
AR-08-003

Office of Inspector General



Follow-up Report on
Audit of FTC Redress Administration
Performed by Analytics, Inc. (AR-06-071)

September 25, 2008




Office of Inspector General

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

September 25, 2008

TO: Lydia B. Parnes
Director, Bureau of Consumer Protection

ATTN: David M. Torok, Associate Director
Division of Planning & Information
Bureau of Consumer Protection

FROM: John M. Seeba 
Inspector General

SUBJECT: Report on the *Audit of FTC Redress Administration Performed by Analytics, Inc.*
(AR-06-071)

This report presents the results of our follow-up procedures of the *Audit of FTC Redress Administration Performed by Analytics, Inc. (AR-06-71)*. Management concurred with all of our findings. Your written response to the draft report is included as exhibit A.

We found that the Redress Administration Office has taken actions which addressed the intent of all eight recommendations from the original report and we consider all issues closed.

We appreciate the courtesies and cooperation extended to our staff during this review.

OBJECTIVE / METHODOLOGY

The objective was to determine the status of recommendations made to RAO in the *Audit of FTC Redress Administration Performed by Analytics, Inc. (AR-06-071)*. To determine the current status, the OIG reviewed the recently awarded contracts, interviewed personnel implementing the corrective actions, and reviewed revised policies, and other related documents. The completed actions and analysis are presented below. The work was performed July through September 2008.

STATUS OF RECOMENDATIONS

- 1. Recommendation: RAO should explore the feasibility of maintaining all claimant lists electronically. This would help the 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.**

Actions Taken: This recommendation was based on a case in which RAO’s list of claimants included consumer names only through the letter “C.” The RAO did not have a more complete claimant list.

The procedures have now changed. The claimant lists are now maintained electronically, by case, on the RAO shared drive. This action meets the intent of our recommendation and we consider this issue closed.

- 2. Recommendation: The 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.**

Actions Taken: This recommendation was based on an incident in which the case manager communicated additional claimants to the contractor, but not to the RAO. Subsequently, the RAO approved disbursement based on the original list, unaware that an additional claimant had not yet been paid. The RAO is responsible for administering and coordination redress activities.

The process has changed. The RAO established policy in the “New Case Manager” memo that case managers must send the RAO the original list of potential claimants for audit purposes. The contractors are instructed in the new contract that they are solely responsible for the accuracy of each redress distribution based on the COTR approved list. Just before the contractor sends a distribution, the list is returned to the case manager and the RAO for final approval and signatures. Also, if the case managers ever try to add a name without going through the RAO, the contractors have been instructed not to accept it and direct the case manager to send the name through the RAO. This action meets the intent of our recommendation and we consider this issue closed.

3. Recommendation: The RAO should amend the requirements for bonding coverage to a blanket amount.

Actions Taken: The current contract has been revised to require the RAO contractors to maintain blanket policies that shall apply to all delivery orders. The previous RAO contracts required the contractors to obtain a fidelity bond equal to 5% of each case's value. For example, a \$1,000,000 case would require a bond for \$50,000 coverage. Based on OIG's analysis of this procedure, we determined that coverage could be more fully achieved by requiring the contractor to obtain one bond that covers all cases, as opposed to one bond for each case. Further, administrative costs would be reduced due to fewer bonds to manage. Therefore, the RAO would not need to monitor the receipt of bonds on each case.

The current contracts require blanket policies at a minimum of \$10,000,000 liability and \$5,000,000 employee dishonesty. The contractors are also required to inform the CO and COTR if an occurrence arises in which the contractor's existing bonding and insurance policy is insufficient to cover the assigned cases. This action meets the intent of our recommendation and we consider this issue closed.

4. Recommendation: The RAO should (i) increase the sample size of tests of check distributions, and (ii) preselect cleared check numbers from bank statements for its test.

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

Actions Taken. (for recommendations 4 and 5): The RAO has changed its sampling procedures to include statistical random sampling using the audit sampling tools. The universe of check distributions is then reconciled to the bank statements. This action meets the intent of our recommendation and we consider this issue closed.

6. Recommendation: The 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. For example, if the two Analytics officers become unavailable for extended periods and cannot authorize transactions.

Actions Taken: This recommendation was based on the previous procedures used to invest Redress funds. Redress funds were invested by the redress contractors in interest-bearing accounts. The concern addressed FTC's authority to move vested funds held in accounts set up by the Redress contractors.

A new Redress fund business process has been implemented. The FTC has executed an agreement with the Treasury Department that allows the FTC to invest the Redress funds in the Treasury Department's Bureau of Public Debt (BPD). The funds are held and invested in short-term Treasury securities. This program provides a more secure method of 'holding' the funds received from the defendants until they can be distributed to consumers. RAO manages the funds invested in BPD and transfers funds to the redress contractors when RAO-approved

distributions are ready to be made to the claimants. This action meets the intent of our recommendation and we consider this issue closed.

Exhibit A — Management Response

Exhibit A – Page 1 of 1



Office of the Director
Bureau of Consumer Protection

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

September 23, 2008

TO: John M. Seeba
Inspector General

FROM: Lydia B. Parnes *Lydia B. Parnes*
Director, Bureau of Consumer Protection

SUBJECT: Draft Follow-up Report on the *Audit of FTC Redress Administration Performed by Analytics, Inc.* (AR-06-071)

Thank you for the opportunity to respond to the draft of this follow-up report, dated September 19, 2008. We appreciate the thorough, professional, and courteous manner in which your staff conducted this follow-up evaluation.

I concur that the Redress Administration Office has addressed the recommendations made in your Audit and I appreciate your conclusion that these recommendations are closed.