AS OF SEPTEMBER 30, 2017 AND 2016 (Restated)

(Dollars in thousands)

	2017	Restated 2016
Assets (Notes 2 and 17):		
Intragovernmental:		
Fund balance with Treasury (Note 3)	$ 565,055	$ 929,693
Accounts receivable, net (Note 4)	52	75
Advances and prepayments	253	-
Total intragovernmental	565,360	929,768
Accounts receivable, net (Note 4)	69,972	98,996
Property, plant, and equipment, net (Note 5)	50,714	57,368
Total Assets	$ 686,046	$ 1,086,132
Liabilities (Notes 6 and 17):		
Intragovernmental:		
Accounts payable	$ 1,181	$ 621
Other liabilities (Note 7)	1,847	4,973
Total intragovernmental	3,028	5,594
Accounts payable	9,533	10,353
Accrued redress due to claimants	69,887	98,182
Undisbursed redress collections (Note 17)	431,573	796,395
Other (Note 7)	19,857	19,275
Total Liabilities	533,878	929,799
Net Position (Notes 1(p) and 17):		
Unexpended appropriations	-	-
Cumulative results of operations	152,168	156,333
Total Net Position (Note 17)	152,168	156,333
Total Liabilities and Net Position (Note 17)	$ 686,046	$ 1,086,132

The accompanying notes are an integral part of these statements.

STATEMENT OF NET COST

FOR THE YEARS ENDED SEPTEMBER 30, 2017 AND 2016

(Dollars in thousands)

	2017	2016
Costs by Strategic Goal (Note 10):		
Strategic Goal 1: Protect Consumers:		
Gross costs	$ 181,505	$ 184,670
Less: earned revenue	(14,565)	(13,867)
Net cost	166,940	170,803
Strategic Goal 2: Maintain Competition:		
Gross costs	145,532	143,924
Less: earned revenue	(126,037)	(114,673)
Net cost	19,495	29,251
Net Cost of Operations	$ 186,435	$ 200,054

The accompanying notes are an integral part of these statements.

STATEMENT OF CHANGES IN NET POSITION

FOR THE YEARS ENDED SEPTEMBER 30, 2017 AND 2016

(Dollars in thousands)

	2017	2016
Cumulative Results of Operations:		
Beginning balance	$ 156,333	$ 169,498
Budgetary Financing Sources:		
Appropriations used	175,374	179,804
Other Financing Sources (Non-Exchange):		
Imputed financing	6,896	7,085
Total financing sources	182,270	186,889
Net cost of operations (Note 10)	(186,435)	(200,054)
Net change	(4,165)	(13,165)
Cumulative Results of Operations	152,168	156,333
Unexpended Appropriations:		
Beginning balance	-	-
Budgetary Financing Sources:		
Appropriations received	175,374	179,804
Appropriations used	(175,374)	(179,804)
Total budgetary financing sources	-	-
Total Unexpended Appropriations	-	-
Net Position (Note 1(p))	$ 152,168	$ 156,333

The accompanying notes are an integral part of these statements.

STATEMENT OF BUDGETARY RESOURCES

FOR THE YEARS ENDED SEPTEMBER 30, 2017 AND 2016

(Dollars in thousands)

	2017	2016
Budgetary Resources:		
Unobligated balance, brought forward, October 1	$ 25,950	$ 22,118
Recoveries of unpaid prior year obligations	8,947	20,317
Other changes in unobligated balance	18	28
Unobligated balance from prior year budget authority, net	34,915	42,463
Appropriations	175,374	179,804
Spending authority from offsetting collections	137,625	131,425
Total Budgetary Resources	$ 347,914	$ 353,692
Status of Budgetary Resources:		
New obligations and upward adjustments (total) (Note 11)	$ 314,747	$ 327,742
Unobligated balance, end of year:		
Apportioned, unexpired accounts	27,241	10,346
Unapportioned, unexpired accounts	5,926	15,604
Unexpired unobligated balance, end of year	33,167	25,950
Unobligated balance, end of year (total)	33,167	25,950
Total Status of Budgetary Resources	$ 347,914	$ 353,692
Change in Obligated Balance:		
Unpaid Obligations:		
Unpaid obligations, brought forward, October 1	$ 83,351	$ 91,647
New obligations and upward adjustments (Note 11)	314,747	327,742
Outlays, gross	(313,468)	(315,721)
Recoveries of prior year unpaid obligations	(8,947)	(20,317)
Unpaid obligations, end of year	75,683	83,351
Uncollected Payments:		
Uncollected payments from Federal sources, brought forward, October 1	(1,515)	(577)
Change in uncollected payments from Federal sources, brought forward , October 1	617	(938)
Uncollected payments from Federal sources, end of year	(898)	(1,515)
Memorandum (non-add) Entries:		
Obligated balance, start of year	81,836	91,070
Obligated balance, end of year	74,785	81,836
Budget Authority and Outlays, Net:		
Budget authority, gross	312,999	311,229
Actual offsetting collections	(138,700)	(130,515)
Change in uncollected customer payments from Federal sources	617	(938)
Recoveries of prior year paid obligations	18	28
Budget authority, net	$ 174,934	$ 179,804
Outlays, gross	$ 313,468	$ 315,721
Actual offsetting collections	(138,700)	(130,515)
Outlays, net	174,768	185,206
Distributed offsetting receipts	(94,654)	(6,825)
Agency outlays, net	$ 80,114	$ 178,381

The accompanying notes are an integral part of these statements.

STATEMENT OF CUSTODIAL ACTIVITY

FOR THE YEARS ENDED SEPTEMBER 30, 2017 AND 2016

(Dollars in thousands)

	Protect Consumers	Maintain Competition	2017	2016
Revenue Activity (Note 14):				
Sources of collections:				
Premerger filing fees (net of refunds)	$ -	$ 125,440	$ 125,440	$ 114,173
Civil penalties and fines	2,517	-	2,517	6,291
Consumer redress	94,463	-	94,463	6,680
Other miscellaneous receipts	191	-	191	145
Total cash collections	97,171	125,440	222,611	127,289
Accrual adjustments	(731)	-	(731)	(554)
Total Custodial Revenue	$ 96,440	$ 125,440	$ 221,880	$ 126,735
Disposition of Collections (Note 14):				
Transferred to others:				
Treasury general fund	$ 97,171	$ -	$ 97,171	$ 13,116
Department of Justice	-	125,520	125,520	114,093
Amounts yet to be transferred	(731)	(80)	(811)	(474)
Total Disposition of Collections	$ 96,440	$ 125,440	$ 211,880	$ 126,735
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 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 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 15, 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 August 2017). 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 restrictions on the expenditure of funds. 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 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 FY 2017, the FTC updated its practice of accounting for non-entity funds held by redress third party administrators to be consistent with Federal Accounting Standards Advisory Board (FASAB) Statement of Federal Financial Accounting Standard (SFFAS) 1: Accounting for Selected Assets and Liabilities. These funds are not available or held by the FTC and therefore should not be on the FTC's financial statements. As a result of this correction to remove all remaining balances for funds held by redress third party administrators, the FTC restated the FY 2016 financial statements. (See Note 17, Restatement)

(i) ACCOUNTS RECEIVABLE, NET AND ADVANCES AND PREPAYMENTS

Accounts receivable, net of allowances, reflect the 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. (See Note 4, Accounts Receivable, Net)

Advances and prepayments consist of payments by the FTC to other Federal agencies for services that will be provided in a future period.

(j) PROPERTY, PLANT, AND EQUIPMENT, NET

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 5, Property, Plant, and Equipment, Net)

(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 6, 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 16, 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 6, 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. (See Note 16, Reconciliation of Net Cost of Operations to Budget)

(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 6, 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 Organizational 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 and accounts receivable. 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. 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, 2017:

(Dollars in thousands)	2017 Entity	2017 Non-Entity	2017 Total
Intragovernmental:			
Fund balance with Treasury:			
General funds	$ 133,482	$ -	$ 133,482
Deposit funds - consumer redress	-	431,573	431,573
Clearing/Suspense funds - premerger filing fees	-	-	-
Accounts receivable, net	52	-	52
Advances and Prepayments	253	-	253
Subtotal intragovernmental assets	133,787	431,573	565,360
Accounts receivable, net	81	69,891	69,972
Property, plant, and equipment, net	50,714	-	50,714
Total Assets	$ 184,582	$ 501,464	$ 686,046

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

(Dollars in thousands)	2016 Entity	Restated 2016 Non-Entity	Restated 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
Advances and Prepayments	-	-	-
Subtotal intragovernmental assets	132,950	796,818	929,768
Accounts receivable, net	79	98,917	98,996
Property, plant, and equipment, net	57,368	-	57,368
Total Assets	$ 190,397	$ 895,735	$ 1,086,132

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, 2017 and 2016:

(Dollars in thousands)	2017	2016
Fund Balance with Treasury:		
General funds	$ 133,482	$ 132,875
Deposit funds - consumer redress	431,573	796,395
Clearing/Suspense funds - premerger filing fees	-	423
Total Fund Balance with Treasury	$ 565,055	$ 929,693
Status of Fund Balance with Treasury:		
Unobligated balance:		
Available - apportioned	$ 27,241	$ 10,346
Unavailable - unapportioned	5,926	15,604
Unavailable - temporary reduction	25,530	25,089
Obligated balance not yet disbursed	74,785	81,836
Non-budgetary fund balance with Treasury:		
Deposit funds - consumer redress	431,573	796,395
Clearing/Suspense funds - premerger filing fees	-	423
Total Status of Fund Balance with Treasury	$ 565,055	$ 929,693

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—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.

Accounts receivable, net consisted of the following as of September 30, 2017:

(Dollars in thousands)	Gross Receivables	Allowance for Uncollectible Accounts	2017 Net
Entity Accounts Receivable:			
Intragovernmental	$ 52	$ -	$ 52
With the public	81	-	81
Total entity accounts receivable	133	-	133
Non-Entity Accounts Receivable:			
Consumer redress	2,585,646	2,515,759	69,887
Civil penalties	39,081	39,077	4
Total non-entity accounts receivable	2,624,727	2,554,836	69,891
Total Accounts Receivable	$ 2,624,860	$ 2,554,836	$ 70,024

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

NOTE 5—PROPERTY PLANT, AND EQUIPMENT, NET

The following represents the FTC's capital assets and accumulated depreciation/amortization as of September 30, 2017 and 2016. No impairment was recognized in either year.

Property, plant, and equipment, net consisted of the following as of September 30, 2017:

Asset Class (Dollars in thousands)	Service Life	Acquisition Value	Accumulated Depreciation/ Amortization	Net Book Value
Equipment	5-20 years	$ 26,992	$ 15,138	$ 11,854
Leasehold improvements	15 years	46,566	14,718	31,848
Software	5 years	28,000	20,988	7,012
Total Property, Plant, and Equipment		$ 101,558	$ 50,844	$ 50,714

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

NOTE 6—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 are 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 and do not require budgetary resources. 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, 2017 and 2016 (Restated):

(Dollars in thousands)	2017 Covered by Budgetary Resources	2017 Not Covered by Budgetary Resources	2017 Not Requiring Budgetary Resources	2017 Total Liabilities	2016 Covered by Budgetary Resources	2016 Not Covered by Budgetary Resources	Restated 2016 Not Requiring Budgetary Resources	Restated 2016 Total Liabilities
Intragovernmental:								
Accounts payable	$ 1,181	$ -	$ -	$ 1,181	$ 621	$ -	$ -	$ 621
Accrued employee benefits	1,477	-	-	1,477	1,413	-	-	1,413
Other employment related liability	-	-	-	-	-	13	-	13
FECA liability	-	353	-	353	-	354	-	354
Reimbursable advances	13	-	-	13	1,956	-	-	1,956
Undisbursed premerger filing fees	-	-	-	-	-	-	502	502
Accrued civil penalties due to Treasury	-	-	4	4	-	-	735	735
Subtotal intragovernmental liabilities	2,671	353	4	3,028	3,990	367	1,237	5,594
Accounts payable	9,533	-	-	9,533	10,353	-	-	10,353
Accrued payroll and benefits	6,081	-	-	6,081	5,784	-	-	5,784
Accrued leave	-	11,681	-	11,681	-	11,431	-	11,431
Actuarial FECA	-	2,095	-	2,095	-	2,060	-	2,060
Undisbursed redress collections	-	-	431,573	431,573	-	-	796,395	796,395
Accrued redress due to claimants	-	-	69,887	69,887	-	-	98,182	98,182
Total Liabilities	$ 18,285	$ 14,129	$ 501,464	$ 533,878	$ 20,127	$ 13,858	$ 895,814	$ 929,799

NOTE 7 – OTHER LIABILITIES

Other liabilities consisted of the following as of September 30, 2017:

(Dollars in thousands)	2017 Non-Current	2017 Current	2017 Total
Other intragovernmental:			
Accrued employee benefits	$ -	$ 1,477	$ 1,477
FECA liability	353	-	353
Reimbursable advances	-	13	13
Undisbursed premerger filing fees	-	-	-
Accrued civil penalties due to Treasury	-	4	4
Subtotal other intragovernmental	353	1,494	1,847
Accrued payroll and benefits	-	6,081	6,081
Accrued leave	11,681	-	11,681
Actuarial FECA	2,095	-	2,095
Subtotal other	13,776	6,081	19,857
Total Other Liabilities	$ 14,129	$ 7,575	$ 21,704

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

NOTE 8—OPERATING LEASES

Future minimum lease payments due under leases of government-owned property for the fiscal year ended September 30, 2017:

Fiscal Year (Dollars in thousands)		
2018	$	7,088
2019		6,710
2020		363
2021		366
2022		314
Thereafter		762
Total Future Minimum Lease Payments	$	15,603

Future minimum lease payments due under leases of commercial-owned property for the fiscal year ended September 30, 2017:

Fiscal Year (Dollars in thousands)		
2018	$	13,972
2019		14,579
2020		14,901
2021		14,910
2022		14,662
Thereafter		23,376
Total Future Minimum Lease Payments	$	96,400

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 four government-owned properties and seven commercial properties totaling approximately 612 thousand square feet for use as offices, storage and parking. The FTC's government and commercial leases expire at various dates through 2027.

NOTE 9—COMMITMENTS AND CONTINGENCIES

As of September 30, 2017, 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 10—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.

The FTC's intergovernmental costs are services provided by other Federal agencies under reimbursable agreements to carry out its programs. The Federal agency providing the service bills the FTC based on full cost recovery. The FTC recognizes the costs based on the services being performed by the other agency.

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, 2017 and 2016:

(Dollars in thousands)	2017	2016
Strategic Goal 1: Protect Consumers		
Intragovernmental gross costs	$ 44,611	$ 45,417
Public costs	136,894	139,253
Gross costs, Protect Consumers	181,505	184,670
Intragovernmental earned revenue - reimbursements	(1,939)	(945)
Public earned revenue - Do Not Call registry fees	(12,626)	(12,922)
Earned revenue, Protect Consumers	(14,565)	(13,867)
Net Cost, Protect Consumers	166,940	170,803
Strategic Goal 2: Maintain Competition		
Intragovernmental gross costs	35,770	35,396
Public costs	109,762	108,528
Gross costs, Maintain Competition	145,532	143,924
Intragovernmental earned revenue - reimbursements	(597)	(500)
Public earned revenue - premerger filing fees	(125,440)	(114,173)
Earned revenue, Maintain Competition	(126,037)	(114,673)
Net Cost, Maintain Competition	19,495	29,251
Net Cost of Operations	$ 186,435	$ 200,054

NOTE 11—APPORTIONMENT CATEGORIES OF OBLIGATIONS INCURRED: DIRECT VS. REIMBURSABLE OBLIGATIONS

Obligations incurred consisted of the following for the fiscal years ended September 30, 2017 and 2016:

(Dollars in thousands)	2017	2016
Obligations Incurred:		
Category A - direct obligations	$ 314,003	$ 324,221
Category B - reimbursable obligations	744	3,521
Total Obligations Incurred	$ 314,747	$ 327,742

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 – 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 12—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 2016 Statement of Budgetary Resources and the FY 2016 actual amounts as reported in the FY 2018 Budget of the United States Government. The FY 2019 Budget of the United States is not available to compare FY 2017 actual amounts to the FY 2017 Statement of Budgetary Resources.

NOTE 13—UNDELIVERED ORDERS AT THE END OF THE PERIOD

The amount of budgetary resources obligated for undelivered orders as of September 30, 2017 and 2016, is $57,664 and $65,100 thousand, respectively.

NOTE 14—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, 2017 and 2016, the FTC collected $250,880 and $228,346 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. 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 $94,463 thousand as of September 30, 2017 and $267 thousand as of September 30, 2016.

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 15—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 holds redress funds in a deposit fund at Treasury until a determination is made on the practicability of redress. The FTC attempts to distribute funds to injured parties whenever possible. 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. The FY 2017 disbursement to claimants and third party administrators of $543,432 thousand includes several large payments of funds collected in prior years; i.e., the $125,169 thousand disbursed to claimants in accordance with a FY 2015 settlement resolving antitrust charges against Cephalon Inc. The FTC also has $212,827 thousand in Fund Balance with Treasury to pay for future settlements against Cepahlon Inc.

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.

Redress fund activities consisted of the following for the fiscal years ended September 30, 2017 and 2016 (Restated):

(Dollars in thousands)	2017	Restated 2016
Consumer Redress:		
Fund Balance with Treasury		
Beginning balance	$ 796,395	$ 729,804
Collections	273,073	286,265
Disbursements to claimants and third party administrators for redress, net	(543,432)	(219,407)
Disgorgements to Treasury, net	(94,463)	(267)
Total Fund Balance with Treasury, Ending	$ 431,573	$ 796,395
Accounts Receivable, Net		
Beginning balance	$ 98,182	$ 41,741
Net activity	(28,295)	56,441
Total Accounts Receivable, Ending	$ 69,887	$ 98,182

NOTE 16 — RECONCILIATION OF NET COST OF OPERATIONS TO BUDGET

For the fiscal years ended September 30, 2017 and 2016:

(Dollars in thousands)	2017	2016
Resources Used to Finance Activities:		
Budgetary resources obligated:		
Obligations incurred	$ 314,747	$ 327,742
Less: spending authority from offsetting collections and recoveries	(147,030)	(151,770)
Total budgetary resources obligated	167,717	175,972
Other resources:		
Imputed financing from costs absorbed by others	6,896	7,085
Total other resources	6,896	7,085
Total Resources Used to Finance Activities	174,613	183,057
Resources Used to Finance Items not Part of the Net Cost of Operations:		
Change in budgetary resources obligated, but not yet provided	4,898	10,806
Resources that finance the acquisition of assets	(3,879)	(4,328)
Total resources used to finance items not part of the net cost of operations	1,019	6,478
Total Resources Used to Finance the Net Cost of Operations	175,632	189,535
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	250	201
Other	19	47
Total components requiring or generating resources in future period	269	248
Components not requiring or generating resources:		
Depreciation and amortization	10,534	10,271
Total components not requiring or generating resources	10,534	10,271
Total Components of the Net Cost of Operations that will not Require or Generate Resources in the Current Period:	10,803	10,519
Net Cost of Operations	$ 186,435	$ 200,054

NOTE 17 — RESTATEMENT

In accordance with OMB Circular A-123, the FTC performed a review of its court ordered collection process as a follow-up to the review work performed in FY 2016. The review in FY 2017 identified an inconsistency with the Statement of Federal Financial Accounting Standard (SFFAS) 1, Accounting for Selected Assets and Liabilities. The SFFAS 1 defines the recognition of non-entity assets as follows:

"Assets available to an entity to use in its operations are entity assets while those assets not available to an entity but held by the entity are non-entity assets. While both entity and non-entity assets are to be reported in entity statements, the standards require the segregation of entity and non-entity assets."

In FY 2017, the FTC updated its practice of accounting for non-entity funds held by redress third party administrators consistent with SFFAS 1, as these funds are not available or held by the FTC and therefore should not be reported on the FTC's financial statements. All remaining balances for funds held by redress third party administrators were removed from FY 2017 and 2016, respectively.

As a result of the correction, the FTC restated the FY 2016 financial statements. The restatement is presented in the FY 2017 and FY 2016 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 1 - Significant Accounting Policies, Note 2 - Entity and Non-Entity Assets, Note 6 - Liabilities Covered and Not Covered by Budgetary Resources, and Note 15 - Consumer Redress Activities.

SUMMARY OF CHANGES TO THE BALANCE SHEET

Balance as of September 30, 2016 (Restated):

(Dollars in thousands)	FY 2016 as Stated	Adjustment	FY 2016 Restated
Assets (Notes 2 and 17):			
Cash and other monetary assets	$ 54,495	$ (54,495)	$ -
Total Assets	$ 1,140,627	$ (54,495)	$ 1,086,132
Liabilities (Notes 6 and 17):			
Undisbursed redress collections	$ 850,890	$ (54,495)	$ 796,395
Total Liabilities	984,294	(54,495)	929,799
Net Position (Notes 1(p) and 17):			
Total Net Position	156,333	-	156,333
Total Liabilities and Net Position	$ 1,140,627	$ (54,495)	$ 1,086,132

OTHER INFORMATION

FISCAL YEAR 2017

FEDERAL TRADE COMMISSION

INSPECTOR GENERAL-IDENTIFIED MANAGEMENT AND PERFORMANCE CHALLENGES

Office of Inspector General

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

October 17, 2017

MEMORANDUM

TO: Maureen Ohlhausen
Acting Chairman, Federal Trade Commission

FROM: Roslyn A. Mazer
Inspector General

SUBJECT: FY 2017 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 the Maturity of the Agency's Information Technology Governance Process
3. Improving Acquisition Planning and Contract Management

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's progress in addressing management challenges one and two slowed in FY 2017. We will address these and related issues in the OIG's upcoming CyberScope reporting and our FY 2017 FISMA evaluation.

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 16, 2017

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

The information security and privacy environment is fluid and ever-changing, which means that protecting information assets remains an ongoing and complex challenge for the FTC. The volume and scope of information the FTC routinely acquires and must protect is increasing, and threats are becoming more numerous and pervasive. The FTC cannot effectively accomplish its mission if industry and the public lack 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.

In its FY 2015 and FY 2016 FISMA evaluations, the OIG recognized the FTC improvements taking place and continued to advocate for continuous monitoring and management improvements. The recommended improvements are intended to improve management's security and privacy planning and oversight while reducing costs through an evolving Continuous Monitoring Management and process improvement system.

In FY 2016, the Office of Management and Budget (OMB), the National Institute of Standards and Technology (NIST), the Department of Homeland Security (DHS), and the OIG community, working through the Council of the Inspectors General on Integrity and Efficiency (CIGIE), continued implementation of an information security "maturity model." The maturity model is intended to provide an assessment of the status of an agency's information security program as well as the agency's capability to enhance the resilience and capability of its information security program. The FTC OIG tailored its FISMA evaluation to align with the maturity model approach and to the FTC's mission, organizational culture, size, and technology architecture.

The results of the FY 2016 FISMA evaluation showed that, while the FTC is improving its capabilities to protect its information assets and modernizing its technology, the maturity of its information security program was not advancing. As the OIG's prior assessments concluded, while the FTC responds quickly to mitigate identified specific vulnerabilities and threats and FTC staff recognize and value information security and privacy, its documentation of policies and procedures and monitoring of the information security environment is deficient. Use of the OMB/DHS FISMA criteria highlights these deficiencies because the maturity model emphasizes the need for a formalized program that is consistently monitored and improved.

We also determined in FY 2016 that the FTC Information Technology (IT) and modernization planning and acquisition documents as of September 30, 2016, did not demonstrate the disciplined planning necessary for compliance with Federal Acquisition Regulation principles, or with Office of Management and Budget (OMB) and FTC requirements and guidance for such a complex activity; nor did the documents demonstrate a risk-based approach where information security, privacy, and performance risks were identified or considered, or where appropriate mitigations were planned. These deficiencies did not adversely affect the FTC's current ability to protect FTC information assets, but are indicative of a security environment with decreasing effectiveness. For example, the OIG's concerns with management's decision to proceed with a multi-year IT modernization plan without having policies and procedures in place for configuration management were realized in August 2017, when the agency experienced an email outage that affected all FTC staff, contractors, and customers using email and mobile email.

The FTC's practice of correcting information security weaknesses after a problem occurs, characteristic of a Level 2 – Defined program, needs to be advanced to higher maturity levels where programed/automated processes and management oversight anticipate issues and take preventive action before FTC operations and missions experience disruption.

The FTC is working to improve its information security processes and planning. Concurrently, the agency must maintain the integrity and availability of its information assets as it continues to modernize its information systems, reorganize its information technology support staff, respond to new security requirements, and continue to provide reliable mission support. Successfully addressing competing requirements for staff and technology resources will require the continued attention of FTC senior and executive management and a focus on building an information security program on defined, repeatable processes. Information security processes must be repeatable, continually monitored and improved if the FTC is to continue to perform its missions while protecting its information assets and controlling costs.

Agency Progress in Addressing the Challenge

As a result of the evolving changes to the cybersecurity landscape, FTC determined to devote additional resources to address its information security program gaps. In 2017, OCIO hired a seasoned federal Chief Information Security Officer to lead the agency's cybersecurity efforts. Recently, OCIO also received approval to recruit additional FTEs, which recruitment effort is currently ongoing. The new FTEs will, among other things, revise policies and procedures to align with the plan to take advantage of federal programs such as Fed RAMP approved cloud services, interagency-shared services, and other initiatives such as the Department of Homeland Security's Continuous Diagnostics and Mitigation program; efforts that will not only allow the agency to provide improved services to agency users but improve the agency's IT security posture as well. In addition, the FTC will focus its initial continuous monitoring efforts on implementing CAP goals and managing IT assets in the following technical areas: hardware and software management, vulnerability management, configuration management, and privileged user management.

These are multiyear projects and will be implemented and managed consistent with anticipated, but not yet issued, guidance from OMB.

Finally, while the FTC agrees that revising its configuration management policies and procedures is a priority and integral to the success of its IT modernization efforts, completion of this work would not have prevented the email outage the agency experienced in August, as the OIG suggests. The root cause for the outage as identified in the Exchange Email After Action Report was a defective antivirus update. This sort of change is one that would never be subjected to the configuration management process as the time required for, and likely benefit obtained from, such a review would be outweighed by the risk of failing to immediately implement any antivirus update.

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

The FTC depends on IT to perform its missions and associated business objectives. In accordance with federal law, the Chief Information Officer (CIO), in coordination with FTC Bureaus and Offices and appropriate governance boards, defines processes and policies to address information resources appropriately.

At the end of FY 2011, the FTC chartered an IT Governance Program with three governance boards to improve the planning, monitoring, and risk mitigation associated with its information systems. Over the past several years, the FTC 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 Federal Information Security Modernization Act of 2014 (FISMA) evaluations for FYs 2012, 2014, and 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. In FY 2013, the FTC governance maturation slowed because of needed focus on office consolidations and accommodating policy and priority changes resulting from senior and executive management turnover.

Maturation of the FTC governance process improved planning consistency, oversight, and risk-based decision-making. Similarly, the expansion of Governance Board roles increased Board Member participation in linking investments to business needs and analyzing risks and developing mitigation approaches. For example, recognizing the potential enterprise-level impact of minor FTC IT projects, the Governance Board added "risk" as a requirement for Board review, in addition to the Federal Acquisition Regulation (FAR) cost criteria. Thus, under FTC governance procedures, an investment or project with a high security or performance risk that might affect the FTC's reputation is subject to Governance Board oversight, regardless of investment cost.

In FY 2016, the FTC initiated an effort to improve Office of the Chief Information Officer (OCIO) support operations and accelerate the maturation of its IT Governance program. Key elements of this effort were the reorganization of the OCIO to align support components with business needs and the development of a *Strategy and Transition Plan Security and Technology Services* (IT Strategy). The OCIO completed its reorganization in FY 2016 and issued the IT Strategy on September 30, 2016. While the OCIO conducted activities related to the reorganization and IT Strategy in FY 2016 (e.g., revision of policies, procedures, and support systems), management does not anticipate the impact of FTC improvement efforts from the IT Strategy until FY 2017 or later. This determination affected the FY 2016 FISMA evaluation in that the FISMA Maturity levels focus on the current state (in place policies and practices) for Maturity Levels 1 through 3, and the future or target state for Maturity Levels 4 and 5. Consequently, the OIG FY 2016 FISMA evaluation presented a description of the FTC current state information security environment as strong and robust relative to its ability to protect its information assets, with no concerns specific to the FTC privacy program.

In its FY 2016 evaluation, the OIG assessed the FTC IT Strategy and its planned implementation. The evaluation identified weaknesses in the IT Strategy, its proposed implementation, and associated policies and procedures. The OIG concluded that –

> While the FTC made significant efforts to improve its governance practices, modernization planning and acquisition documents provided as of September 30, 2016, did not demonstrate the disciplined planning necessary for compliance with Federal Acquisition Regulation (FAR) principles, Office of Management and Budget (OMB), and FTC requirements and guidance for such a complex activity; nor did the documents demonstrate a risk-based approach where information security, privacy, and performance risks were considered and appropriate mitigations were evaluated and planned.

The OIG identified the FTC IT Strategy (initiated in FY 2016) as a high-risk project, given its mission impact and estimated cost, warranting increased oversight. Accordingly, early in its FY 2017 FISMA evaluation, the OIG collected information allowing assessment of the agency's progress in securely executing its IT Strategy. The OIG's objective was to identify potential concerns or weaknesses and raise them to FTC management for resolution before there is an adverse impact on FTC information assets, mission, or reputation. The OIG determined that the IT Strategy implementation was not proceeding in a manner that reduced performance risks. Further, the FTC's failure to recognize the relevance of legacy policies and procedures to maintaining effective security increases the adverse impact to FTC information assets.

In FY 2016, the OCIO initiated actions to address the challenge of Accelerating the Maturation of the FTC IT Governance process. Unfortunately, while these actions contributed to mitigating some specific areas of concern, they did not advance the IT Governance process. Part of the problem is timing: the OCIO issued the IT Strategy on September 30, 2016 -- the very end of FY 2016. The IT Strategy schedule proposed performance through the entire FY 2016 to FY 2019 timeframe. While FTC performed some IT Strategy-related activities in FY 2016, it delayed some critical activities (e.g., issuance of the supporting contract vehicle). Further, as shown by the OIG evaluation of IT Strategy efforts conducted in FY 2017, the lack of progress appears to be the result of inadequate planning and the solution approaches pursued. For example, the FISMA Maturity Model stresses the use of formalized processes and procedures and documented, risk-based decisions. The IT Strategy assumes that planning artifacts such as an enterprise architecture that describes the baseline architecture, target architecture, and a transition plan to get to the target architecture will be developed as the modernization project progresses. Thus, the FTC is seeking to acquire components for an enterprise architecture that has not been defined.

The following are the OIG assessments of the challenges associated with the FTC's Governance maturation activities identified for FY 2016 performance and their status as of August 31, 2017:

- **Updated Governance Charter**

  The current Information Technology Governance Program Charter is dated August 20, 2014. The 2014 Charter focused on the processes and Boards specific to the evaluation and assessment of the FTC information technology environment. The FTC has drafted a policy, identified as the replacement for the 2014 Charter, titled *Information Technology Governance Administration Policy (IT Governance Administration Policy* or *Policy)*, that is scheduled for completion in September 2017. Our review of the OCIO draft *Policy* shows that OCIO wrote it from a responsibility and authority perspective, as opposed to the procedural focus of the 2014 Charter. Further, the *IT Governance Administration Policy* identifies a number of policy management authorities and advisory councils without describing their relationship to the existing Governance Board structure. Thus, the draft policy does not provide for continuity of in-process Governance Board activities, increasing the performance risk to IT investments.

- **TechStats**

  As defined in OMB Circular A-130, a "TechStat" is a face-to-face, evidence-based accountability review of an IT investment that enables the Federal Government to intervene to turn around, halt, or terminate IT projects that are failing or are not producing results for the American people." The FTC is now successfully using TechStats to evaluate problem areas, but its efforts have largely focused on specific system-level problems (e.g., mobile phones or issues with legal discovery products) as opposed to the Governance Process. Thus, while the FTC's use of the TechStat process is a valuable tool, it has not had a significant impact on maturing the Governance Process. The FTC could use the TechStat process to analyze the governance process itself and the investments monitored by the Governance Boards. For example, the IT Strategy, the FTC Enterprise Architecture, and the FTC contingency planning program are all appropriate candidates for TechStat reviews because they could provide the analysis necessary to ensure that the FTC is maximizing the use of its IT investments.

- **IT Strategy and Transition Plan (IT Strategy)**

  The OCIO characterizes the FTC IT Strategy and Transition Plan as a significant contributor to the maturation of FTC IT Governance. The Risk and Policy Management Team described in the IT Strategy conducts continuous review and analysis of business practices, with the goal of improving decision making. The Risk and Policy Management Team is also responsible for governance processes and procedures and for ensuring that IT decisions are made in partnership with business stakeholders. The anticipated results are "increased transparency agency-wide of performance gains, challenges, and actions underway to correct deficiencies," and assurance that policies and procedures are assessed for effectiveness and impact on the budget, performance, and operations services.

  The OCIO planned for the multi-year IT Strategy to result in significant improvements in FTC IT Governance. However, in FY 2017, the IT Strategy had little positive impact on the maturation of

IT Governance. A cornerstone of the IT Strategy is the use of blanket purchase agreements (BPA), under which the FTC will acquire cloud resources and related services. The IT Strategy called for award of the BPAs for the fourth quarter of FY 2016; however, the BPA award will not effectively occur before the first quarter of FY 2018, making it already significantly behind schedule. Further, the FTC deferred development of an Enterprise Architecture (EA) until after the BPA award. Thus, the FTC does not have a primary information tool that could be used to help identify IT Strategy components that could be separately acquired or developed. Further, as described in OMB Circular A-130, the EA should align business and technology resources to achieve strategic outcomes. The process of describing the current and future state of the agency and laying out a plan for transitioning from the current state to the desired future state helps agencies eliminate waste and duplication; increase shared services; close performance gaps; and promote engagement among Government, industry, and citizens. The lack of an EA "that describes the baseline architecture, target architecture, and a transition plan to get to the target architecture" presents a substantial performance risk to successful completion of the FTC IT Strategy. This remains a major management challenge for the FTC.

In FY 2017, the FTC identified risks associated with its legacy IT. The FTC complicated its governance maturity efforts by stating that it accepts the risk with its aging legacy IT in order to focus on migration to cloud services. Implicit in this statement is also the acceptance that FTC may increasingly experience disruptions that compromise the capability to perform its missions and protect its information assets. A general acceptance of risk, while allowable, shows that FTC has changed its focus from maintaining a reliable, secure environment to introducing modernized services with a currently unknown structure, risk, and implementation timeframe. The FTC must recognize that it needs *concurrently* to manage risk to its legacy systems and their information assets while modernizing its IT. This recognition must be reflected in a mature governance structure that fully supports both requirements – stable, secure in place Operations and Maintenance and successful planning and implementation of stable, secure modernized systems.

Agency Progress in Addressing the Challenge

The FTC took several steps toward maturing the agency's IT governance, acquisitions and strategic planning processes during fiscal year 2017.

IT Governance

OCIO took numerous steps to mature and broaden its IT governance structure and operations – all to ensure that the Federal Trade Commission's IT risk management activities support a management framework of organization, mission processes, and information systems consistent with guidance in NIST Special Publication 800-39, Managing Information Security Risk, Specifically, the revised structure was created to better ensure: 1) organization-wide risk awareness and management; 2) continuous improvement via stakeholder feedback; and 3) traceability and transparency of risk-based decisions.

The first major step in this process was the Chairman's designation of the CIO as the senior risk official for Information Technology. Next, the CIO designated four OCIO managers as Policy Management Authorities (PMA) to manage day to day risk and implement the requirements of OMB Circular A-130, Managing Information as a Strategic Resource, including managing risks, artifacts, policies, and procedures in assigned areas of policy authority. OCIO also solicited agency-wide participation on various Advisory Councils, whose members act as subject matter experts (SME) to advise the PMAs, the CIO, and Senior Agency Officials in the program areas outlined in OMB Circular A-130.

The PMAs and the Advisory Councils constitute Tier 2 of a three-tiered, escalating IT risk management structure that provides oversight required to identify, analyze, prioritize, mitigate, and manage risks and issues regarding information systems, mission processes, and the organization at each respective decision making tier – all with the overall objective of continuous improvement. For example, when system owners and authorizing officials (Tier 3) are unable to resolve information systems risks and issues, or issues are determined to affect business processes, the risk or issue is escalated to the PMAs (Tier 2) and the appropriate IT Advisory Council to apply resources and decision-making strategies. Similarly, if the risk or issue cannot be prioritized or mitigated by the Tier 2 PMA governance bodies, or the criticality of risk is such that it affects the organization and requires decision-making or resources not available to the PMAs, the risk or issue is escalated to Tier 1 and the Senior Agency Officials who sit on the Enterprise Risk Management governing body, the Senior Management Council (SMC) for analysis and decision-making. The SMC may choose to accept, mitigate, or transfer the risk or modify the IRM Strategic Plan to manage the risk.

Finally, an IT risk register was established to ensure that the PMAs and the IT Advisory Councils have insight into project risk and issues. The PMAs conduct weekly risk reviews and make decisions regarding risk mitigation. Risks are escalated to the agency's SMC senior risk management officials based on the severity, likelihood and impact. These escalated risks are presented as part of the SMC meetings, which focus on, not only IT risks, but also overall agency risks. Depending upon changes in the risk landscape, the IRM, the agency risk profile, or strategic initiatives may require adjustment. The SMC, the CIO, and PMAs will communicate changes in the IRM and agency risk profile to stakeholders, Advisory Council members, and system owners to guide their IT risk management activities.

The new governance structure is intended to streamline decision making, and broadened the IT governance scope beyond development, modernization and enhancement (DME) investments. It is also intended to ensure that IT, which is integral to the work of the agency, and the risks it poses to organization or mission are properly considered as part of Enterprise Risk Management for the agency. The new structure provides transparency throughout the agency regarding IT operations, maintenance, security, staffing, and budgeting, which directly influences the success of DME projects.

Because the voting members of the SMC, the agency's senior risk review board, is made up of those who served as members of the prior IT Governance Board (i.e., the CIO, Deputy Directors of the Bureau of Economics (BE), the Bureau of Competition (BC) and the Bureau of Consumer Protection (BCP); the Chief Privacy Officer, the Chief of Staff, the Executive Director) there were no specific transition efforts that had to be undertaken to move the Governance Board's functions/responsibilities and on-going projects to the broader SMC board that has responsibility for Enterprise Risk Management for the agency. Although these IT governance process improvements were not formally presented as a "TechStat," (although OCIO has no objection to conducting such sessions for non-investment changes or issues going forward) these changes were presented to, and/or vetted extensively before implementation with, stakeholders throughout the agency. The CIO met with and discussed these proposed changes with the Chairman, the IT Governance Board members, the SAT, appointed representatives to the newly formed IT Advisory Councils, members of the FTC community who attended in In the Know With CIO forums, and others who provide input regarding the business risk associated with IT policy revisions and operational and functional changes. Finally, OCIO drafted a policy revision to the Administrative Manual reflecting these changes in IT governance, which is undergoing final review before publication.

Strategic Planning/Enterprise Architecture

The IRM Strategic Plan, which is targeted for completion in in Q1 FY2018, will supersede the current IT Strategy and Transition Plan. The finalization of the agency's IRM Strategy is a continuation of the current IT Strategy, building on progress already made, and will support further improvement in the areas of IT governance and planning. The plan will establish a five-year strategy 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. In order to capture a cohesive agency view, in development of the plan, OCIO has met with Offices and Bureaus across the agency to document their needs. Again, while a TechStat was not held on the IRM, the draft IRM Strategic Plan was briefed to the responsible PMA/Advisory Council, which recommended it approval by the SMC, which approval is pending.

The FTC approach to strategic planning is to focus on the performance outcomes. As a result, FTC is using the IRM to drive the decision making on the target Enterprise Architecture and vehicles for IT acquisitions. This approach resulted in progress against the current IT Strategy as demonstrated by the completion of multi-factor authentication through use of Personal Identity Verification (PIV) for access to the FTC network. Progress in this area will continue with multi-factor authentication for regional office staff in FY 2018.

Implementation of the IT Strategy requires improvements to the FTC communications infrastructure. To begin the process, FTC completed a Network Modernization Business Case Analysis (BCA) in FY 2017. The Network Modernization BCA anticipated the user demands of a cloud-based solution set as discussed in the IT Strategy, and resulted in a recommendation for upcoming FTC network modernization. In FY 2017, the FTC began the development of an Enterprise Architecture (EA) program that aligns with the Federal Enterprise Architecture framework. Artifacts for the EA program are currently under development and will align IT systems and applications with agency strategic and performance goals, define the current and target state for the agency's IT footprint, and provide a roadmap for future development and modernization. These documents will establish the baseline as-is architecture. Efforts so far have focused on areas of greatest mission risk and thus have concerned documenting litigation processes through meetings with senior leadership in BC, BCP, BE, and the Office of the General Counsel. In FY 2018, the FTC plans to complete the first round of EA artifacts, further define EA governance processes, integrating security and privacy into the overall EA program.

Acquisitions

The planning for, drafting, and issuance of the BPA was the result of intensive, collaborative work by OCIO and the Acquisitions Division, with the support of an outside contractor. It involved, among other things, significant requirements gathering and market research. The award of the BPA has been delayed, in part, due to the large number of proposals received. This is a good problem to have, as this means industry is interested in partnering in the FTC modernization effort. Moreover, this should translate into competitive pricing and a variety of viable approaches for modernization. The IG's assertions notwithstanding, the agency has not failed to take action to manage risk, while it has accepted the risk pending implementation of its modernization plan. In parallel with its work on issuing and awarding the BPA, OCIO, and more broadly the agency as a whole, has been reviewing, documenting, and mitigating risks including those IT risks that have the potential for impact on mission services. In addition to the weekly review of risk registers described above, OCIO is actively cataloging end of life hardware and software, and has established Integrated Project Teams (IPTs) to conduct risk assessments on the current state. The IPTs will review and assess the upgrade of end of life software and hardware and, based on mission impact and criticality, and will develop project plans to mitigate risk that will be integrated in the IRM Strategic Plan monitoring effort.

3. Improving Acquisition Planning and Contract Management

The FTC depends on contractor support to meet its mission needs. In FY 2015, the FTC obligated about 20 percent of its budget (approximately $60 million) for contracts for goods and services. In FY 2016, the FTC obligated about 23 percent of its budget (approximately $70 million) for contracts for goods and services, and of which 16 percent of its budget (approximately $50 million) was for non-FTE related IT resources. The FTC's dependence on contractor support will continue to grow, as will the percentage of IT resources, as FTC mission requirements expand with an anticipated increase in economic activity.

Given the current economic and budgetary environment, the FTC cannot expect substantial increases in funding. It must, therefore, ensure the effective acquisition of quality goods and services that meet its needs. Implicit in accomplishing this objective is having consistent, flexible acquisition practices that ensure that goods and services are available when needed.

As recognized by the FAR, effective acquisition and management of goods and services requires a team approach between the customer with the acquisition requirements – e.g., the FTC's Bureaus and Offices -- and the organizational component responsible for conducting acquisitions and managing contracts -- the Financial Management Office (FMO). In addition, within the Federal Government, the agency CIO is responsible for ensuring the effective specification and management of information resources.

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

1) poorly-defined contract functional requirements, the lack of enterprise level planning that resulted in acquisition of products not appropriately integrating with existing IT capabilities, and the lack of metrics with a user or functional focus that could demonstrate whether delivered IT resources met contract requirements and user needs; 2) contracts that did not include the requirements and metrics necessary to identify poor performance or the tools needed to correct performance issues; and 3) Contracting Officer's Representatives (COR) without the training and resources necessary to identify and properly document and resolve poor performance issues.

In FY 2016, the FTC initiated actions to improve the FMO acquisition and contract management processes and the OCIO IT Acquisition Planning, Project Management, and Contract Management processes. Many of these planned actions have not been in place for a long enough period to allow the OIG to fully assess their impact. The summaries below provide the OIG's assessment of the challenges associated with these initiatives as of August 31, 2017.

FMO Acquisition and Contract Management

COR Education

In FY 2016, the FMO agreed to host quarterly COR training. However, the FMO Acquisitions Division subsequently determined that quarterly training was not adequate and thereafter instituted bi-monthly COR training in February 2016 and expanded training to include maturation of the FTC COR knowledge base, as well as to address current, specific needs. The Acquisitions Division also posted a variety of COR resources online, including sample documents and Procurement Action Lead Time (PALT) requirements for common acquisitions.[1] The use of PALT guidelines should result in more realistic planned acquisition schedules for customers to follow and lower schedule risks.

This FMO initiative should have a positive impact on FTC acquisition processing and contract management. The FTC's Blanket Purchase Agreement (BPA) acquisition for Information Technology Services and Support (ITSS) is a critical element in the OCIO IT modernization initiative, approved in September 2016. The IT Strategy issued at that time assumed that ITSS Task Order awards would commence in the fourth quarter of 2016, and the ITSS Acquisition Plan issued in February of 2017 stated that any "potential delay will impact the FTC's ability to award task orders which are planned to be competed and awarded under the BPA in FY2017." However, the FTC does not expect to award the ITSS BPA until FY 2018 – a full year beyond the initial estimate. Had those involved in planning the ITSS acquisition used the PALT and other COR resources, the risk of schedule delay could have been reduced.

Improved Customer Communications

The FMO Acquisitions Division proposed to improve agency acquisitions by improving customer communications. For example, the Division is scheduling targeted customer meetings and providing liaison support for select customers among the Bureaus and Offices. The FAR recognizes the importance

[1] PALT is the approximate number of calendar days from the time the contracting officer accepts a complete acquisition package to the time of award. Agencies establish PALT guideless, based on acquisition size and complexity that define the categories of acquisitions to which the guidelines apply. PALT guidance also generally specifies what constitutes a complete acquisition package.

of participants in the acquisition process working together as a team.[2] "The Acquisition Team consists of all participants in Government acquisition including not only representatives of the technical, supply, and procurement communities but also the customers they serve, and the contractors who provide the products and services." [3]

The OIG could not fully assess the impact of the proposed Acquisitions Division changes in FY 2017 because these changes will not generate measurable results until FY 2018 and beyond.

Revised Policies and Procedures

The OIG welcomes the Acquisitions Division's continuous review of all FTC policies and procedures to ensure consistency with federal regulations and strive for improved acquisitions and contractor management.

IT Acquisition Planning, Project Management, and Contract Management

The OCIO reported taking significant steps to improve its IT acquisition processes. The OIG has not had sufficient time to assess the full impact of those actions because most are long-term activities that management only began to implement during FY 2016. For example, the CIO established a new Vendor and Program Management (VPM) division in March 2016, and significant VPM initiatives were not scheduled to start until FY 2017. Thus, VPM has not yet had the opportunity to work with the OCIO customer base and the FMO to establish the working relationships, policies, strategies, and practices necessary to improve the FTC acquisition planning, project management, and governance.

Continued Progress

In the last year, the FTC has demonstrated its commitment to improve acquisition planning and contract management by making changes in many contract acquisition and management areas. Yet, acquisition planning and contract management remains a continuing challenge, particularly in regard to improving the management of information technology acquisitions and operations, which the Government Accountability Office (GAO) includes as a high risk area in its 2017 high-risk report.[4] We will continue monitoring the agency's progress to determine the extent to which the FTC has established an effective framework of controls to guide its acquisitions, its COR cadre, and its contract management process.

Agency Progress in Addressing the Challenge

COR Education

COR education continues to be a priority for FMO management and the Senior Procurement Executive (SPE). In FY 2017, FMO's Acquisitions has continued to hold bi-monthly COR training sessions as begun in

[2] FAR § 1.102(a)(a) The vision for the Federal Acquisition System is to deliver on a timely basis the best value product or service to the customer, while maintaining the public's trust and fulfilling public policy objectives. Participants in the acquisition process should work together as a team and should be empowered to make decisions within their area of responsibility.
[3] FAR § 1.102(c).
[4] GAO 17-317, *High-Risk Series: Progress on Many High-Risk Areas, While Substantial Efforts Needed on Others, February 2017, Improving the Management of IT Acquisitions and Operations*.

FY 2016. Topics in FY 2017 have included overall COR roles and responsibilities, expert witness contracts, the Privacy Office's Privacy Threshold Analysis, unauthorized commitments and the ratification process, COR invoice process training, and an end-of-fiscal-year COR review session. To complement its in person training, the Acquisitions Division offers 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.

Improved Customer Communications

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 new staff to serve as acquisition support liaisons for the customers. The SPE customer meetings, initiated in FY 2015, ensure standard topics are discussed, and new requirements are being addressed in an agreed-upon priority order. The Acquisitions Division also helped ensure timely completion of actions by sending reminders in advance of key dates. These improvements strengthened the acquisitions process overall and ensured that all acquisitions were completed timely at year-end.

Additionally, in FY 2017, the Acquisitions Division contracted for three acquisition liaisons, to assist program offices by providing hands on guidance about 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 transparency and confidence throughout the entire process. In this first year, the liaisons have assisted with over 75 contracting actions for the offices within the Office of the Executive Director, as well as BC and BCP. As a result of their work, the Acquisitions Division has begun to see improvement in the quality in acquisition packages, most notably in requirements definition. Customer feedback for the liaisons has been universally positive, and the Acquisitions Division will continue offering liaison services into FY 2018.

Revised Policies and Procedures

The SPE will continue reviewing all existing policies and procedures to ensure consistency with the latest federal regulations. Additionally, the SPE will continue to identify new policies and procedures that need to be issued. In FY 2017, the Acquisitions Division has published substantial revisions to the FTC's Administrative Manual chapter pertaining to Acquisitions. The updated chapter includes detailed descriptions of FTC's elements of an acquisition package, updated roles and responsibilities, a discussion of government-wide Contracting Officer Representative (COR) training requirements, and a definitions section. The Acquisitions Division has also focused on developing policies specifically for acquisitions staff. In FY 2017, the Acquisitions Division published over 17 such policies, with additional policies planned for FY 2018. Topics of completed policies include market research, documenting small business strategies and awards, closeouts, deobligating unliquidated obligations, and formal acquisition plans, among others. Through this continuous assessment process, the Acquisitions Division will have 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.

IT Acquisition Planning, Project Management, and Contract Management

In FY 2017, OCIO's Strategy and Planning Division (SP) established an approach for managing modernization initiatives in an integrated manner. In FY 2018, OCIO plans to extend project management practices to non-standard change efforts associated with IT Operations and Maintenance to enable integrated visibility, resource allocation, and priority setting across divisions and support vendors to improve IT capability, customer service, and vendor performance accountability.

Also, OCIO's Vendor and Program Management Division (VPM) continues to work with the FMO Acquisition Division to award the IT Support Services BPA, the strategic contracting vehicle for modernization and sustainment of IT services. The two offices will continue to work closely together to plan and execute the transition of legacy services contracts into task orders under the BPA. The planning and execution for task order transition will follow PALT guidelines and leverage other COR resources developed to reduce schedule delays in the acquisition cycle. The BPA will streamline the IT procurement process and enable the FTC to work with vendor partners to acquire and modernize IT services efficiently and effectively.

In FY 2017, the VPM has taken a few important initial steps to improve the efficiency of the requisition and procurement process by collaborating closely with other OCIO Offices and the Acquisition Office. VPM has taken the central acquisition oversight role by reviewing and approving OCIO acquisitions. VPM has developed a single information source that tracks the acquisition status of all OCIO acquisition and works with Acquisition Office to share and validate information between the two offices. VPM also serves as liaison and the focal point to enhance the efficiency of communication between the two offices. The VPM also developed an IT Acquisition Management Guide in September 2017. The guide includes procedures for acquisition planning and contract administration for IT contracts. The guide defines process and methods for enterprise level IT acquisition planning to ensure alignment with IT strategies and impact to existing IT capabilities are considered in an integrated manner. The guide also defines various methods for improving contractual requirements, including performance-based requirements, performance standards and metrics, end-user oriented outcomes and agile incremental system and service delivery. The guide also established management and oversight processes to ensure performance issues are identified, analyzed, and remediated timely and effectively. VPM plans to extend its oversight role to include IT acquisitions from all Bureaus and Offices. OCIO will continue to evolve and mature its project management approach, particularly as it applies to acquisitions.

CHAIRMAN'S RESPONSE TO IG-IDENTIFIED CHALLENGES

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

Office of the Chairman

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

In a memorandum dated October 17, 2017, the agency's Inspector General (IG) identified three challenges facing management. The Federal Trade Commission concurs with the IG on these challenges and with the IG's assessment of agency progress addressing the challenges. Moving forward, FTC management will continue its efforts to tackle these challenges proactively.

Signed

Maureen K. Ohlhausen
Acting Chairman
November 8, 2017

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	1	0	1	0	0
Total Material Weaknesses	1	0	1	0	0

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**
	0	0	0	0	0	0
Total Material Weaknesses	0	0	0	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**
	0	0	0	0	0	0
Total Material Weaknesses	0	0	0	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**
	0	0	0	0	0	0
Total Non-Conformances	0	0	0	0	0	0

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, premerger 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 over $1 million 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 and a payment recapture audit is not cost effective. 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. To prevent improper payments, the FTC reviews potential matches on an on-going basis and incorporates a pre-award check on potential contractors against the Do Not Pay databases. In 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 2017 and the next is scheduled for FY 2018.

THE IMPROPER PAYMENTS ELIMINATION AND RECOVERY IMPROVEMENT ACT REPORTING DETAILS (CONTINUED)

	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	8,594	$ 754.1M	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.

More information on Improper Payments can be found at https://paymentaccuracy.gov/.

"REDUCE THE FOOTPRINT" IMPLEMENTATION

The Federal Trade Commission is committed to reducing the total square footage of its office and warehouse inventory relative to the established FY 2015 baseline in accordance with Section 3 of the Office of Management and Budget (OMB) Memorandum 12-12, *Promoting Efficient Spending to Support Agency Operations: Reduce the Footprint.*

Reduce the Footprint Baseline Comparison	FY 2015 Baseline	FY 2017	Change (FY 2015 Baseline - FY 2017)
Rentable Square Footage	611,407	612,231	824

Total square footage increased less than 1% in FY 2017 from the FY 2015 baseline year due to a move from commercially owned to Federally owned space in Chicago, providing increased safety and better utilization of space. In FY 2018, the FTC will complete a move to new smaller space for the Los Angeles regional office. The FTC is also exploring relocation or downsizing of its warehouse location in FY 2018. The new warehouse and Los Angeles space is expected to reduce the agency's total footprint compared to the FY 2015 baseline year, which is consistent with Section 3, OMB M-12-12.

FTC renovations aim to utilize space and energy in the most efficient manner possible in all buildings it occupies. The FTC continues to identify opportunities to reduce total square footage for consideration in future budget years while carrying out its mission.

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

FRAUD REDUCTION REPORT

The Fraud Reduction and Data Analytics Act of 2015 requires Federal agencies to report on their effort to establish financial and administrative controls and implement the fraud risk principle in the Standards for Internal Control in the Government, and Office of Management and Budget (OMB) Circular A-123 with respect to leading practices for managing fraud risk. In addition, agencies are required to report identified fraud risks and vulnerabilities.

The financial and administrative controls require agencies to conduct an evaluation of fraud risks using a risk-based approach to design and implement control activities that prevent, detect, and respond to fraud.

It also requires the analytics of detected fraud and the results of monitoring, evaluating, auditing, and investigating fraud to monitor trends and improve fraud prevention controls.

During 2017, the FTC performed various activities to identify, assess, evaluate and respond to fraud risks. The FTC's management has developed and implemented a three-year cycle internal control assessment plan in accordance with the OMB Circular A-123, Management Responsibilities for Enterprise Risk Management and Internal Controls.

Each year, based on a set of qualitative and quantitative criteria, the plan considers fraud risks using a risk-based approach when determining the review of assessable units deemed material to the agency.

The GAO's Standards for Internal Control requires management to consider potential for fraud when identifying, analyzing, and responding to risks. The GAO framework outlines concepts for management to commit to combating fraud, assessing fraud risks, designing and implementing control activities to mitigate assessed fraud risks, and evaluating results and adapting control activities to improve fraud risk management.

The FTC implemented an agency-wide Enterprise Risk Management (ERM) process that considered the GAO Standards for Internal Controls for developing a risk based approach to identify, assess, evaluate and mitigate internal and external risks to the agency, including risk of fraud. In addition to the reviews performed at the level of the assessable units, the FTC conducted two agency level initiatives to address fraud risk, reinforcing its commitment to prevent, detect and respond to fraud risk during an annual assessment of entity level controls.

During FY 2017, as part of the internal control program, fraud risk was assessed and tested for the Premerger Revenue Process, Purchase Card Management, Do Not Call Registry Fees Process, and cash management as well as those risks associated with financial reporting, compliance with laws and regulations, and operational effectiveness. Each included the review of GAO and IG audits and reports.

In addition, management ensured the following to create an organizational culture and structure conducive to fraud risk management.

- All new employees received an ethics orientation that included Standards of Conduct
- Annual training for FTC leadership
- Establishment of an agency senior ethics official
- Filing and review of annual financial disclosure
- Disciplinary guidance for employee wrongdoing to include committing fraud

When fraud vulnerabilities and control weaknesses are identified, the FTC's management develops and implements corrective actions plans to monitor and verify that controls are achieving intended results. Management monitors the successful completion of the corrective actions and reports progress to the Senior Assessment Team on a monthly basis to both mitigate fraud risks and strengthen management's knowledge and accountability to reduce the FTC's fraud risk.

During FY 2017, the FTC's management did not have knowledge of fraud or suspected fraud.

CIVIL MONETARY PENALTY ADJUSTMENT FOR INFLATION

The Federal Civil Penalties Inflation Adjustment Act of 1990, as amended by the Federal Civil Penalties Inflation Adjustment Act Improvements Act of 2015, requires agencies to make regular and consistent inflationary adjustments of civil monetary penalties to maintain their deterrent effect.

Statutory Authority	Penalty (Name or Description)	Year Enacted	Latest year of adjustment (via statute or regulation)	Current Penalty Level ($ Amount or Range)	Sub-Agency/ Bureau/ Unit	Location for Penalty Update Details
The Clayton Act Section 7A(g)(1) 15 U.S.C. 18a(g)(1)	Premerger filing notification violations	1976	January 24, 2017	$ 40,654	BC	Federal Register Vol. 82, January 24, 2017, Pages 8135-8137
The Clayton Act Section 11(l) 15 U.S.C. 21(l)	Violations of cease and desist orders	1959	January 24, 2017	$ 21,958	BC	Federal Register Vol. 82, January 24, 2017, Pages 8135-8137
The FTC Act Section 5(l) 15 U.S.C. 45(l)	Unfair or deceptive acts or practices	1973	January 24, 2017	$ 40,654	BC and BCP	Federal Register Vol. 82, January 24, 2017, Pages 8135-8137
The FTC Act Section 5(m)(1)(A) 15 U.S.C. 45(m)(1)(A)	Unfair or deceptive acts or practices	1975	January 24, 2017	$ 40,654	BC and BCP	Federal Register Vol. 82, January 24, 2017, Pages 8135-8137
The FTC Act Section 5(m)(1)(B) 15 U.S.C. 45(m)(1)(B)	Unfair or deceptive acts or practices	1975	January 24, 2017	$ 40,654	BC and BCP	Federal Register Vol. 82, January 24, 2017, Pages 8135-8137
The FTC Act Section 10 15 U.S.C. 50	Failure to file required reports	1914	January 24, 2017	$ 534	BC and BCP	Federal Register Vol. 82, January 24, 2017, Pages 8135-8137
The Webb-Pomerene (Export Trade) Act Section 5 15 U.S.C. 65	Failure to file required statements	1918	January 24, 2017	$ 534	BC	Federal Register Vol. 82, January 24, 2017, Pages 8135-8137
The Wool Products Labeling Act Section 6(b) 15 U.S.C. 68d(b)	Failure to maintain required records	1940	January 24, 2017	$ 534	BCP	Federal Register Vol. 82, January 24, 2017, Pages 8135-8137
The Fur Products Labeling Act Section 3(e) 15 U.S.C. 69a(e)	Failure to maintain required records	1951	January 24, 2017	$ 534	BCP	Federal Register Vol. 82, January 24, 2017, Pages 8135-8137
The Fur Products Labeling Act Section 8(d)(2) 15 U.S.C. 69f(d)(2)	Failure to maintain required records	1951	January 24, 2017	$ 534	BCP	Federal Register Vol. 82, January 24, 2017, Pages 8135-8137

CIVIL MONETARY PENALTY ADJUSTMENT FOR INFLATION (CONTINUED)

Statutory Authority	Penalty (Name or Description)	Year Enacted	Latest year of adjustment (via statute or regulation)	Current Penalty Level ($ Amount or Range)	Sub-Agency/ Bureau/ Unit	Location for Penalty Update Details
The Energy Policy and Conservation Act Section 333(a) 42 U.S.C. 6303(a)	Knowing violations	1975	January 24, 2017	$ 440	BCP	Federal Register Vol. 82, January 24, 2017, Pages 8135-8137
The Energy Policy and Conservation Act Section 525(a) 42 U.S.C. 6395(a)	Recycled oil labeling violations	1975	January 24, 2017	$ 21,598	BCP	Federal Register Vol. 82, January 24, 2017, Pages 8135-8137
The Energy Policy and Conservation Act Section 525(b) 42 U.S.C. 6395(b)	Willful violations	1975	January 24, 2017	$ 40,654	BCP	Federal Register Vol. 82, January 24, 2017, Pages 8135-8137
The Fair Credit Reporting Act Section 621(a)(2) 15 U.S.C. 1681s(a)(2)	Knowing violations	1996	January 24, 2017	$ 3,817	BCP	Federal Register Vol. 82, January 24, 2017, Pages 8135-8137
The Medicare Prescription Drug, Improvement, and Modernization Act of 2003 Public Law 108-173 Section 1115(a) 21 U.S.C. 355 note	Non-compliance with filing requirements	2003	January 24, 2017	$ 14,373	BC	Federal Register Vol. 82, January 24, 2017, Pages 8135-8137
The Energy Independence and Security Act of 2007 Section 814(a) 42 U.S.C. 17304	Market manipulation or provision of false information to federal agencies	2007	January 24, 2017	$ 1,156,953	BC	Federal Register Vol. 82, January 24, 2017, Pages 8135-8137

GRANTS OVERSIGHT & NEW EFFICIENCY (GONE) ACT

Per OMB Management Procedures Memorandum 2016-04, the GONE Act reporting requirements apply to agencies that award grants or cooperative agreements. As the FTC does not award grants or cooperative agreements, the reporting requirements do not apply.

APPENDICES

FISCAL YEAR 2017

FEDERAL TRADE COMMISSION

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. 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 and 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 the Division of Consumer Response and Operations (DCRO).

Verification and Validation:

- The Redress Administration Office (RAO) in DCRO reconciles monthly activity reports submitted by the redress contractors and FMO with matter bank statements.
- RAO reconciles the monthly FMO sub-ledger with the redress status of each individual matter.
- 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 contributed 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 generated under goal 2.1.2 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: The data is entered into a BC database by staff and reviewed monthly by analysts, attorneys, economists, and senior management.

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 generated under goal 2.1.4 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: The data is entered into a BC database by staff and reviewed monthly by analysts, attorneys, economists, and senior management.

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 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 the complaint submitted to the FTC. Responding to these requests is fairly simple and straightforward, and the requests represent a strong percentage of the types of requests the agency fills. The performance goal metric presented tracks the agency's response time to process a simple perfected FOIA request for access to agency records. The agency also keeps track of a number of other metrics on an annual basis, including: the FTC's response time for complex and expedited 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 business days to process each perfected simple request divided by the total number of perfected simple requests processed.

Data sources: All of the FOIA requests that the FTC receives are logged into and processed through a software application 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 request for records under the FOIA, the request is logged into FOIAXpress and automatically assigned a unique tracking number. If the request reasonably describes the records sought and complies with the agency's regulations for making requests, the request is considered "perfected." Additionally, based on the nature, volume and urgency to inform the public of the records sought, the request is categorized as "simple", "complex" or "expedited." Once these standards are met and the request is properly categorized, the 20-business day clock begins to run for processing the 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. This may add days to process simple perfected requests.

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 2017 and OPM transmits the agency results to the FTC's Human Capital Management Office.

Calculation/Formula: N/A

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

Acronym	Definition
ACTH	Adrenocorticotropic Hormone
AFR	Agency Financial Report
APP	Annual Performance Plan
APR	Annual Performance Report
BC	Bureau of Competition
BCA	Business Case Analysis
BCP	Bureau of Consumer Protection
BE	Bureau of Economics
BPA	Blanket Purchase Agreement
CAP	Cross-Agency Priority
CIGIE	Counsel of the Inspectors General on Integrity and Efficiency
CIO	Chief Information Officer
COPPA	Children’s Online Privacy Protection Act
COR	Contracting Officer’s Representative
CPIC	Capital Planning and Investment Control
CSRS	Civil Service Retirement System
DCRO	Division of Consumer Response and Operations
DHS	Department of Homeland Security
DNC	Do Not Call
DOJ	Department of Justice
DOL	Department of Labor
EFT	Electronic Funds Transfer
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
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-FRAE	Federal Employees’ Retirement System – Further Revised Annuity Employees
FERS-RAE	Federal Employees’ Retirement System – Revised Annuity Employees
FISMA	Federal Information Security Management Act
FMFIA	Federal Managers’ Financial Integrity Act
FMO	Financial Management Office
FOIA	Freedom of Information Act

Acronym	Definition
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
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
IPP	Invoice Processing Platform
IT	Information Technology
N/A	Not Applicable or Not Available
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
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
OTC	Over-the-counter
PAE	Patent Assertion Entity
PALT	Procurement Administrative Lead Time
PIO	Performance Improvement Officer
PIV	Personal Identity Verification
PMRO	Performance Measure Reporting Official
PP&E	Property, Plant, and Equipment
RAO	Redress Administration Office
SAT	Senior Assessment Team
SBR	Statement of Budgetary Resources
SFFAS	Statement of Federal Financial Accounting Standard
SMC	Senior Management Council
SSAE	Statement on Standards for Attestation Engagements
TAS	Treasury Account Symbol
TSP	Thrift Savings Plan
VPM	Vendor and Program Management

APPENDIX C:
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/about-ftc/performance
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	www.ftc.gov/about-ftc/performance
AFR Contact	Joseph O'Leska
AFR Telephone	202-326-2716
AFR Email Address	gpra@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

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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