

**Federal Trade Commission
Office of Inspector General**



**Audit of Federal Trade Commission
Redress Process Controls**

OIG Report No. A-20-06 March 4, 2020





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

Office of Inspector General

March 4, 2020

MEMORANDUM

FROM: Andrew Katsaros
Inspector General

A handwritten signature in black ink, appearing to read "Andrew Katsaros".

TO: Andrew Smith, Director
Bureau of Consumer Protection

SUBJECT: Audit of Federal Trade Commission Redress Process Controls

The Office of Inspector General (OIG) conducted a performance audit to examine the Federal Trade Commission (FTC) Bureau of Consumer Protection's (BCP) controls over Redress Program funds, particularly to examine whether controls are adequately designed and working effectively. Our audit found that the Redress Program has benefitted from significant improvements to its controls in recent years and it is structured to effectively handle day-to-day demands. We identified several additional opportunities for BCP to improve its overall command of the Redress Program, including an updated approach to analyzing program data to realize greater efficiencies with automation, and data standardization to help with cumbersome complex analyses.

The FTC's response to the draft report's findings and recommendations is included as Appendix F. The response reflects that the FTC concurred with the report's three recommendations.

Please submit to us an action plan that addresses the recommendations in this report within 60 calendar days. A public version of this report will be posted on the OIG's website pursuant to sections 4 and 8M of the Inspector General Act of 1978, as amended (5 U.S.C. App., §§ 4 and 8M).

The OIG greatly appreciates the cooperation and courtesies extended to us by the Bureau of Consumer Protection throughout the audit.

If you have any questions or concerns regarding this report, please contact me at (202) 326-3527, or by email at akatsaros@ftc.gov.

Final Report – Redacted for Public Release



OFFICE OF INSPECTOR GENERAL

AUDIT OF FEDERAL TRADE COMMISSION REDRESS PROCESS CONTROLS

March 4, 2020
Report No. A-20-06

IN SUMMARY

Why We Performed This Audit

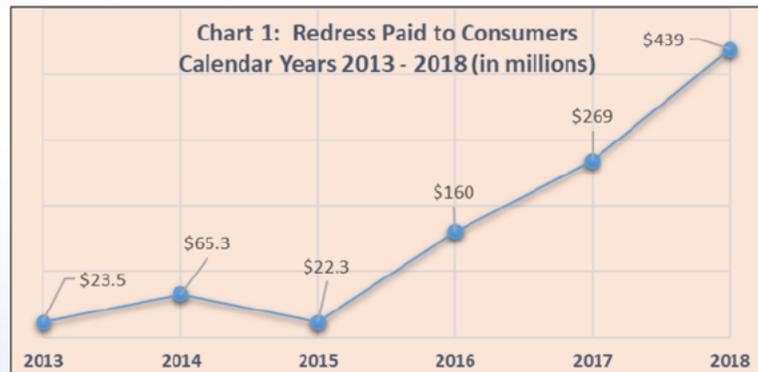
We conducted a performance audit to examine the Bureau of Consumer Protection's (BCP) controls over Redress Program funds, particularly to examine whether controls are adequately designed and working effectively.

We audited BCP's redress disbursements from January 1, 2018 through March 31, 2019. This included 26 cases with approximately 984,800 disbursements totaling \$47.7 million. As reflected in Chart 1, the program experienced a significant increase in redress disbursements to consumers from calendar years 2015 to 2018.

What We Found

Our audit found that the Redress Program has benefitted from significant improvements to its controls in recent years and it is structured to effectively handle day-to-day demands.

We identified several additional opportunities for BCP to improve its overall command of the Redress Program. An updated approach to analyzing program data could help BCP realize greater efficiencies with automation and data standardization that would help with cumbersome complex analyses.



What We Recommend

We recommended that the Director of the Bureau of Consumer Protection:

- Develop a contract deliverable requiring some form of detailed monthly bank statement information to be provided to the FTC on open cases.
- Develop a uniform set of Redress Program data that can be used to compare disbursement activity across cases for closed case check audits, and develop a contract deliverable requiring this information, to include check registers and disbursement lists.
- Develop and formalize, in policy, a structured program for contractor site visits for both IT System Security and operational site visits.

FTC management concurred with our report recommendations.

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AUDIT RESULTS SUMMARY

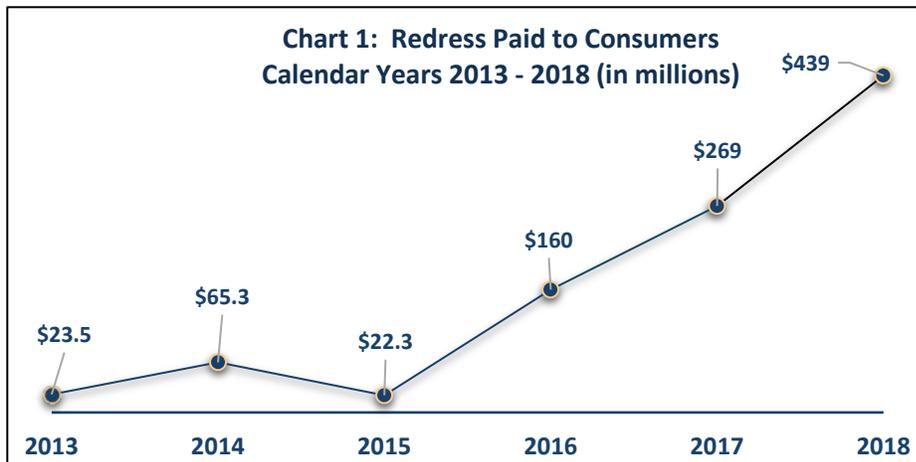
We conducted a performance audit to examine BCP's controls over Redress Program funds, with the particular objective of determining whether controls were adequately designed and working effectively. In assessing controls, we reviewed BCP's redress disbursements from January 1, 2018 through March 31, 2019.

Our audit found that the Redress Program has benefitted from significant improvements to its controls in recent years and that it is structured to effectively handle day-to-day demands. We identified several additional opportunities for BCP to improve its overall command of the Redress Program. Certain structural enhancements could mitigate the potential pressures of increased demands that could quickly overwhelm the program and eliminate benefits gained from recent changes to the program. The OIG's recommendations are worth pursuing in light of the significant disbursement activity experienced by the program in recent years.

Our recommendations invite management to explore ways of developing and enhancing the Redress Program structure, pursue more comprehensive data analysis, increase automation, and develop a policy structure. This would allow for an easier interpretation of the voluminous amount of redress data, eliminate barriers to efficiency, and increase insight into program risks and opportunities.

WHY WE PERFORMED THIS AUDIT

The Federal Trade Commission (FTC or the Commission) protects consumers from deceptive practices, harm and financial damages. The redress fund is one avenue used to ensure that



harmed consumers are repaid for damages. The Bureau of Consumer Protection (BCP) enforces consumer protection laws to stop illegal business practices and acquire refunds to consumers who lost money. Once an FTC lawsuit or settlement is finalized and the defendants have paid

the money as ordered by the courts, BCP’s Office of Claims and Refunds (OCR), via its Redress Program, develops a plan for returning the money to the right people. Through the services of four contractors who process the payments, the Redress Program administers the disbursement of hundreds of millions of dollars annually.¹ The program has experienced significant activity in recent years. During calendar year 2018, for example, the FTC disbursed \$439 million.

¹ The OCR contractors are Analytics Consulting, LLC, Epiq Class Action & Claims Solutions, INC., JND Holdings, LLC, and Rust Consulting, INC.

FINDINGS AND RECOMMENDATIONS

A. BCP Would Benefit from Additional Detailed Information and Data Uniformity from Its Redress Contractors

Our review of the Redress Program's processes and controls revealed opportunities for BCP to acquire an improved understanding of potential risks to program performance. Although OCR's monitoring of redress payments has become increasingly more effective over time, an updated approach to analyzing program data could help the office realize greater efficiencies with automation and data standardization that would help with the more cumbersome complex analyses being conducted at the time of our audit.

Prior to our audit, OCR had not considered opportunities to acquire redress data to improve activities and improve management insight. The FY 2019 OCR approach, for example, did not require contractors to provide information that would facilitate a vigorous exploration of available data. During this time, OCR did not have plans for integrating all of the disparate data on the multiple redress cases into a single comprehensive database. Further, OCR had not developed policies or practices that would facilitate the integration of multiple data sources into its analysis. The OIG found that a more deliberate program of data analysis would improve OCR's ability to identify and better understand existing and emerging risks, as well as its ability to make informed decisions.

Process Improvements

OCR conducts several manual procedures to manage and provide oversight of the Redress Program. For example, as part of its monitoring of redress disbursement activity, OCR conducts manual monthly reconciliations of redress disbursement activity [REDACTED] against summary bank statements, by matter.² The monthly reconciliation process requires the OCR accountant to pull bank statements and manually compare beginning balances, transaction amounts, number of items cleared, and the ending balances for each open matter against the [REDACTED] Summary report completed by contractors. This summary level documentation, however, does not allow OCR staff to identify detailed line item information for the transactions processed. As such, the OIG could not identify the value of a monthly reconciliation at a summary bank statement level.

Detailed disbursement data in real-time would be an improvement over monthly summaries

OCR *does* review detailed-level statements of disbursement activity, but not until after the matter is complete. In some instances, this detailed review (i.e., Closed Case Check Audit) of disbursements is not conducted for several years after actual disbursements occur.³ This delay is

² Each contractor provides a Financial Management Office (FMO) [REDACTED]

³ A closed case check audit is conducted after a case is closed (usually 3 years or longer), using the cashed check data to pull a sample (using IDEA with a 95% confidence level) of 45 checks to review [REDACTED]

due to the fact, as of the completion of our audit fieldwork, contractors did not provide the FTC with a closed case report until after a case had been finalized. These reports contain much of the information available in a bank statement; however, because they are only available after a case is closed, the FTC is limited in its ability to identify payment anomalies while a matter is ongoing.

Further, although one of OCR's redress program standard operating procedures⁴ states that the purpose of the BCP closed case review process is to deter fraud, doing so long after the process is complete does not accomplish this objective. Without a timely review of contractor and closed case records, BCP runs the risk of not being able to proactively analyze, identify, and address issues affecting consumer redress at the transaction level. By prioritizing early detection with effective control processes, BCP could mitigate the risk of loss against exploitive tactics to defraud the federal government and harmed consumers seeking redress.

Data Uniformity

If BCP can routinely acquire detailed monthly bank statements, it could also lead to better data analysis through the identification of issues within open matters. A more systematic approach – which includes an increased use of analytical tools deployed on the statements alongside other data sources – can reduce the need for more time-consuming or ad hoc program steps. An updated approach, documented in policy, can also provide more clear guidance and expectations from OCR team members.

OCR requires specific data (i.e., check registers, bank statements, and disbursement lists) from each contractor supporting the Redress Program. The current approach places certain key oversight responsibilities on contractors and banks. The significant spike in disbursement activity between calendar years 2015 and 2018, as reflected in Chart 1, would warrant management's attention in developing an updated approach where the FTC would have more information available on program activities.

For example, at the time of our audit fieldwork, OCR did not require uniform data standardization from the four contracted services providers. Our audit shows that this lack of data uniformity limited the effectiveness of OCR's oversight and the overall value of coordination between it and the contractors involved in the program. This is because OCR's

Uniform deliverables are necessary for effective comparative analyses

acceptance of contract deliverables in various forms made it difficult to efficiently conduct analyses across cases that would allow OCR to understand whether anomalies or questionable activity appearing in one case was being repeated in another. This lack of data uniformity across contractors contributed to the

overall challenges of the oversight process and – if OCR were to conduct analyses across cases – would require its own staff to make sense of the various formats. As of the completion of our audit fieldwork, OCR did not conduct analyses across cases, as it was too difficult to compare contractor information in multiple formats, and because OCR did not require contractors to standardize the data it provided to the FTC. As a result, the oversight process did not allow for a

by entering each check number and pulling up each check individually to review for the name, check amount, and date cleared.

⁴ At the time of our audit fieldwork, OCR had multiple individual standard operating procedures covering various features of the Redress program, including over vetting distributions, invoice approvals, and data analysis.

systematic and reliable analysis of data across program matters, including allowing OCR to leverage technology for quick and routine comparisons that would contribute to an improved understanding of program risks.

OMB Circular No. A-123, Appendix A: *Management of Reporting and Data Integrity Risk*, emphasizes a risk-based approach towards managing data as an asset and highlights the importance of using high quality data to support data-driven decisions and improve transparency in government. Properly managed data is essential for the development of timely, reliable, and accurate reporting. Managers should identify information needs, understand the characteristics of the data, and determine the appropriate level of detail required to ensure that the data collected is useable and relevant.

According to the Government Accountability Office's (GAO) Standards for Internal Control in the Federal Government ("Green Book"), program management should design a process that uses the entity's objectives and related risks to identify the information requirements needed to achieve the objectives and address the risks. The Green Book also recommends that management should consider the expectations of both internal and external users when identifying information requirements, and do so as part of an iterative and ongoing process.

Recommendations

We recommend that the Director of the Bureau of Consumer Protection:

1. Develop a contract deliverable requiring some form of detailed monthly bank statement information to be provided to the FTC on open cases.
2. Develop a uniform set of Redress Program data that can be used to compare disbursement activity across cases for closed case check audits, and develop a contract deliverable requiring this information, to include check registers and disbursement lists.

B. BCP Would Benefit From a Structured Approach to Program Site Visits

The Redress Program uses the services of the four contractors identified above to process payments to redress claimants. As part of providing oversight of contractors, the Division of Consumer Response and Operations (DCRO) conducts post-award site visits to obtain an understanding of the contractor's business and operations, including information security embedded in daily operations, applications used in the administration of redress, and privacy controls for handling personally identifiable information (PII).

OCR conducts two types of contractor site visits: (1) IT System Security visits – which focus on Network Security Operations, Information Security, Security Training, Incident Response, and Continuous Monitoring,⁵ and (2) operational site visits, which focus on understanding business and information technology operations, information security embedded in daily operations, the applications used to process redress administration, and the operations and privacy controls for handling PII.

⁵ The IT System Reviews are conducted using SP 800-171 Rev. 1, *Protecting Controlled Unclassified Information in Nonfederal Systems and Organizations*, December 2016, as guidance.

BCP has acquired value from its site visits. For instance, OCR learned during a routine site visit⁶

[Redacted text block]

Greater structure would benefit the contractor site visit program

[Redacted text block]

[Redacted text block]

[Redacted text block]

Contractor officials agreed with observations found during OCR’s site visit and addressed the concerns.

As of our audit fieldwork, OCR had yet to develop structured guidance for either type of contractor site visit. The office instead relied on National Institute of Standards and Technology guidance for the IT System Security visits, and it was unclear what guidance informed operational site visits. Our audit found the Redress Program would benefit from a standardization of the contractor site visit process. A sound policy and effective procedures would describe the purpose of site visits, roles and responsibilities, frequency of visits, what is included in the site visit review (i.e., specific steps included in the review), and follow-up actions to resolve any exceptions. Program standardization with accompanying procedures governing the process would enhance Redress Program efforts, as well as the continuity of OCR’s operations.

According to the GAO Green Book, Section 2, Establishing an Effective Internal Control System, management is responsible for designing the policies and procedures to fit an entity’s circumstances and building them in as an integral part of the entity’s operations.

Recommendation

We recommend that the Director of the Division of Consumer Response & Operations:

- 3. Develop and formalize, in policy, a structured program for contractor site visits for both IT System Security and operational site visits.

⁶ At the time of this site visit, OCR was known as the Redress Administration Office.

⁷ The contract award was signed on October 28, 2018, and went into effect on November 1, 2018.

⁸ [Redacted text block]

Other Matters

Redress Program Policy Structure

Our audit found an absence of an overall policy structure governing the Redress Program. It is widely accepted throughout the federal management community that the most effective policies are designed to support overall program strategies and clearly communicate the roles and responsibilities of key players. A fully developed policy structure should also explain the context under which the policy was created (e.g., laws, regulations, standards, and compliance guidance), while procedures should reflect a methodical description of the process for program implementation. The audit found that many of the key procedures had been recently updated; yet opportunities exist for additional enhancements, including on procedures covering risk management activities and internal control. A fresh update would evidence a more formal process for assessing evolving threats and opportunities that could affect the safeguarding of program assets and achievement of program goals.

Timing of Program Site Visits

The contractor site visit is a highly effective and inexpensive tool to gain insight and allow OCR to zero-in on internal control problems with contractor operations quickly. Currently, the site visit is utilized as a detective/corrective control rather than a preventative control. The insight gained into contractor operations could yield greater impact if site visits occurred prior to the award. This would promote advanced awareness of potential contractor issues and allow management to have access to enhanced data points prior to the award decisions. This could better ensure the safety of FTC controlled information, as well as support the concept of “best value” in procurement decisions.⁹

We provide these observations on the Redress Program policy structure and the timing of program site visits without formal recommendations.

⁹ The concept of “best value” in the federal acquisition environment relates to the expected outcome of an acquisition that, in the government’s estimation, provides the greatest overall benefit in response to the requirement. When determining best value, activities should: (1) Identify what factors affect the overall value of the requirement; (2) Determine relative importance of individual factors and possible trade-offs in evaluating one over the other; and (3) Identify differences between Schedule contractors.

SUMMARY OF AGENCY RESPONSE AND OIG COMMENTS

BCP management concurred with all three report recommendations to improve oversight of the Redress Program. In its response to our draft report, the agency wrote that it has access to detailed monthly bank statements and plans to use the statements to improve program oversight. Specifically, the FTC plans to use detailed bank statements to perform check audits on open cases rather than the closed-case check audits performed as of our audit. The FTC also plans to develop parameters to ensure that OCR audits focus on cases with high volume check activity and high check values.

Additionally, the agency responded that it has provided new templates for check registers, distribution reports, and case closing packets to its contractors, who are putting them into use now. OCR will use this information to perform verifications of payments both throughout and when closing redress cases. The FTC's formal response to our draft report is included as Appendix F.

APPENDIX A: OBJECTIVE, SCOPE, AND METHODOLOGY

We conducted a performance audit to examine BCP's controls over Redress Program funds, particularly to examine whether controls are adequately designed and working effectively. We audited BCP's redress disbursements from January 1, 2018 through March 31, 2019. This included a total 26 cases (matters) ¹⁰ totaling approximately 984,800 disbursements for a value of \$47.7 million. (See Appendix C for more detail)

As background for our audit, we researched and reviewed pertinent authorities including Federal laws, agency guidance, policies, and procedures related to redress funds. This included OMB Circular A-123, Management's Responsibility for Enterprise Risk Management and Internal Controls, the GAO Standards for Internal Control in the Federal Government (The GAO Green Book), internal FTC policies, and policy memoranda. We conducted interviews with BCP officials, performed walkthroughs of key redress processes, and performed data analysis on the disbursement activity made to redress claimants. We tested controls over the program to verify compliance with federal standards, as well as with FTC policies and procedures.

Our testing focused specifically on redress processes for monthly reconciliations, distribution approvals, case closing packets, closed case audits, invoice payments, creating work assignments [REDACTED] and generating cost estimates for new cases. We obtained approved claimant lists of matters included in our audit scope and traced a sample of consumer redress transactions from the approved claimant lists through the check registers to the monthly bank statements. We conducted limited data analytical procedures on matters included within our audit scope. We examined or considered court documents (court orders), FTC press releases, claimant lists, disbursement lists, and check registers to obtain reasonable assurance that redress data provided to us was accurate and complete.

We performed the audit work from May 2019 through January 2020 at FTC headquarters and the Constitution Center located in Washington, D.C.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

We used the following criteria in the performance of our audit:

- OMB Circular A-123, *Management Responsibility for Enterprise Risk Management and Internal Controls*
- GAO Standards for Internal Control in the Federal Government ("Green Book")
- [REDACTED]
- FTC Contract Clauses
- BCP standard operating procedures
- [REDACTED]

¹⁰ One additional matter (Lights of America) was selected for review but did not have any disbursement activity through March 31, 2019.

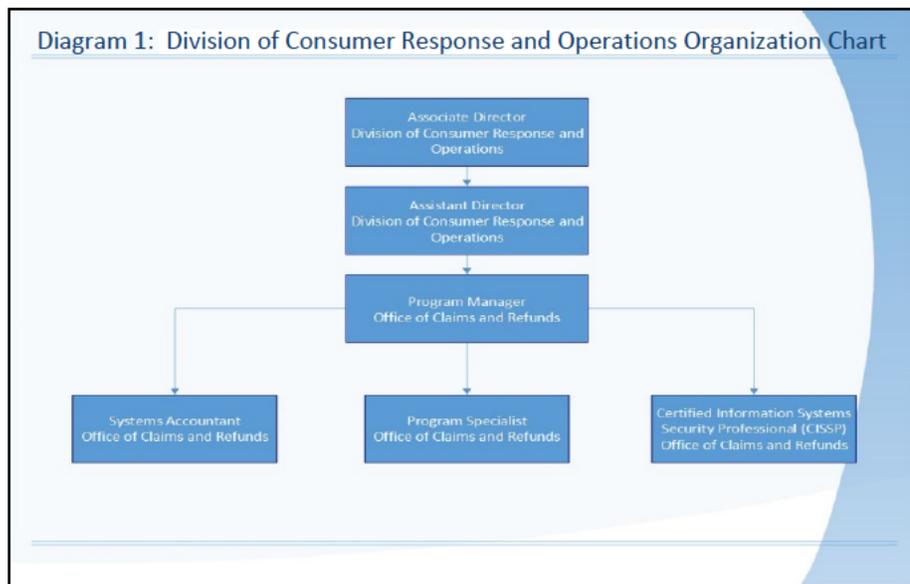
APPENDIX B: BACKGROUND

The FTC is an independent law enforcement agency led by five presidentially appointed Commissioners, with a mission to promote consumer welfare throughout broad sectors of the U.S. economy. The Commission seeks to prevent anticompetitive, deceptive, and unfair business practices through law enforcement, advocacy, and education without unduly burdening legitimate business activity. The FTC’s mission is carried out by the Bureau of Consumer Protection (BCP), Bureau of Competition, and Bureau of Economics. Several other offices within the FTC provide management and logistical support (i.e., contracting services and IT needs) to Commission bureaus in furtherance of mission objectives.

BCP enforces several statutes enacted by Congress used to protect consumers against unfair, deceptive, or fraudulent business practices. Among these, the Federal Trade Commission Act authorizes the FTC to obtain consumer redress in connection with the settlement or successful litigation of both administrative and federal court cases. To pursue and accomplish favorable outcomes in consumer protection matters, BCP collects complaints, conducts investigations, and sues companies and people that violate the law.¹¹ Successful outcomes in these matters often result in the establishment of funds used to provide restitution to consumers harmed by dishonest or fraudulent business activity.¹² The disbursement of redress funds is made pursuant to distribution plans that are approved, either by courts, administrative law judges, or at the FTC’s discretion pursuant to applicable laws.

BCP’s Division of Consumer Response and Operations collects and analyzes data to help focus FTC’s consumer protection enforcement and education efforts. The division is responsible for the Consumer

Response Center (CRC), Consumer Sentinel,¹³ and the Consumer Redress Program. OCR is comprised of three staff members and a program manager. OCR administers and coordinates the



¹¹ BCP is comprised of eight divisions that enforce the statutes and rules within their jurisdictions, engage in outreach and policy development, and educate consumers on a variety of issues to include identity protection, marketing practices, emerging technologies, and financial practices.

¹² Restitution is an equitable remedy under which a person is restored to their original position prior to loss or injury.

¹³ DCRO operates the CRC, which accepts complaints from consumers via the telephone, the Internet, and the mail. In addition, the CRC provides educational information to consumers.

redress program activities. OCR's objective is to distribute claimant refunds quickly with a goal of completing distributions within six months after a contractor is assigned to a case.

Redress Distribution Process

OCR attempts to distribute funds to claimants whenever possible. When consumer redress is not practicable, the funds are transferred (disgorged) to the U.S. Department of the Treasury or, on occasion, used for consumer education or as directed by the final order issued by the court.¹⁴ Major components of the Redress Program include eligibility determination, claimant notification, and administration of redress payments. Proper redress administration requires timely and accurate claims administration and the protection of personally identifiable claimant information.

Getting redress refunds to the injured parties depends principally on whether the FTC has a reliable list of victims, including their contact information and the amount of money they spent. FTC court orders generally require the company to provide a list of customers, their contact information, and how much each customer paid.

If the FTC obtains a reliable list of eligible recipients, the agency mails checks directly to them. In situations where there is no list of known customers or insufficient contact information, the agency must use a claims process to identify people who should receive a refund. Diagram 2 includes the six steps typically involved in consumer refunds.¹⁵ Claimant notification is accomplished in a variety of ways, including advertising, mass mailers, and emails alerting potential victims of the available redress funds. OCR may also task contractors with conducting outreach campaigns to identify and educate claimants.

Diagram 2: Required Steps of Consumer Redress Process



Administration of Redress

OCR uses contracted services to administer funds to claimants. There are limited instances when OCR, in coordination with the Financial Management Office (FMO), will distribute funds to claimants directly without contractor assistance. Typically, redress contractors mail checks to eligible claimants based on the approval of OCR officials. If unused funds remain (usually due to uncashed checks), OCR may issue additional distributions to claimants that previously received a distribution.

¹⁴ Disgorgement describes depriving a wrongdoer's ill-gotten gains and turning funds over to the U.S. Department of the Treasury as a deterrence remedy.

¹⁵ FTC Bureau of Consumer Protection, *FTC Annual Report on Refunds to Consumers* (2018).

[REDACTED] is used to conduct many functions required in the administration of redress, including: the assignment of contractors; creating and tracking contractor assignments and milestones; tracking and approving contractor billings; creating, monitoring, and storing reconciliations of matter specific-accounts held both inside and outside of the FTC; and monitoring redress progress. OCR provides contract management and monitoring activities.

[REDACTED] collects and maintains information, including personally identifiable information, relating to defendants against whom the FTC has obtained judgments and/or injunctive orders in legal proceedings brought under the FTC Act and other statutes and rules enforced by the FTC. The information enables the Commission to monitor compliance with injunctive orders and collect outstanding judgments, and return the maximum amount possible to victimized consumers.

The Role of the Financial Management Office in the Redress Process

FMO obtains judgment information on FTC cases with the federal district courts from LexisNexis Courtlink, [REDACTED] and FTC case managers. When a judgment order is signed and recorded by the court, FMO reviews the judgment and creates a redress judgment checklist summarizing the pertinent accounting of the judgment.¹⁶ FMO will contact the BCP case manager to confirm the judgment summary and resolve any questions. If a monetary amount is a part of the judgment, FMO will establish an accounts receivable and record all collections in its central accounting system.

When consumer redress is possible and cost effective, OCR submits a memorandum to FMO with all of the information needed to make a disbursement, either to an FTC contractor for a redress distribution to a harmed consumer or as a direct payment to a consumer by the FTC. If consumer redress is not cost effective, the amount collected is disgorged by FMO to the U.S. Department of the Treasury per instructions received from OCR and the case manager.

FMO records all cash related information on transactions (i.e., collections, distributions, transfers, and disgorgements) in the Redress Subsidiary Ledger for tracking per judgment and for monthly reconciliations to the accounting trial balance and general ledger. FMO will conduct surveys of BCP case managers to establish estimates of outstanding balances due from defendants. FMO also conducts monthly redress reconciliations of all accounting transactions to the accounting trial balance and general ledger.

The Contractors’ Process for Disbursing Redress Funds

Currently, OCR utilizes the services of four contractors to process payments to redress claimants.

Table 2: Contractor Disbursement Activity Included in Audit Scope

Contractor	Number of Cases	Number of Checks	Total Amount of Checks
Gilardi & Co LLC	[REDACTED]	[REDACTED]	[REDACTED]
Epiq Systems	[REDACTED]	[REDACTED]	[REDACTED]
Rust Consulting Inc.	[REDACTED]	[REDACTED]	[REDACTED]
Analytics LLC	[REDACTED]	[REDACTED]	[REDACTED]
Total	27	984,813	\$ 47,740,057

Refer to Table 2: Contractor Disbursement Activity Included in the Audit Scope. BCP relies on and oversees contractors that

process redress disbursements to harmed consumers. Contracts are awarded to support the FTC’s

¹⁶ LexisNexis Courtlink is a docket research tool that provides searchable access to federal, state, and local court records.

administration of redress services (claims administration and funds distribution). Under the typical terms of these contracts, an FTC designated representative will assign new cases and create work assignments for claims processing and associated administrative, technical, and management services for claimants. Contracts can and often do include the following tasks:

<p>1. Money Management</p>	<ul style="list-style-type: none"> • Establish bank account for each assigned case • Obtain records from the bank that contain all original canceled checks (front and back) or clearly legible images of all original canceled checks (front and back) and/or bank drafts and bank statements. • Ensure each checking account has the "positive-pay" feature. • Prepare and provide the COR with a reconciliation of the prior month's activity of each redress bank account. • Prepare and maintain a check register in each case accounting for all checks printed. • Prepare and maintain a register in each case accounting for all debit and purchase cards distributed.
<p>2. Help Services</p>	<ul style="list-style-type: none"> • Respond to requests and inquiries received via telephone or written mail (or e-mail) from potential claimants.
<p>3. Claims Processing And Eligibility</p>	<ul style="list-style-type: none"> • Keep an FTC-established unique identifier from claimants for the life of each case assigned. • Utilize the existing claimant information to establish a preliminary list of potential redress recipients for each case assigned. • In a small number of cases, develop and maintain a list of potential claimants who appear to meet all requirements for participation in the redress distribution. • Ensure that the eligible recipients receive only their entitled portion of the redress funds.
<p>4. Redress Distribution</p>	<ul style="list-style-type: none"> • Prepare a distribution plan to administer funds to qualified claimants. • Prepare checks, bank drafts, purchase cards, debit cards, coupons, or any other FTC-approved funds distribution instrument using commercially available means and as appropriate to the redress fund distribution requirements. • Distribute redress and include a cover letter, brochures, and other documents, and charge the FTC no more than the U.S. Postal Service "one ounce" rate charged for first class mail. • Distributions of uncashed checks and/or returned checks may be requested by the Contracting Officer's Representative
<p>5. Marketing And Outreach</p>	<ul style="list-style-type: none"> • May be required to develop and implement, in conjunction with the FTC, consumer education and/or consumer identification (Public Notice) campaigns. • Campaign development includes, but is not limited to, proposing schedules showing projected media use, as well as projecting costs for developing and placing materials.
<p>6. Miscellaneous Services</p>	<ul style="list-style-type: none"> • If assigned, provide miscellaneous services, which may include asset management, liquidation, storage, and audit.
<p>7. Final Accounting</p>	<ul style="list-style-type: none"> • Prepare and provide to the COR an affidavit containing an accounting for all redress funds, including principal, additions to principal, expenses, distributions to redress claimants and/or authorized consumer education, the amount of the residual funds remaining in the redress account to disburse, and any other information requested by the COR, in order to close the qualified settlement fund bank account.
<p>8. Reporting and General Administration Requirements</p>	<ul style="list-style-type: none"> • Provide comprehensive, accurate, easy to understand, and timely reports. • Provide monthly written status reports. • At a minimum, monthly meetings with the COR will be conducted to assess performance and discuss issues. • Maintain and store all records and documentation associated with the case for a period of six years following the closing of the bank account. • Render itemized invoices, as described in FTC contract clauses, upon successful completion of significant tasks, not more frequently than monthly and at least once a year.

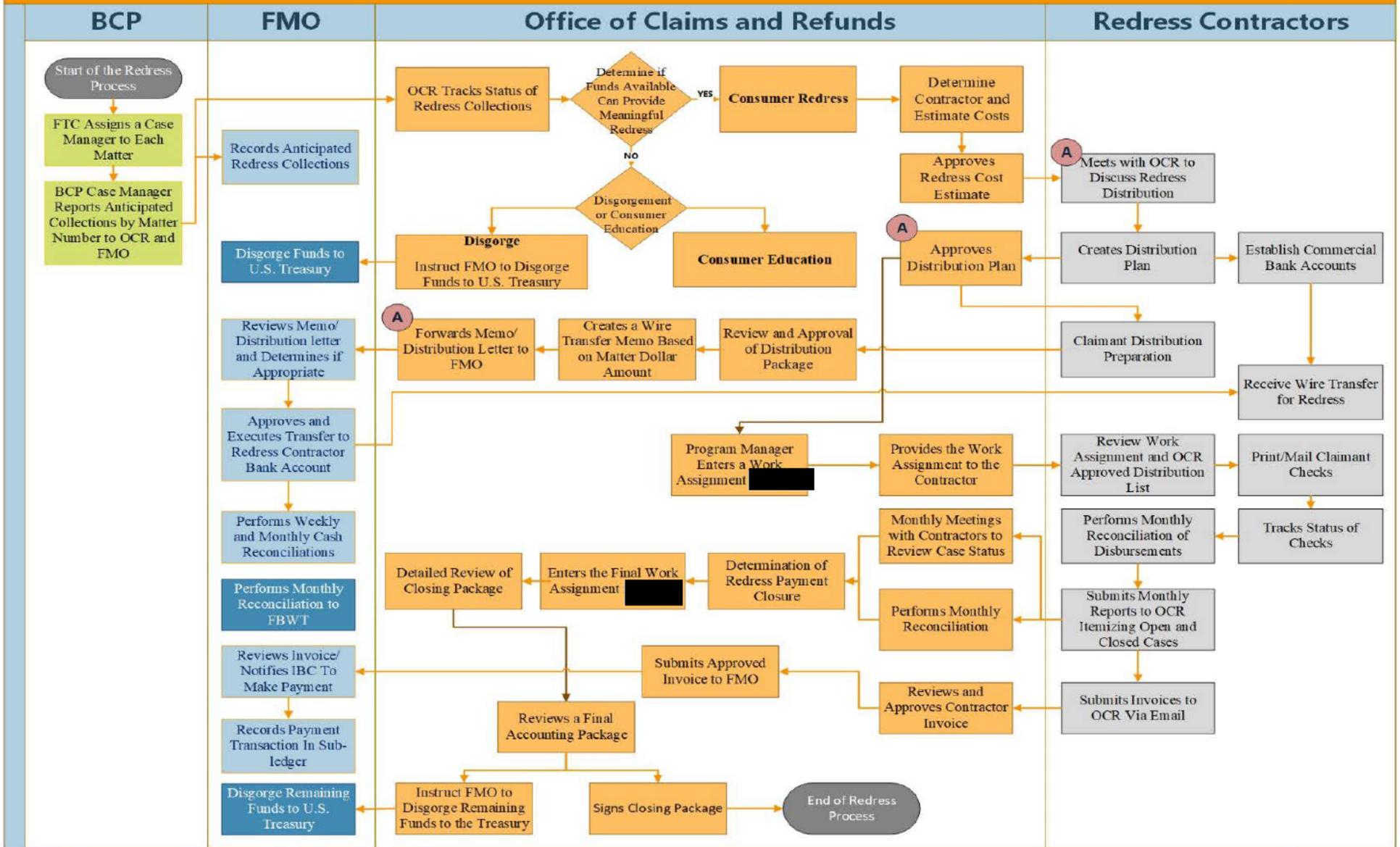
Source: Sample FTC Redress contract statement of work

APPENDIX C: CASES INCLUDED IN THE AUDIT

Matter Name	Number of Checks	Amount
Information Management Forum, Inc.	[REDACTED]	[REDACTED]
Lumos Labs, Inc. d/b/a Lumosity	[REDACTED]	[REDACTED]
Central Coast Nutraceuticals	[REDACTED]	[REDACTED]
L'Occitane, Inc.	[REDACTED]	[REDACTED]
Burnlounge, Inc.	[REDACTED]	[REDACTED]
The Debt Advocacy Center	[REDACTED]	[REDACTED]
Crowder Law Group	[REDACTED]	[REDACTED]
American Tax Relief	[REDACTED]	[REDACTED]
Direct Benefits Group LLC	[REDACTED]	[REDACTED]
Independent Association of Businesses	[REDACTED]	[REDACTED]
Expense Management America	[REDACTED]	[REDACTED]
Prime Legal Plans	[REDACTED]	[REDACTED]
TriVita, Inc.	[REDACTED]	[REDACTED]
J.K. Publications, Inc.	[REDACTED]	[REDACTED]
Fair Guide	[REDACTED]	[REDACTED]
Vantage Funding	[REDACTED]	[REDACTED]
Payday Support Center, LLC	[REDACTED]	[REDACTED]
American Business Builders LLC/ Dynamic Merchants	[REDACTED]	[REDACTED]
Goldman Schwartz, Inc.	[REDACTED]	[REDACTED]
A to Z Marketing/Apex Members	[REDACTED]	[REDACTED]
Rose Marketing	[REDACTED]	[REDACTED]
CPU/Your Yellow Book, Inc.	[REDACTED]	[REDACTED]
Regency Financial Service, LLC	[REDACTED]	[REDACTED]
Top Shelf Marketing Corp.	[REDACTED]	[REDACTED]
Universal Network Solutions	[REDACTED]	[REDACTED]
MyEx.com	[REDACTED]	[REDACTED]
Total	984,813	\$ 47,740,057

APPENDIX D: REDRESS PROCESS

The Federal Trade Commission Redress Process



A This step involves OCR officials as well as the BCP Case Manager

APPENDIX E: ACRONYMS AND ABBREVIATIONS

ACRONYMS AND ABBREVIATIONS	
BCP	Bureau of Consumer Protection
COR	Contracting Officer Representative
CRC	Consumer Response Center
DCRO	Division of Consumer Response and Operations
GAO	Government Accountability Office
FBWT	Fund Balance with Treasury
FMO	Financial Management Office
FTC	Federal Trade Commission
FY	Fiscal Year
IBC	Interior Business Center
IT	Information Technology
OMB	Office of Management and Budget
OCR	Office of Claims and Refunds
PII	Personally Identifiable Information

APPENDIX F: FTC MANAGEMENT RESPONSE

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

MEMORANDUM

TO: Andrew Katsaros
Inspector General, Office of Inspector General

VIA: Andrew Smith
Director, Bureau of Consumer Protection

FROM: Monica Vaca
Associate Director, Division of Consumer Response and Operations
Aaron Hutchinson
Assistant Director, Division of Consumer Response and Operations
Nicole Christ
Program Manager, Office of Claims and Refunds

SUBJECT: Management Response to the Draft Report on Audit of Redress Process Controls

DATE: February 21, 2020

On January 27, 2020, the Bureau of Consumer Protection, Division of Consumer Response and Operations received the Office of Inspector General's Draft Report on Audit of Redress Process Controls. The report makes three specific recommendations. BCP and DCRO management agree with these recommendations and provide additional responses below:

Finding –BCP Would Benefit from Additional Detailed Information and Data Uniformity from Its Redress Contractors

Recommendation 1: Develop a contract deliverable requiring some form of detailed monthly bank statement information to be provided to the FTC on open cases.

Management Response: Management agrees. Fortunately, we do not need a contract modification for this deliverable. Under the current contract, the vendors are required to provide us access to bank statements and "information requested that pertains to the bank records and fund activities." We have verified that we have access to detailed monthly bank statements via our online bank account access. We will use these detailed statements to improve program oversight. We propose using the detailed bank statements to perform check audits on open cases instead of closed-case check audits, which have limited value. We will develop parameters to ensure that these audits focus on cases with high volume check activity and high check values, and that they are performed on checks that cashed the previous month.

Recommendation 2: Develop a uniform set of Redress Program data that can be used to compare disbursement activity across cases for closed case check audits, and develop a contract deliverable requiring contractors to provide this information, including check registers and disbursement lists, to the FTC.

Management Response: Management agrees that the data we receive from the contractors should be more uniform. We have provided new templates to the contractors for check registers, distribution reports, and case closing packets; the contractors are putting the new templates into use now. We will continue to use these files to perform verification of payments throughout the case and at closing.

Finding – BCP Would Benefit From a Structured Approach to Program Site Visits

Recommendation: Develop and formalize, in policy, a structured program for contractor site visits for both IT System Security and operational site visits.

Management Response: Management agrees. We have drafted a policy and procedure document that will standardize site visits.

APPROVED:



Monica Vaca
Associate Director
Division of Consumer Response and Operations



Andrew Smith
Director, Bureau of Consumer Protection