
AR 06-071

FEDERAL TRADE COMMISSION

Office of Inspector General



**Audit of FTC Redress Administration
Performed by Analytics, Inc.**



OFFICE OF
INSPECTOR GENERAL

FEDERAL TRADE COMMISSION
WASHINGTON, D.C. 20580

March 29, 2006

Chairman Majoras:

The Office of Inspector General recently completed a financial-related audit of the cash management and claims processing activities performed on behalf of the Federal Trade Commission by the contractor, Analytics, Inc. of Chanhassen, MN, for fiscal year 2005. The objectives of the audit were to evaluate financial controls in place at Analytics over the redress process and to assess the Redress Administration Office's (RAO) oversight of contractor-administered redress. The audit encompassed eight redress accounts totaling \$63.5 million in claims paid to 702,725 consumers.

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

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


At RAO, the OIG identified processes in place to prevent and/or detect fraud. RAO simply needs to expand current procedures to audit more checks and consider computer-assisted techniques to increase its audit capacity. We also noted that on two of eight sampled cases, RAO did not maintain complete original claimant lists. (Staff responsible

for this oversight has since left the Commission.) Without these lists, contractor employees could add names to claimant lists and issue checks to themselves or third parties with little fear of detection, although there was no evidence to suggest that this has occurred.

We conducted our audit in accordance with generally accepted auditing standards and Government Auditing Standards (2003 Revision) issued by the Comptroller General of the United States. These standards require that we plan and perform the audit to obtain reasonable assurance regarding the accuracy of the Statement of Financial Activity. An audit includes (a) examining, on a test basis, evidence supporting the amounts on the Statement, (b) determining compliance with select laws, regulations and contract provisions, and (c) documenting and assessing the internal control structure.

The OIG wishes to thank RAO and Analytics management and staff for their assistance on this review. I am available to answer any questions you may have about the audit.

Respectfully Submitted,

A handwritten signature in black ink, appearing to read "Howard L. Sribnick", written over a horizontal line.

Howard L. Sribnick
Inspector General

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Audit of FTC Redress Administration Contractor Performance

Analytics, Inc.

Background

The Federal Trade Commission (FTC) is an independent agency responsible for the enforcement of a variety of statutes that, in general, are designed to promote competition and to protect the public from unfair and deceptive acts and practices in the advertising and marketing of goods and services. Its law enforcement actions include administrative and federal court litigation, with consumer redress being one possible remedy.

On July 15, 2002, the FTC awarded a contract to Analytics, Inc. of Chanhassen, MN, a firm that provides class action management services, to process redress distributions. The current indefinite-quantity contract expires on July 14, 2012, if all options are exercised. During fiscal year 2005, Analytics, Inc. managed 56 FTC cases, distributing \$38.6 million to consumers while holding \$36.3 million at two banks at fiscal year end (9/30/05).

As part of its annual financial statement audit, the Office of Inspector General (OIG) reviews the agency's redress program, including program management by the Bureau of Consumer Protection's redress administration office (RAO), oversight of contractors by the contracting officer's technical representative (COTR) and performance of the contractors. The OIG performs these activities in order to render an audit opinion on the financial statements as a whole.

During the prior year's audit, the OIG made recommendations to enhance controls at the redress contractors and at the RAO. The OIG included the recommendations in the FY 2005 management letter. As a result of implementing those recommendations, the FTC has improved controls over the contractors and put thousands of dollars to better use.

As part of its review of its internal controls, Analytics retained an Independent Public Accounting (IPA) firm to review the "adequacy of the check processing and distribution approval procedures for redress fund distribution." The IPA did not test these procedures as would be necessary to form an opinion on internal control. Since the OIG had not reviewed Analytics on site, and due to the IPA's limited scope report, the OIG audited Analytics.

Scope of Work

At the RAO's request, the OIG visited Analytics in January 2006 to assess controls, perform audit procedures on the redress payments and test compliance with laws and regulations.

The audit procedures performed at Analytics included tests of (i) redress funds distributions, (ii) invoicing for fees, (iii) monthly activity reports, and (iv) internal controls. We also assessed the adequacy of select cash management procedures to insure proper interest is earned on cash balances.¹

Objectives

The audit objectives are summarized as follows:

- Determine if Analytics maintains and follows internal control policies and procedures over redress activities.
- Determine if redress payments are made timely and correctly.
- Assess whether information provided to FTC is timely and accurate.
- Determine whether Analytics has negotiated competitive interest rates of return on excess cash balances.
- Verify that fees paid to Analytics are calculated properly and are reasonable.
- Determine if surety and fidelity bonds are obtained for each case, as required by contract.
- Identify vulnerabilities at the RAO pertaining to its oversight of Analytics.

Methodology

We obtained the financial summary of all funds on deposit, by case, during FY 2005 at Analytics.² From this listing, we selected eight cases for detailed review. Our scope included both large and small cases. The eight cases accounted for \$63.5 million in redress to 702,725 consumers. The OIG performed reviews of the following documentation provided by Analytics:

- Flowchart of internal processes at Analytics
- Organization chart of Analytics as it relates to the redress area
- Banking agreements with M&I Marshall & Ilsley Bank and U.S. Bank
- Check signers on bank accounts
- Consultant's report on redress procedures
- Cancelled checks and original claimant lists provided by RAO
- Expenses incurred on redress cases

Review of the RAO's oversight over Analytics, which included the following:

- Monthly contractor statements
- Cancelled checks and claimant lists

¹ Schedule A to this report provides a summary of the financial transactions for cases active in FY 2005. Schedule B provides a detailed summary of expenses paid to manage these cases.

² The financial summary includes cases (accounts) that, in some instances, were opened before FY 2005 and/or remained open in FY 2006.

Recent Developments at Analytics

Analytics recently moved to a new location in the same office/warehouse complex where it was previously located. The new location provides Analytics with needed additional space to both store records and provide good working conditions for employees. In addition, Analytics hired a controller during 2005. The controller has experience working for similar companies in Minnesota. Per RAO instructions, the controller instituted new oversight procedures for FTC funds, including daily review of all bank activity. The controller will be an excellent addition to Analytics, and provide accounting and finance experience needed to produce timely reports and an additional strong layer of financial management control and oversight of FTC funds.

All personnel that we met with at Analytics seemed to be very competent and displayed a genuine interest in providing high quality service to the FTC. Analytics staff was very efficient and capable in providing us records for our audit, and demonstrated a good understanding of current and previous issues involving FTC cases.

At the urging of RAO, Analytics has begun transferring funds to U.S. Bank. The internal controls and processes of Analytics' previously used bank, M&I Bank, were not sufficient to meet the needs of Analytics. For example, lax bank controls resulted in a misidentification of account names on bank statements that were sent directly to the RAO by the bank (and not to Analytics) and issues surrounding the timely establishment and performance of account services. According to Analytics' staff, U.S. Bank is the sixth largest bank in the United States and can provide Analytics with a much larger geographic reach. This expanded reach should benefit those redress recipients without a bank account of their own. Additionally, beginning April 1, 2006, U.S. Bank will be offering a safeguard called enhanced positive pay to provide an additional layer of security involving the clearing of checks.³

Results of Sample Testing

The agency's redress contractors manage hundreds of millions of dollars over the life of the contract. As claimants are identified and checks processed, there are opportunities for contractor staff to divert funds for personal gain. It is critical that contractors implement sound internal controls to prevent and/or detect such activity.

As part of the agency's oversight of the contractor, the OIG recommended in a prior audit report that the RAO compare cancelled checks against original (agency-maintained and controlled) claimant lists.⁴ All checks issued must tie to the claimant list. A check issued to an individual not on the claimant list would be suspect. It is therefore critical that the agency maintain an original claimant list for each case and routinely test for fraud by, at a minimum, tying the cancelled checks to the original claimant list. This review serves as a powerful deterrent to theft.

³ U.S. Bank receives a report from Analytics identifying check numbers and amounts for all issued checks. Beginning April, 2006, the report will also include consumer names for each check. The bank verifies that the name and amount of each check that is presented to it for clearing matches the report from Analytics.

⁴ See AR 96-032, *Review of the Redress Administration Office's Oversight of Contractors*

As part of our detailed review of eight cases, the OIG compared sampled checks to original claimant lists. The purpose of this review was twofold: (i) to identify potentially fraudulent claimants, and (ii) to test procedures at the contractor and RAO to prevent and detect such activity.

Case 1.

Total Redress Distributed: \$6,257,517

Total Checks: 169

Average Check Amount: \$37,027

OIG Sample Size: 169

This was a Bureau of Competition case that RAO was asked to administer. The RAO provided the OIG with a list of claimants that included consumer names only through the letter "C." The RAO/COTR told the OIG that the RAO did not have a more complete original claimant list. The COTR suggested that Analytics provide the OIG with an earlier email from RAO that had an excel attachment identified as the original claimant list. A contractor-controlled list does not provide all the assurances of an agency-controlled list, although in this case an email attachment would be more difficult (but not impossible) to corrupt. Consequently, the OIG relied on this list for its review.

In discussions concerning claimant list controls, RAO told the OIG that it already has formal procedures to address control of claimant lists, but these procedures were not applied to "Case 1." Staff responsible for securing claimant lists on this case has since separated from the agency. RAO told the OIG that it considers claimant list maintenance a priority. The OIG will monitor claimant list maintenance and security during the FY 2006 financial statement audit to ensure that RAO is properly maintaining these lists.

We were able to trace all checks in our sample to the list provided by Analytics. Three checks were still outstanding, however, we traced those to the bank-produced list of outstanding checks based on the bank's positive pay reporting system.

Analytics did not have all cancelled checks on hand, as required by contract with RAO. It was, however, able to quickly provide copies of the cancelled checks by accessing the bank's database over the internet. Analytics personnel informed us that it receives a compact disk (CD) that should include all cancelled checks, however, on occasion, the bank omits a few checks in error. Analytics must have copies of all checks to assist in identification of potential fraud and to enable RAO to perform its review.

Recommendation 1. RAO should explore the feasibility of maintaining all claimant lists electronically. This would help RAO move to a "paperless" environment, thereby reducing the chance of losing key documents. Data saved in directory's set up for each case could be easily retrieved.

Recommendation 2. Analytics should reconcile bank-provided CD's to ensure that they contain all cancelled checks. Any discrepancies should be cleared with the bank and copies of missing checks obtained and stored for the required time period per the contract.

Case 2.

Total Redress Distributed: \$202,152

Total Checks: 38

Average Check Amount: \$5,320

OIG Sample Size: 38

For this small distribution, Analytics could not provide the OIG with nine checks, as they were not on the CD received from the bank. At our request, Analytics went on-line and printed out these checks from the bank's database. (See Recommendation 2.) One check recipient was not on the original claimant list. This could potentially mean that a name was fraudulently or erroneously added by an Analytics employee. However, the OIG determined that the discrepancy was not fraud related.

On February 10, 2005, RAO sent Analytics the original claimant data. Based upon this data, Analytics prepared a distribution schedule for the RAO. On March 24, 2005, Analytics received approval for the distribution from the RAO and the case manager. Checks were mailed on March 25, 2005.

On April 8, 2005, the case manager informed Analytics via email that one injured consumer did not receive a redress check. Analytics informed the case manager that the victim was not identified in the original claimant list. The case manager forwarded to Analytics an independent list that she maintained as partial proof that this person should receive a check. This list was not provided to the RAO by the case manager. Subsequently, the case manager authorized Analytics to send this victim a check in the amount due to her.

When the OIG examined the case manager's "amended" list, we identified a second consumer who was not on the original list and, consequently, also did not receive a redress check. In this instance, Analytics did not compare the original and amended lists to identify additional claimants. Analytics staff told the OIG that the lists were not presented to Analytics for that purpose, e.g., the purpose was simply to identify one consumer who did not receive a check. Currently, Analytics provides the case manager and the RAO with the contractor-developed claimant list for its review at the time it requests approval for the distribution. However, since RAO did not have the revised list, it also did not spot the discrepancy. In this instance, the case manager should have informed both the RAO and Analytics when the additional consumers were added to the list.

One consumer is still owed \$3,000. Since funds have already been sent (disgorged) to the U.S. Treasury, Analytics told the OIG that it will discuss this claim with RAO to determine how best to reimburse this consumer.

Recommendation 3. RAO should remind case managers that any additions or deletions to claimant lists are to be provided to the RAO as soon as the case manager approves them.

Case 3.

Total Redress Distributed: \$20,031,606
Total Checks: 45,588
Average Check Amount: \$439
OIG Sample Size: 227

The OIG review of this large distribution identified two cancelled checks that could not be traced to the original claimant list. Both checks were for \$413.10 each. The names and copies of checks were provided to the RAO for further investigation. Based on its follow up, RAO has provided assurances that these were valid claimants.

Case 4.

Total Redress Distributed: \$26,206,522
Total Checks: 190,193
Average Check Amount: \$138
OIG Sample: 100

On this distribution RAO instructed Analytics to compile the final redress claimant list. This scenario is not unusual as at times it is more efficient for Analytics to compile the list of claimants.

Analytics was provided with transaction logs by the RAO identifying the credit cards used by potential claimants. The transaction data was compiled at Analytics, and used as a basis for subpoenas which were served on the relevant financial institutions and credit reporting agencies to identify the individuals who owned the credit cards. Analytics told the OIG that it routed the responses from the financial institutions through the FTC specifically to avoid issues related to the final claimant list.

In this matter, all original source data – including potential claimants' names, addresses, and transactions were provided to Analytics by the RAO. Because the RAO provided Analytics with all of the data used (although the FTC received it from third party financial institutions), the ability existed to verify the identity and eligibility of each claimant from original source data not created or maintained by Analytics. The contractor-generated list provided to us by RAO was not a complete, final list requiring that we obtain the complete list directly from Analytics. We traced our sample of checks to the Analytics-provided final list with no exceptions noted.

Case 5.

Total Redress Distributed: \$132,450

Total Checks: 207

Average Check Amount: \$640

OIG Sample Size: 207

This was a small distribution case with one OIG-identified exception. This individual received two distribution checks for \$331.62 each. We reviewed a report maintained by Analytics that identified the amounts due each claimant. The OIG believes that this person clearly received the second check in error. Analytics staff admitted that its internal controls failed to catch the error. Specifically, the internal edit check electronically performed on all distributions "flagged" the error in an edit report. However, Analytics staff did not review the edit report.

On the other hand, the OIG also noted that this error appeared on proposed distribution schedules provided to the case manager and the RAO for approval by Analytics prior to the distribution. The list was approved without change.

The OIG attempted to contact the individual who obtained the two checks to validate that he received both checks (to eliminate the possibility that a third party cashed one of the checks), but we were unsuccessful. The signatures on the back of the checks appeared to match, however the checks were cashed at different banks. Pertinent information regarding these transactions was provided to RAO for follow up.

In this instance, the OIG would normally recommend that Analytics management review its procedures and change them as necessary to be sure edit flags are detected and timely acted on to reduce the chance of errors in the distributions process. However, Analytics assured us that this error was due to a rare miscommunication between its technical and program staff during the preparation of distribution schedules. As we identified no similar occurrences of this oversight, we make no recommendation at this time.

Case 6.

Total Redress Distributed: \$7,786,857

Total Checks: 393,824

Average Check Amount: \$20

OIG Sample Size: 100

In our sample of 100 cleared checks, we noted that RAO only provided us an "add-in" claimant list with 56 names on it. The RAO told the OIG that Analytics had a read-only CD in its possession that comprised the original claimant list. RAO did not have possession of the list.

Analytics provided the OIG with a read-only CD that was signed by an ex-RAO employee. We used this CD in our testing. One check was still outstanding, however we were able to trace this to the bank produced listing of outstanding checks. Seven checks were "return to sender-undeliverable" checks. We were provided these original checks in their original envelope, marked return to sender by the post office.

Case 7.

Total Redress Distributed: \$2,323,302
Total Checks: 68,945
Average Check Amount: \$34
OIG Sample Size: 100

Our review of sampled checks produced no exceptions.

Case 8.

Total Redress Distributed: \$541,560
Total Checks: 3,761
Average Check Amount: \$144
OIG Sample Size: 100

Our review of sampled checks produced no exceptions.

Internal Controls

The OIG interviewed management personnel to gain an understanding of the policies, procedures and controls involving the redress administration. This included a discussion of the flow of data, computer systems utilized, personnel duties, management oversight and reporting.

The computer system utilized by Analytics maintains records documenting all edits or additions to databases. During the pre-distribution period, access to these data is restricted and all manual address updates and changes are reviewed and are reflected in the proposed distribution schedules. During the claims processing and post distribution period, samples of all data entry are reviewed. However, Analytics does not have routine procedures in place to review all computer records to determine if overrides or changes did occur.

Recommendation 4. Analytics management should establish procedures to review all computer records to identify overrides or changes.

Employee Dishonesty (Fidelity) Bonds

The contract between RAO and Analytics requires Analytics to obtain a fidelity bond for each case. The bond is a form of business insurance that protects Analytics against employee theft, larceny, or embezzlement committed by employees. The contract specifies that Analytics is to obtain a bond equal to 5% of each case's value. For example, a \$1,000,000 case would require Analytics to obtain a bond for \$50,000 of coverage. Both small and large cases require such bonds.

Based on our analysis of this procedure, the OIG determined that coverage could be more fully achieved by requiring Analytics to obtain one bond that covers all cases, as opposed to one bond for each case. For example, a \$5 million bond would provide the same coverage under the present method for cases up to \$100 million (5%). It would also result in increased coverage for all cases under \$100 million.⁵ A \$20 million case would be covered at 25 percent, a \$5 million case would be covered at 100 percent, etc. Further, administrative costs would be reduced due to fewer bonds to manage. RAO would not need to monitor the receipt of bonds on each case as it does now.

Recommendation 5. OIG recommends that RAO amend the requirements for bonding coverage to a blanket amount.

Interest on Funds

Banks that process large quantities of redress checks incur significant costs to do so. However, banks earn significant fees by paying interest at rates less than what they lend or invest funds at themselves. As a result banks are willing to pay interest on accounts in order to attract these deposits. Based on a recommendation we made to RAO in a management letter after the prior year's financial statement audit of FTC, Analytics was instructed to improve its cash management policies and obtain higher rates of interest for the redress funds on deposit. The higher the interest earnings, the less fund principle is needed to pay contractor administration expenses. (Note: Analytics implemented these changes upon receipt of the OIG report in December 2005.)

In discussion with Analytics personnel and review of bank agreements, we noted that Analytics negotiated a rate of 2.75% on deposits in money market accounts. This rate was negotiated early in 2005 during a period of rate hikes by the U.S. Federal Reserve. This rate remains steady presently.

Recommendation 6. Analytics should negotiate a new, higher rate consistent with current market conditions. Alternatively, Analytics should consider negotiating variable, market-based rates.

⁵ To date, no case managed by Analytics exceeded \$100 million.

Reporting

The Analytics controller assists in producing and reviewing financial reports that are required under its contract. In its prior contract with the FTC, Analytics was required to provide reports to the RAO by the fifteenth of each month. Under the current contract, monthly reports are due to the FTC on the 5th business day of each month. This reporting deadline was added to assist the agency's finance office to meet accelerated Treasury quarterly reporting requirements. The Finance office informed the OIG that it is important to have these reports by the fifth business day for the four months containing Treasury quarterly reporting requirements.

During the review, the OIG identified errors that would normally be "flagged" by a reviewer or by electronically – generated reports. During our discussions, we learned that the accelerated deadlines put a strain on Analytics quality control review procedures. Often, bank statements are not available until the end of the first business day, leaving three full business days devoted to statement preparation and quality review before they must be sent to the FTC. Rather than amend its procedures, the OIG believes that it may be more efficient to simply extend the deadline by a few days to provide Analytics additional time to perform quality checks.

The OIG discussed this recommendation with RAO, Analytics and FTC's financial management office. All parties agreed to a two day extension on the reporting deadline for the eight months where no quarterly reports are submitted. The deadline remains unchanged for months with a quarterly reporting deadline.

Expenses

We selected expenses charged to the redress accounts in order to substantiate the appropriateness of the charges. Expenses included the fees earned by Analytics, surety bond and professional liability insurance policy charges, tax preparation fees, income tax paid and legal fees. All expenses were properly supported with adequate documentation and analysis of allocations to cases, where applicable. No exceptions were found. Fees assessed also appeared reasonable and in keeping with industry practice.

Flowcharts and Organizational Chart

We reviewed the flowchart of processes for Analytic's redress activities and its organization chart. We also interviewed management and key staff at Analytics concerning these items. We discussed disaster recovery plans and back up procedures for information technology assets. We have no findings or recommendations in these areas.

Responding to RAO direction, Analytics has implemented tools to thoughtfully assess risks involving disasters of various kinds in developing its contingency plans.

Consultant's Report

Throughout 2005, the RAO had been urging Analytics to closely review its policies and procedures as they pertain to the management of redress funds. Errors in monthly reports and on bank statements raised concerns within the RAO about the accuracy of Analytics' financial reports to the FTC and the controls in place to safeguard redress assets.

In September, 2005, Analytics hired a CPA firm to conduct a review of its redress operations. Specifically, the firm "consulted" with Analytics to determine the adequacy of its check processing and distribution approval procedures for redress funds distribution. The firm did not perform any specific testing of the procedures. As part of our background preparation, the OIG reviewed the final report, dated October 6, 2005.

The review contained four recommendations. While three of the recommendations pertain to areas not covered in the OIG audit, one recommendation, to consider training a second person as a back up to the Analytics controller in case of his extended absence from work, is a sound internal control with which we agree.

RAO Oversight of Redress Contractors

As a deterrent to fraud by contractor employees, the RAO performs tests of select distributions to tie cancelled checks back to original claimant lists. Since contractor staff do not know which distributions will be selected, or the number of checks selected for audit, a strong deterrent exists to fraud.

The current testing procedure works as follows. RAO obtains all cancelled checks from redress contractors on selected distributions. RAO then pulls 10 checks from the universe of all checks issued to tie back to the claimant list. The procedure is unlikely to spot fraudulent checks, especially on very large distributions, but nonetheless serves some deterrent value. By simply increasing the sample size, and using some computer assisted audit techniques (see below), RAO would greatly improve the likelihood of spotting a fraudulent check if it existed.

Another concern we have with current sampling methodology involves the contractor's role in providing the universe of checks. If an unscrupulous employee wanted to eliminate any possibility of having a check reviewed, he could simply remove the check from the universe of checks provided to RAO. Since RAO selects only contractor-provided checks for audit, chances of detection are small. A better method is to select check numbers from bank statements and pull those checks from the universe of cancelled checks. A missing check, e.g., one pulled to mask fraud, would immediately be suspect.

In addition to this important, manual check, the OIG believes that RAO should consider electronic audit techniques that would both save time and greatly increase the sample size. In most cases, an entire distribution can be checked electronically in less time than it takes to review a fraction of the universe of checks. The volume of transactions on some redress cases can be very large, and involve hundreds of thousands of claimants.

We noted that U.S. Bank produces detailed reports that could be of value when performing internal audit procedures. For instance, Analytics provides the bank with a positive pay report. This is a listing of all checks issued for redress cases. The report includes the check number and amount for each check issued. The bank then loads this data into its positive pay system, and performs quality control tests for each check that clears each day. Check amounts that do not tie to the reports are returned to the sender banks. Beginning April 1, 2006, the positive pay report and bank cross checking will include claimant names.

Data extraction and analysis software could be used to compare original claimant lists to positive pay records submitted to the bank. Some tools, such as IDEA software by CaseWare International, Inc., can examine 1.4 million records in 4 seconds, once the data is imported into the software. Records can be compared to identify checks issued to people not on approved claimant lists maintained by RAO. Bank disbursements records could also be imported, if allowed by the bank, as an additional cross check.

The original claimant lists are usually in electronic formats, the positive pay reports to the bank are in electronic formats, and the bank cleared check reports are in electronic and paper formats at the bank.

Recommendation 7. RAO (i) should increase the sample size of tests consistent with the check amounts and distribution size. Cases with a small number of distributions of high dollar amount could be tested 100%. Large cases should be tested by selecting 50 or more checks, and (ii) preselect cleared check numbers from bank statements for its test.

Recommendation 8. RAO should assess the costs and benefits of using automated audit tools in its oversight of contractors once positive pay reports include claimant names.

Check Signors

Two officers of Analytics are signors on record at the bank currently being utilized by them for redress cases. FTC officials are not listed on the bank signature cards as authorized signors. We examined correspondence between Analytics and the bank, however, whereby the bank was notified that the FTC has overall control of all funds' movements.

Recommendation 9. RAO should consult with legal counsel to determine if the FTC has the authority to move funds out of redress accounts if it were necessary to do so. Situations where this could be necessary would potentially involve circumstances where the two Analytics officers become unavailable for extended periods and cannot authorize transactions.

Management and Auditee Comments

The OIG met with both Analytics and RAO staff to discuss the results of the audit. In both instances, staff commented on the report and suggested some minor changes and clarifications be made. Both Analytics and RAO managers declined to comment in writing on the reports findings or recommendations.

**Statement of Financial Activity by Case
Analytics, Inc.**

October 1, 2004 through September 30, 2005

Control #	FTC vs	Balance as of October 1, 2004	Deposits	Interest	Total Receipts	Claims Paid	Expenses See Schedule B	Transfer to Treasury	Total Disbursements	Ending Balance
1	1st Beneficial Credit Services, LLC	\$ 156,117	\$ -	\$ 1,352	\$ 1,352	\$ 21,974	\$ 3,605	\$ -	\$ 25,579	\$ 131,890
2	1st Financial Solutions, Inc.	321,638	-	-	-	-	2,774	318,864	321,638	-
3	A. Glenn Braswell	-	185,000	520	185,520	-	-	-	-	185,520
4	AVS Marketing, Inc.	-	400,000	1,094	401,094	-	-	-	-	401,094
5	Advanced Consumer Services	-	626,395	1,439	627,834	529,664	83,690	-	613,354	14,480
6	American Savings Discount Club	2,095,778	-	24,178	24,178	-	57,028	-	57,028	2,062,928
7	Associated Record Distributors, Inc.	23,374	-	96	96	15,444	2,804	-	18,248	5,222
8	Ballenger Group, LLC	-	750,000	6,216	756,216	-	-	-	-	756,216
9	Canada Prepaid Legal Services, Inc.	294,697	1,219,945	11,988	1,231,933	346,522	1,769	-	348,291	1,178,339
10	Capital City Mortgage Corp.	-	20,000	56	20,056	-	-	-	-	20,056
11	Career Information Services, Inc.	354,017	-	489	489	-	354,312	194	354,506	-
12	Certified Merchant Services, Ltd.	21,581,076	-	79,545	79,545	18,039,411	275,958	-	18,315,369	3,345,252
13	CHK Trading Corp	-	75,978	265	76,243	-	-	-	-	76,243
14	Clickformail.com, Inc.	328,040	-	556	556	171,318	75,401	-	246,719	81,877
15	College Funding Center	-	1,433,000	12,040	1,445,040	-	78	-	78	1,444,962
16	Crediamerica Group, Inc.	-	47,296	44	47,340	41,396	2,034	-	43,430	3,910

**Statement of Financial Activity by Case
Analytics, Inc.
October 1, 2004 through September 30, 2005**

Control #	FTC vs	Balance as of October 1, 2004	Deposits	Interest	Total Receipts	Claims Paid	Expenses See Schedule B	Transfer to Treasury	Total Disbursements	Ending Balance
17	Credit Enhancement Services, LLC	-	475,471	293	475,764	447,537	20,972	-	468,509	7,255
18	Crescent Publishing Group, Inc.	3,673,504	-	24,408	24,408	1,095,126	1,441,836	1,160,885	3,697,847	65
19	D&C National Holdings, Ltd.	-	243,985	535	244,520	128,133	3,500	112,887	244,520	-
20	Darrell Richmond	45,924	-	28	28	18,285	17,042	10,625	45,952	-
21	Diamond/OSI Financial Services, Inc.	5,954	-	-	-	3,784	2,147	23	5,954	-
22	Dillon Sherif	-	48,793	32	48,825	37,684	1,487	-	39,171	9,654
23	Electronic Financial Group, Inc.	3,939,821	-	19,566	19,566	2,322,637	121,746	-	2,444,383	1,515,004
24	Espresso Italia Marketing Inc.	81,395	-	13	13	71,403	4,623	5,382	81,408	-
25	Financial Resources Unlimited, Inc.	-	422,271	3,465	425,736	-	17	-	17	425,719
26	First Alliance Mortgage Company	1,015,678	-	8,998	8,998	90,109	36,822	-	126,931	897,745
27	First American Payment Processing, Inc.	-	1,580,740	8,548	1,589,288	979,068	87	-	979,155	610,133
28	First Capital Consumers Group	-	2,445,333	8,013	2,453,346	-	-	-	-	2,453,346
29	Great American Products, Inc.	-	6,500,000	55,574	6,555,574	-	177	-	177	6,555,397
30	Hanson Publications, Inc.	321,703	-	4	4	318,247	3,459	1	321,707	-
31	ICR Services, Inc. et al	328,075	-	3,660	3,660	-	529	-	529	331,206
32	Inspired Ventures, Inc.	137,065	-	118	118	113,894	4,699	18,590	137,183	-

**Statement of Financial Activity by Case
Analytics, Inc.
October 1, 2004 through September 30, 2005**

Control #	FTC vs	Balance as of October 1, 2004	Deposits	Interest	Total Receipts	Claims Paid	Expenses See Schedule B	Transfer to Treasury	Total Disbursements	Ending Balance
33	Instant Internet Empires	71,522	-	631	631	1,026	583	-	1,609	70,544
34	Internet Treasure Chest	291,018	-	2,934	2,934	1,693	668	-	2,361	291,591
35	IRA Smolev, et al	3,195,351	535,000	9,839	544,839	2,558,570	191,474	-	2,750,044	990,146
36	Jordan Ashley	-	100,837	359	101,196	-	-	-	-	101,196
37	Kevin Trudeau / Coral Calcium	-	1,978,849	4,276	1,983,125	1,579,145	46,056	-	1,625,201	357,924
38	Kinito, Inc.	-	105,198	900	106,098	-	9	-	9	106,089
39	Latin Hut, Inc.	-	149,426	1,188	150,614	18,234	4,719	-	22,953	127,661
40	Meridian Capital	10,838	4,780	4	4,784	17	351	-	368	15,254
41	Nanda Kumar Duraisami	-	40,660	18	40,678	37,320	3,356	2	40,678	-
42	National Check Control	-	967,899	3,204	971,103	-	-	-	-	971,103
43	National Consumer Council, Inc.	-	3,265,000	14,476	3,279,476	-	-	-	-	3,279,476
44	National Student	61,224	-	-	-	-	2,010	59,214	61,224	-
45	National Supply & Distribution Center, Inc.	23,498	3,012	34	3,046	10,450	3,375	12,719	26,544	-
46	Perrigo Co.	6,250,685	-	42,441	42,441	5,570,206	10,877	-	5,581,083	712,043
47	Rhino International, Inc.	343,433	-	3,824	3,824	-	1,276	-	1,276	345,981

Statement of Financial Activity by Case
Analytics, Inc.
October 1, 2004 through September 30, 2005

Control #	FTC vs	Balance as of October 1, 2004	Deposits	Interest	Total Receipts	Claims Paid	Expenses See Schedule B	Transfer to Treasury	Total Disbursements	Ending Balance
48	Royal Flush/Full House	17,468	454,705	522	455,227	390,495	4,332	-	394,827	77,868
49	Seasilver USA, Inc.	-	2,258,000	16,207	2,274,207	-	-	-	-	2,274,207
50	Think Achievement, Inc.	1,428,612	1,203,062	14,381	1,217,443	1,133,134	128,842	-	1,261,976	1,384,079
51	Unicyber Technology, Inc	-	100,000	853	100,853	-	8	-	8	100,845
52	UrbanQ.com	602,045	10,932	1,114	12,046	597,451	8,807	-	606,258	7,833
53	US Grant Resources, LLC	-	423,379	2,701	426,080	82,931	3,249	-	86,180	339,900
54	USA Immigration Services	955,465	604	10,909	11,513	-	1,639	-	1,639	965,339
55	Wade Cook	-	85,000	518	85,518	-	-	-	-	85,518
56	Welquest International, Inc.	3,208,613	-	15,130	15,130	1,798,618	265,800	-	2,064,418	1,159,325
		<u>\$ 51,163,628</u>	<u>\$ 28,160,550</u>	<u>\$ 419,596</u>	<u>\$ 28,580,146</u>	<u>\$ 38,570,926</u>	<u>\$ 3,196,027</u>	<u>\$ 1,699,386</u>	<u>\$ 43,466,339</u>	<u>\$ 36,277,435</u>

**Statement of Administrative Expenses by Case
Analytics, Inc.
October 1, 2004 through September 30, 2005**

Control #	FTC vs	Admin Fees	Tax Preparation	Tax Refunds/ Taxes Paid	Misc. Refunds/ Expenses	Non-Redress Disbursements	Total Expenses
1	1st Beneficial Credit Services, LLC	\$ 3,123	\$ 500	\$ (18)	\$ -	\$ -	\$ 3,605
2	1st Financial Solutions, Inc.	2,774	-	-	-	-	2,774
3	A Glenn Braswell	-	-	-	-	-	-
4	AVS Marketing, Inc.	-	-	-	-	-	-
5	Advanced Consumer Services	83,690	-	-	-	-	83,690
6	American Savings Discount Club	55,171	500	1,357	-	-	57,028
7	Associated Record Distributors, Inc.	2,304	500	-	-	-	2,804
8	Ballenger Group, LLC	-	-	-	-	-	-
9	Canada Prepaid Legal Services, Inc.	969	500	-	300	-	1,769
10	Capital City Mortgage Corp.	-	-	-	-	-	-
11	Career Information Services, Inc.	2,592	500	-	351,220	-	354,312
12	Certified Merchant Services, Ltd.	275,458	500	-	-	-	275,958
13	CHK Trading Corp	-	-	-	-	-	-
14	Clickformail.com, Inc.	74,957	500	(56)	-	-	75,401
15	College Funding Center	78	-	-	-	-	78
16	Crediamerica Group, Inc.	2,034	-	-	-	-	2,034
17	Credit Enhancement Services, LLC	20,472	500	-	-	-	20,972
18	Crescent Publishing Group, Inc.	280,637	250	-	1,160,949	-	1,441,836

Statement of Administrative Expenses by Case
Analytics, Inc.
October 1, 2004 through September 30, 2005

Control #	FTC vs	Admin Fees	Tax Preparation	Tax Refunds/ Taxes Paid	Misc. Refunds/ Expenses	Non-Redress Disbursements	Total Expenses
19	D&C National Holdings, Ltd.	3,500	-	-	-	-	3,500
20	Darrell Richmond	16,563	500	(21)	-	-	17,042
21	Diamond/OSI Financial Services, Inc.	2,147	-	-	-	-	2,147
22	Dillon Sherif	1,487	-	-	-	-	1,487
23	Electronic Financial Group, Inc.	118,897	500	2,349	-	-	121,746
24	Expresso Italia Marketing, Inc.	4,142	500	(19)	-	-	4,623
25	Financial Resources Unlimited, Inc.	17	-	-	-	-	17
26	First Alliance Mortgage Company	36,328	500	-	(6)	-	36,822
27	First American Payment Processing, Inc.	87	-	-	-	-	87
28	First Capital Consumers Group	-	-	-	-	-	-
29	Great American Products, Inc.	177	-	-	-	-	177
30	Hanson Publications, Inc.	2,959	500	-	-	-	3,459
31	ICR Services, Inc. et al	29	500	-	-	-	529
32	Inspired Ventures, Inc.	4,199	500	-	-	-	4,699
33	Instant Internet Empires	83	500	-	-	-	583
34	Internet Treasure Chest	168	500	-	-	-	668
35	IRA Smolev, et al	191,224	250	-	-	-	191,474

Statement of Administrative Expenses by Case
Analytics, Inc.
October 1, 2004 through September 30, 2005

Control #	FTC vs	Admin Fees	Tax Preparation	Tax Refunds/ Taxes Paid	Misc. Refunds/ Expenses	Non-Redress Disbursements	Total Expenses
36	Jordan Ashley	-	-	-	-	-	-
37	Kevin Trudeau / Coral Calcium	46,056	-	-	-	-	46,056
38	Kinito, Inc.	9	-	-	-	-	9
39	Latin Hut, Inc.	4,719	-	-	-	-	4,719
40	Meridian Capital	-	250	-	-	101	351
41	Nanda Kumar Duraisami	3,356	-	-	-	-	3,356
42	National Check Control	-	-	-	-	-	-
43	National Consumer Council, Inc.	-	-	-	-	-	-
44	National Student	2,010	-	-	-	-	2,010
45	National Supply Distribution Center, Inc.	4,383	250	(1,258)	-	-	3,375
46	Perrigo Co.	5,234	500	5,143	-	-	10,877
47	Rhino International, Inc.	515	500	261	-	-	1,276
48	Royal Flush/Full House	3,832	500	-	-	-	4,332
49	Seasilver USA, Inc.	-	-	-	-	-	-
50	Think Achievement, Inc.	127,779	250	813	-	-	128,842
51	Unicyber Technology, Inc	8	-	-	-	-	8
52	UrbanQ.com	8,557	500	(250)	-	-	8,807

**Statement of Administrative Expenses by Case
Analytics, Inc.
October 1, 2004 through September 30, 2005**

Control #	FTC vs	Admin Fees	Tax Preparation	Tax Refunds/ Taxes Paid	Misc. Refunds/ Expenses	Non-Redress Disbursements	Total Expenses
53	US Grant Resources, LLC	3,249	-	-	-	-	3,249
54	USA Immigration Services	629	500	510	-	-	1,639
55	Wade Cook	-	-	-	-	-	-
56	Wellquest International, Inc.	262,460	500	2,840	-	-	265,800
		<u>\$ 1,659,062</u>	<u>\$ 12,750</u>	<u>\$ 11,651</u>	<u>\$ 1,512,463</u>	<u>\$ 101</u>	<u>\$ 3,196,027</u>