



OFFICE OF INSPECTOR GENERAL

MEMORANDUM

DATE: May 20, 2010

TO: Steven VanRoekel, Managing Director

FROM: David L. Hunt, Acting Inspector General 

SUBJECT: Report on the Audit of the FCC's Managerial Cost Accounting System
(Audit Assignment No. 09-AUD-09-25)

The Office of Inspector General is providing the report on the Performance Audit of the FCC's Managerial Cost Accounting System. The Office of Inspector General engaged Williams Adley and Company, LLC (Williams Adley) to conduct the audit.

The objective of the performance audit was to determine whether FCC's managerial cost accounting system is compliant with the Financial Systems Integration Office (FSIO) *System Requirements for Managerial Cost Accounting* for fiscal year ending September 30, 2009. FCC, through its Momentum Genesis project, will be upgrading the current managerial cost accounting system, Budget Execution and Management System (BEAMS) to the new version of Momentum Enterprise, which is scheduled to be implemented in October 2010. As part of the audit, Williams Adley also compared the FCC's documented system requirements for the new managerial cost accounting subsystem to the FSIO *System Requirements for Managerial Cost Accounting* to identify variances.

The audit report identified three conditions where the managerial cost accounting system did not comply with FSIO requirements. Management generally concurred with the auditor's findings and recommendations and agreed to implement additional internal controls and procedures to correct the deficiencies noted by the audit.

Williams Adley is wholly responsible for the enclosed report dated May 17, 2010.

Attachment

cc: Mark Stephens, Chief Financial Officer
PERM

**Performance Audit of the
Federal Communications Commission's
Managerial Cost Accounting System**

Fiscal Year 2009

Date: May 17, 2010



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Executive Summary

On behalf of the Office of Inspector General (OIG), Williams, Adley & Company, LLP (Williams Adley) completed a performance audit of the Federal Communications Commission's (FCC) managerial cost accounting system. The audit was conducted from October 2009 through March 2010 at FCC headquarters in Washington, District of Columbia.

The objective of the performance audit was to determine whether FCC's managerial cost accounting system¹ is compliant with the Financial Systems Integration Office (FSIO) *System Requirements for Managerial Cost Accounting* for fiscal year ending September 30, 2009. FCC, through its Momentum Genesis project, will be upgrading the current Budget Execution and Management System (BEAMS) to the new version of Momentum Enterprise, which is scheduled to be implemented in October 2010. As part of our audit of BEAMS, we also compared the FCC's documented system requirements for the new managerial cost accounting subsystem to the FSIO *System Requirements for Managerial Cost Accounting* to identify variances.

We conclude that as implemented by FCC, the managerial cost accounting system does not substantially comply with the FSIO *System Requirements for Managerial Cost Accounting*. Specifically, we identified the following conditions:

- A. BEAMS does not produce complete cost data to support the Consolidated Statement of Net Cost. Currently, FCC uses a manually intensive process to produce the Consolidated Statement of Net Cost.
- B. The managerial cost accounting system does not comply with FSIO information requirements for a managerial cost accounting system because the system does not include FSIO required data elements from the financial and operations information classification structures.
- C. FCC management has not documented all of the key requirements from the FSIO *System Requirements for Managerial Cost Accounting* for the new managerial cost accounting subsystem that will replace BEAMS.

Management concurs with all three (3) findings and we consider management's responses to be adequate to address the findings.

This report contains appendixes A-F to provide additional clarification and information. Appendix A provides additional details on the objectives, scope, and methodology of this audit. Appendix B discusses the BEAMS process and FCC's manual and semi-automated processes for collecting data for the production of FCC's Consolidated

¹ As part of the managerial cost accounting system audit, the scope included the Budget Execution and Management System (BEAMS), the manual processes to compile the Consolidated Statement of Net Cost, and the system requirements for the new managerial cost accounting system.

Statement of Net Cost. Appendix C contains management's responses to the findings and recommendations. Appendix D contains a detailed discussion of our comparative analysis of FCC's system requirements for the new cost accounting system and FSIO requirements. To clarify key terms, a glossary is provided in Appendix E.

Background

Williams Adley was contracted by the OIG to conduct a performance audit of the FCC's managerial cost accounting system for fiscal year ending September 30, 2009. As part of our audit, we also compared the FCC's documented system requirements for the new managerial cost accounting subsystem to the FSIO *System Requirements for Managerial Cost Accounting* to identify variances. We conducted this performance audit in accordance with Government Accountability Office (GAO) *Government Auditing Standards (GAGAS)*, July 2007 Revision.

FCC is an independent federal agency directly responsible to Congress. The FCC was established by the Communications Act of 1934 and is charged with regulating interstate and international communications by radio, television, wire, satellite, and cable. The FCC's jurisdiction covers the 50 states, the District of Columbia, and U.S. possessions.

According to the Statement of Federal Financial Accounting Standards (SFFAS) No. 4, *Managerial Cost Accounting Concepts and Standards for the Federal Government*, the managerial cost accounting concepts and standards contained in the statement are intended to provide reliable and timely information on the full cost of federal programs, their activities, and outputs. The cost information can be used by Congress and federal executives in making decisions about allocating federal resources, authorizing and modifying programs, and evaluating program performance. The cost information can also be used by program managers in making managerial decisions to improve operating economy and efficiency. SFFAS No. 4, in addition, allows for flexibility in setting up a managerial cost accounting system tailored to the operational environment.

SFFAS No. 4 contains five (5) fundamental elements of managerial cost accounting: (1) accumulating and reporting costs of activities on a regular basis for management information purposes, (2) establishing responsibility segments to match costs with outputs, (3) determining full costs of government goods and services, (4) recognizing the costs of goods and services provided among federal entities, and (5) using appropriate costing methodologies to accumulate and assign costs to outputs.

For a portion of the FCC's Consolidated Statement of Net Cost, FCC implemented BEAMS to allocate costs to prepare financial data. BEAMS is a subsystem of Momentum Enterprise Solutions, a commercial-off-the-shelf financial management and accounting software package from Consultants to Government and Industry (CGI). FCC's financial applications include the general ledger, Federal Financial System (FFS), and a cost allocation subsystem, BEAMS. BEAMS interfaces with National Finance Center (NFC) to receive payroll data. BEAMS also interfaces with FFS to receive non-payroll related expenses, which are accumulated and allocated into cost categories using project codes. FCC uses BEAMS to allocate costs (direct and indirect) to the FCC's six (6) strategic goals: Broadband, Competition, Homeland Security, Media, Modernize the FCC, and Spectrum. Momentum is hosted by the National Business Center (NBC) data processing facility at Reston, VA.

FCC, through its Momentum Genesis project, will be upgrading the current BEAMS application (Momentum 6.1.2) to the new version of Momentum in October 2010. Therefore, we compared the FCC defined system requirements for the new managerial cost accounting subsystem to the FSIO *System Requirements for Managerial Cost Accounting*.

Results of Audit

We conclude that as implemented by FCC, the managerial cost accounting system does not substantially comply with the FSIO *System Requirements for Managerial Cost Accounting*. Based on our audit test results, we identified three (3) findings. To assist FCC management in tracking the findings and recommendations, the findings are lettered and recommendations are numbered sequentially.

Finding A – BEAMS Does Not Produce Complete Cost Data

Condition:

BEAMS does not produce complete cost data to support the Consolidated Statement of Net Cost. The majority of FCC expense data are not contained in BEAMS. Ninety-nine percent of FCC net cost data (expense minus exchange revenue) are manually compiled from electronic spreadsheets and the remaining one percent is generated from BEAMS.

FCC used the following manually intensive process to collect cost data to prepare the Consolidated Statement of Net Cost in FY 2009. Each reporting component² sent an Excel spreadsheet with summary financial information to the FCC. The FCC then generated a cost report from BEAMS. After the report generation, FCC reentered BEAMS data into an Excel spreadsheet and combined the FCC data with the components' Excel spreadsheets to manually compile the Consolidated Statement of Net Cost.

Criteria:

Financial Systems Integration Office (FSIO) *System Requirements for Managerial Cost Accounting* states:

- “Managerial cost accounting systems should be fully integrated with other agency systems, that is, designed to eliminate unnecessary duplication of transaction entry and share data elements without rekeying or reformatting.”
- "The managerial cost accounting system should be able to provide cost data needed to produce the Statement of Net Cost for the agency's financial statements."

Cause:

² The FCC components for financial statement purposes include: Universal Service Fund, Telecommunications Relay Service Fund, and North American Numbering Plan.

BEAMS was not originally designed to collect and report on FCC and its components' net costs; therefore, BEAMS was not integrated with the components' automated systems, according to FCC management. FCC management does not use BEAMS for budgetary and other management reporting purposes. Instead, FCC uses BEAMS as a reporting tool to accumulate and allocate FCC costs of conducting business across the FCC's six (6) strategic goals. BEAMS was not designed to function as a full managerial cost accounting system as defined in SFFAS No. 4, *Managerial Cost Accounting Concepts and Standards for the Federal Government*, and FSIO *System Requirements for Managerial Cost Accounting*.

Effect:

The lack of system integration of component entities into BEAMS creates inefficiencies because it requires FCC and component data to be reentered to compile the Consolidated Statement of Net Cost. Reentering data also increases the risk of data entry errors and ultimately reporting errors.

Recommendation:

We recommend the Chief Financial Officer:

1. Evaluate and implement the electronic processes to transfer the components' cost information into the new managerial cost accounting subsystem to integrate FCC and component data, which would produce the Consolidated Statement of Net Cost and management reports.

Management's Response:

FCC management concurs. They have already begun to address this issue with the replacement of BEAMS and the core financial system, which is scheduled to be completed in October 2010. They will evaluate the new managerial cost accounting subsystem to ensure that it will be fully integrated with other Commission systems and to ensure that the system will provide cost data to meet the Commission's needs.

Evaluation of Management's Response:

We consider management's response to be adequate to address the finding.

Finding B – Managerial Cost Accounting System Does Not Comply with FSIO Information Requirements

Condition:

The managerial cost accounting system does not comply with FSIO information requirements for a managerial cost accounting system because the system does not include FSIO required data elements from the financial and operations information classification structures. The financial information classification structure is used for collecting, categorizing, tracking, monitoring, and reporting information on federal agency costs. The operations information classification structure captures information on the outputs of an operation. Refer to Appendix E for a glossary explaining key terms.

Specifically, the managerial cost accounting system's financial information data elements do not include:

- Organization Unit (Reporting Entity and Responsibility Segment³)
- Accounting Categorization (Entity, Non-entity, Inter-entity Indicator)
- Financial Accumulators (Planned Total Cost Dollars)

Also, the managerial cost accounting system's operations information data elements do not include:

- Operations Unit (Responsibility Segment)
- Activity Type (Product/Service Type)
- Efficiency Measures
- Standards (Planned Output Units and Planned Output Costs)
- Operations Accumulators (Output Unit and Output Unit Costs)

Criteria:

FSIO System Requirements for Managerial Cost Accounting states:

- a. "The essential categories of the financial information classification structure for cost accounting are organization unit, funding identification, accounting categorization, program, special descriptors, and financial accumulators."

³ A component of a reporting entity that is responsible for carrying out a mission, conducting a major line of activity, or producing one or a group of related products or services. To illustrate, the Forest Service may be a reporting entity because it may meet the reporting entity criteria. As such, it may establish responsibility segments for itself. At the same time, the Forest Service may be regarded as a responsibility segment of the Department of Agriculture, of which it is a component.

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- i. For Organization Unit, the managerial cost accounting system needs at least three levels: Reporting Entity, Responsibility Segments, and Responsibility Centers.
 - ii. For Accounting Categorization, the managerial cost accounting system needs at least: Standard General Ledger Account, Object Class/Cost Element, Entity, Non-entity, Inter-entity Indicator, Federal/Nonfederal Indicator, and Reporting Period.
 - iii. For Financial Accumulators, the managerial cost accounting system should be capable of accumulating the monthly, current year, four prior years, and inception date total for: Cost Dollars, Planned Total Cost Dollars, and Units.
- b. “The essential categories of the operations information classification structure are operations unit, activity type, efficiency measures, standards, and operations accumulators.”
- i. For Operations Unit, the managerial cost accounting system needs: Responsibility Segments, Responsibility Centers, Program, and Projects.
 - ii. For Activity Type, the managerial cost accounting system should capture information on Product/Service Type.
 - iii. For Efficiency Measures, the managerial cost accounting system should capture information on Efficiency Measure Type.
 - iv. For Standards, the managerial cost accounting system should capture information on Planned Output Units and Planned Output Costs.
 - v. For Operations Accumulators, the managerial cost accounting system should capture information on Output Unit and Output Unit Costs.

Cause:

According to FCC management, BEAMS was not designed to function as a full managerial cost accounting system as defined in SFFAS No. 4, *Managerial Cost Accounting Concepts and Standards for the Federal Government*, and FSIO System *Requirements for Managerial Cost Accounting*. FCC management does not use BEAMS for budgetary and other management reporting purposes. Instead, FCC uses BEAMS to accumulate and allocate FCC costs of conducting business across the FCC’s six (6) strategic goals.

Effect:

BEAMS' usefulness as a management tool is limited because it lacks the comprehensive financial and operations information classification structures. Therefore, functions such as determining the cost of outputs, tracking progress against established goals, and determining the efficiency of operations cannot be performed.

Recommendations:

We recommend the Chief Financial Officer, Bureaus, and Offices:

2. Evaluate the business processes and management's reporting requirements to determine the financial and operations information classification structures that need to be captured, maintained, and reported through a managerial cost accounting system to meet FCC's strategic goals.

For the new managerial cost accounting subsystem, we recommend the Chief Financial Officer:

3. Implement the requisite financial and operations information classification structures, based on the evaluation results from Recommendation Two (2), in a cost effective manner.

Management's Response:

FCC management concurs. As discussed in management's response to Finding A, FCC management have already begun to address this issue with the replacement of BEAMS and the core financial system, which is scheduled to be completed in October 2010. They will evaluate the Commission's business processes and management reporting requirements to ensure that the new managerial accounting subsystem meets the Commission's operational needs in a cost effective manner.

Evaluation of Management's Response:

We consider management's response to be adequate to address the finding.

Finding C – FCC Has Not Fully Documented Requirements for the New Managerial Cost Accounting Subsystem

Condition:

FCC management has not documented all of the key requirements from the FSIO *System Requirements for Managerial Cost Accounting* for the new managerial cost accounting subsystem, which will replace BEAMS. The new managerial cost accounting subsystem will be a part of the Momentum Enterprise system. Appendix D discusses in full detail

the background information for this finding and the results of our comparative analysis of FCC's documented and defined requirements versus the FSIO requirements. Refer to Appendix E for a glossary explaining key terms.

We found that FCC has not documented the following financial and operations information data elements and functional requirements:

- Financial Information
 - Organization Unit (Responsibility Segment)
 - Financial Accumulators (Planned Total Cost Dollars and Units)
- Operations Information
 - Activity Type (Product/Service Type)
 - Efficiency Measures
 - Standards (Planned Output Units and Planned Output Costs)
 - Operations Accumulators (Output Unit)
- Functional Requirements
 - The inter-entity costs should be assigned to the responsibility segments that use the inter-entity services and products (for the cost assignment requirements).
 - The managerial cost accounting system should be capable of supporting cost management by performing such tasks as the following:
 - Accumulate costs in agency-defined cost centers that are associated with agency-defined performance measures.
 - Accumulate numerically valued agency-defined output information.
 - Calculate the unit cost of outputs.
 - Produce unit cost reports by output.

Criteria:

According to *FSIO System Requirements for Managerial Cost Accounting*, an agency's managerial cost accounting system, whether manual or automated, should be able to provide cost information with sufficient detail to allow sound decision making in each of the following areas: (1) budgeting and cost control, (2) performance measurement, (3) determining reimbursements and setting fees and prices, (4) program evaluations, and (5) making economic choice decisions.

Further, the requirements state:

- “The essential categories of the financial information classification structure are organizational unit, funding identification, accounting categorization, program, special descriptors, and financial accumulators.”
- “The essential categories of the operations information classification structure are operations unit, activity type, efficiency measures, and operations accumulators.”
- “The managerial cost accounting system must capture or be able to access several types of data. This includes data on costs, units, exchange revenues, and gains and losses.”
 - “The inter-entity costs for goods and services received from other federal entities should be assigned to the responsibility segments that use the inter-entity services and products.”
 - “The managerial cost accounting processes should perform cost monitoring tasks such as:
 - Accumulating costs in agency-defined cost centers that are associated with agency-defined performance measures.
 - Accumulating numerically valued agency-defined output information.
 - Calculating the unit cost of outputs.
 - Producing unit cost reports by output.”

Cause:

According to FCC management, they have documented the core system requirements for the new financial system, but did not include all the required managerial cost accounting requirements because they plan to review more functionality within the cost management module after the core financial system is implemented (October 2010).

Effect:

The benefits associated with planning, decision making, and reporting may not be realized or may be diminished if an effective managerial cost accounting system is not implemented due to the lack of fully defined requirements to meet business needs.

If the information and functional requirements are not defined and documented before the new managerial cost accounting subsystem is placed into production, significant requirements may be discovered later causing costly rework and implementation delays.

Recommendations:

We recommend the Chief Financial Officer, Bureaus, and Offices:

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4. Evaluate, define, and document the information (financial and operational) and functional requirements for the new managerial cost accounting subsystem.

We recommend the Chief Financial Officer:

5. Implement the requisite functional requirements, based on the evaluation results from Recommendation Four (4), in a cost effective manner – in addition to the requisite financial and operations information classification structures in Recommendation Three (3) – for the new managerial accounting subsystem.

Management's Response:

FCC management concurs. They will evaluate, define, and fully document the new managerial cost accounting subsystem's requirements and implement those functional requirements that provide cost information to managers that improve the Commission's operations in a cost effective manner.

Evaluation of Management's Response:

We consider management's response to be adequate to address the finding.

Appendix A

Objective, Scope, and Methodology

Objective

The objective of the performance audit was to determine whether FCC's managerial cost accounting system is compliant with FSIO *System Requirements for Managerial Cost Accounting* for fiscal year ending September 30, 2009. Since BEAMS will be upgraded, we, also, compared the FCC documented system requirements for the new managerial cost accounting subsystem to the FSIO *System Requirements for Managerial Cost Accounting* to identify variances.

Scope

The audit scope was for fiscal year ending September 30, 2009. Audit fieldwork was conducted at FCC headquarters in Washington, DC, from October 2009 through March 2010. The audit scope, in addition, included BEAMS, the manual processes to compile the Consolidated Statement of Net Cost, and the system requirements for the new managerial cost accounting system.

Methodology

To achieve our audit objectives, we performed inquiries, analyzed documentation and data, and inspected system settings.

Additionally, we considered the following laws, regulations, and guidelines:

- Chief Financial Officers (CFO) Act of 1990
- Statement of Federal Financial Accounting Standards (SFFAS) No. 4, *Managerial Cost Accounting Concepts and Standards for the Federal Government*, July 31, 1995
- Statement of Federal Financial Accounting Concepts (SFFAC) No. 2, *Entity and Display*, June 5, 1995
- The American Recovery and Reinvestment Act of 2009
- FCC OIG Policies, Procedures, and Quality Control Procedures
- E-Government Act of 2002 (Public Law 107-347, 44 U.S.C. Ch 36), December 2002
- President's Management Agenda Fiscal Year 2002 (www.omb.gov)
- OMB Memorandum M-03-18, *Implementation Guidance for the E-Government Act* (www.omb.gov)
- OMB Circular A-123, *Management's Responsibility for Internal Control* (www.omb.gov)
- OMB Circular A-127 Revised, *Financial Management Systems*, (www.omb.gov)

- Federal Information System Controls Audit Manual (FISCAM), February 2009
- Government Performance Results Act of 1993
- OMB Circular No. A-136, *Financial Reporting Requirements*, June 10, 2009
- Appendix III to OMB Circular No. A-130, *Management of Federal Information Resources*, revised 2000
- FSIO *Framework for Federal Financial Management Systems* (JFMIP-SR-01-04), May 2004
- FSIO *System Requirements for Managerial Cost Accounting* (FFMSR-8), February 1998

The audit was conducted in accordance with Government Accountability Office (GAO) *Government Auditing Standards (GAGAS)*, July 2007 Revision. 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 audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

While the audit work was performed and the report was prepared under contract, the audit results are being reported by the FCC Office of Inspector General to appropriate FCC officials.

Appendix B
BEAMS Process Narrative

Background Information*General System Description*

FCC selected Momentum to serve as the basis for BEAMS. BEAMS went into production in FY 2003 and it runs on a Microsoft Windows-based operating system. Currently, there are four (4) BEAMS user accounts.

FCC has a service level agreement and inter-agency agreement with National Business Center (NBC).

Business Purpose

BEAMS consolidates and reports the Statement of Net Cost and financial data.

History and Upgrades

In September 2006, FCC elected to upgrade BEAMS from an unsupported release of Momentum to a more current release of Momentum. Upgrading to the current version allowed the FCC to take advantage of enhancements that improved both use of the system for the FCC and overall system performance. This upgrade effort also included the reintegration of the FCC Custom Payroll Subsystem, a revision of all BEAMS documentation for the changes resulting from the upgrade, and training to familiarize FCC users with the steps necessary for the execution of BEAMS Interfaces and Allocation Models.

Contractual Agreements

NBC provides operational support, software management for the systems software and application software, system analysis, functional design, software development and acquisition, system implementation and user training. NBC provides the mainframe and client/server computer and telecommunications services necessary to host and operate administrative systems through its computing center in Denver, CO.

FCC Management Cost Accounting Process*System Interfaces*

BEAMS interfaces with the FCC's FFS application to receive the relevant financial data for allocation and related reporting. FFS interfaces with the National Finance Center's Federal Personnel and Payroll System (FPPS) for payroll data.

A monthly journal file containing summarized target transactions from FFS daily journal files is created to load into BEAMS. The monthly journal file includes all transactions necessary to support the cost allocation models within BEAMS.

The payroll information is transferred from the National Finance Center's payroll system (hosted in New Orleans, LA) to NBC that converts data to a general ledger format. NBC loads this information into FFS (hosted in Denver, CO) at a summary level and into BEAMS (hosted in Reston, VA) at a detailed level in order to allocate the costs. Specifically, a payroll hours accrual file is created from the monthly payroll dollar accruals file to load into BEAMS.

Interface Controls

On a monthly basis, the data center housing FFS sends FCC a spreadsheet showing the data, which was transmitted to BEAMS. After corrections have been made to the rejected transactions from the transmitted files, the Office of Managing Director, Financial System Operations Group (FSOG) runs a script to determine whether there are any discrepancies between the spreadsheet and the data posted from FFS to BEAMS.

Allocation Methods

FCC accumulates costs using project codes from FFS and allocates costs in BEAMS. Costs (direct and indirect) are assigned to the FCC's strategic goals: Broadband, Competition, Homeland Security, Media, Modernize the FCC, and Spectrum. The project codes are assigned to direct material, direct labor, and overhead (indirect) costs. Project codes are directly traced to the output costs (direct charge method). Indirect costs such as indirect labor, general administration, and rent are assigned to direct projects on a prorated basis, such as full time equivalent.

Output from BEAMS

BEAMS generates the Goal Model report that is used to produce the Consolidated Statement of Net Cost. The Goal Model report shows FCC costs allocated to the six (6) strategic goals.

The reporting components send electronic spreadsheets with summary financial information to FCC. Then an accountant manually compiles the Consolidated Statement of Net Cost with data from the Goal Model report generated from BEAMS and the components' electronic spreadsheets. The reporting components for the Consolidated Statement of Net Cost include Universal Service Fund, Telecommunication Relay Service, and North American Numbering Plan.

Reconciliation Controls

On a quarterly basis, FCC compiles the Consolidated Statement of Net Cost. An accountant performs reconciliations on the Universal Service Administrative Company data to ensure the data are valid and accurate.

Migration to New Cost Accounting System

FCC has a project (Momentum GENESIS) to migrate from the current Momentum Enterprise System to a new version of Momentum in October 2010. Included in this migration is the replacement of BEAMS.

FSIO Requirements Implemented

The following table illustrates the current implementation status of the managerial cost accounting system's capabilities and the FSIO requirements.

FSIO Requirements	FCC as Implemented BEAMS Requirement	Comments
Financial Information Requirements	No	Missing data elements, which are identified in Findings B
Operations Information Requirements	No	Missing data elements, which are identified in Findings B
Program Information Requirements (Optional)	No	This is an optional requirement
Integration Requirements	No	Missing data elements, which are identified in Findings B and C, and BEAMS does not produce complete cost data (Finding A)
Functional Requirements: System Administration	No	Missing data elements, which are identified in Findings B
Functional Requirements: Data Capture	Yes	
Functional Requirements: Cost Assignment	Yes	
Functional Requirements: Cost Classification	Yes	
Functional Requirements: Cost Monitoring	No	Missing functional requirements, which are identified in Finding C

Appendix C
Management's Responses to Findings

This section contains management's responses to the findings.



OFFICE OF MANAGING DIRECTOR

Memorandum

Date: May 11, 2010

To: David L. Hunt, Acting Inspector General

From: Steven VanRoekel, Managing Director and Mark Stephens, Chief Financial Officer

Subject: Management's Response to the Independent Auditors' Report on the Performance Audit of the Managerial Cost Accounting System for Fiscal Year 2009

Thank you for the opportunity to review and comment on the draft report entitled Performance Audit of the Federal Communications Commission Managerial Cost Accounting System. We appreciate the efforts of your team and the independent auditor, Williams, Adley & Company, to work with the Federal Communications Commission (Commission) throughout the audit process. The results of this audit were due to the commitment and professionalism that both of our offices and the independent auditors demonstrated during the audit process. During the entire audit process the Commission worked closely with your office and the independent auditor's team to provide necessary and timely information to facilitate an efficient audit process.

We appreciate the feedback that we have received from this draft audit report and look forward to implementing additional improvements to the Commission's cost accounting system known as the Budget Execution and Management System (BEAMS). We are pleased that the independent auditors did not find any material weaknesses in the design and implementation of the Commission's cost accounting system. Over the years, we have worked very hard to strengthen the Commission's cost accounting system and to put into place an efficient and effective system to produce accurate information.

During the audit, Williams, Adley & Company found that BEAMS does not produce complete cost data. We have already begun to address this issue with the replacement of BEAMS and the Commission's core financial system, which is scheduled to be completed in October 2010. We will evaluate the new cost accounting system to ensure that it will be fully integrated with other Commission systems and to ensure that the system will provide cost data to meet the Commission's needs.

The report identified that the Managerial Cost Accounting System does not comply with the Financial Systems Integration Office (FSIO) information requirements. As previously mentioned, we are replacing BEAMS, the Commission's current Cost Accounting system, with a

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more modern system that meets FSIO requirements and which will be fully integrated with the core financial system. We will evaluate the Commission's business processes and management reporting requirements to ensure that the new managerial cost accounting system meets the Commission's operational needs in a cost effective manner.

Finally, the report identified that the Commission has not fully documented requirements for the new managerial cost accounting subsystem. The Commission will evaluate, define, and fully document the new managerial cost accounting systems requirements and implement those functional requirements that provide cost information to managers that improve Commission operations in a cost effective manner.

We look forward to working with you to resolve the audit findings in this report.



Steven VanRoekel
Office of Managing Director



Mark Stephens
Chief Financial Officer

Appendix D
Detailed Information for Finding C

According to FSIO requirements, the managerial cost accounting system should share summary data with the core financial system and other transaction processing systems. The managerial cost accounting system should be designed to eliminate unnecessary duplication of transaction entry and share data elements without reentering or reformatting data. Then the managerial cost accounting system captures and processes data according to the functional requirements.

There are three (3) main categories of requirements: information, functional, and integration.

The information requirements describe the types of data needed to support managerial cost accounting: financial, operations, and program (which is optional). The financial information classification structure is the primary structure for capturing accounting information, including costs, revenues, and units of input, such as labor, inventory, etc. The operations information classification is used to measure the efficiency of an operation and associate costs to outputs.

The functional requirements include: system administration, data capture, cost assignment, cost classification, and cost monitoring.

The integration requirements provide the basis for required data interchanges between systems that support managerial cost accounting directly with other systems that provide or receive cost data or related information.

This table discusses the results of our comparative analysis of FSIO requirements and FCC defined requirements for the new managerial cost accounting subsystem:

No.	FSIO System Requirements for Managerial Cost Accounting (February 1998)	FCC Defined Requirements for New Managerial Cost Accounting Subsystem
1	<p>Financial Information Requirements</p> <p>For Organization Unit, the managerial cost accounting system needs at least three levels: Reporting Entity, Responsibility Segments, and Responsibility Centers.</p>	<p>Data elements partially defined</p> <p>Define additional (lower) levels in the fund, program, project, organization and object class structures (e.g. establish parent child relationships with the ability to summarize, distribute funds, and report data at all defined levels). (SYS MGMT SRS Requirement Number SM-10)</p> <p>Maintain an accounting classification structure that</p>

		can associate each element with multiple other elements and element values. (SYS MGMT SRS Requirement Number SM-11)
2	<p>Financial Information Requirements</p> <p>For Financial Accumulators, the managerial cost accounting system should be capable of accumulating the monthly, current year, four prior years and inception date to total for: Cost Dollars, Planned Total Cost Dollars, and Units.</p>	<p>Data element partially defined</p> <p>The project codes accumulate cost dollars</p>
3	<p>Operations Information Requirements</p> <p>For Activity Type, the managerial cost accounting system should capture information on Product/Service Type.</p>	Data element not defined
4	<p>Operations Information Requirements</p> <p>For Efficiency Measures, the managerial cost accounting system should capture information on Efficiency Measure Type.</p>	Data element not defined
5	<p>Operations Information Requirements</p> <p>For Standards, the managerial cost accounting system should capture information on Planned Output Units and Planned Output Costs.</p>	Data element not defined
6	<p>Operations Information Requirements</p> <p>For Operations Accumulators, the managerial cost accounting system should capture information on Output Unit and Output Unit Costs.</p>	<p>Data elements partially defined</p> <p>Operations Accumulator Output Costs have been defined, but not Output Units.</p>
7	<p>Functional Requirements (Cost Assignment)</p> <p>The inter-entity costs should be assigned to the responsibility segments that use the inter-entity services and products.</p>	Requirement not defined
8	Functional Requirements (Cost Monitoring)	Requirements not defined

	<p>The managerial cost accounting processes should support cost management by performing such tasks as:</p> <ul style="list-style-type: none">• Accumulate costs in agency-defined cost centers that are associated with agency-defined performance measures.• Accumulate numerically valued agency-defined output information.• Calculate the unit cost of outputs. <p>Produce unit cost reports by output.</p>	
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Appendix E Glossary

activity type. Type of output to be measured within an operation to accurately diagnose problem areas or areas needing improvements in efficiency, such as case processing, publications printed, or tax returns processed.

accounting categorization. Contains the elements used to track assets, costs and revenues in the cost system. At a minimum categorization in a cost system must include: standard general ledger account, object class/cost element, entity/non-entity/inter-entity indicator, federal/non-federal indicator, reporting period, and revenue source code.

efficiency measures. Based on the relationship between inputs (i.e., personnel hours) and the volume of output (i.e., number of cases processed).

financial accumulators. The dollar amounts of inputs and the related unit information (e.g., units, labor hours) aggregated from financial events in other systems reflecting time periods (e.g., daily, monthly, current year, inception to date).

financial information classification structures. Used for collecting, categorizing, tracking, monitoring, and reporting information on the costs of a federal agency.

inter-entity costs. Each entity's full cost should incorporate the full cost of goods and services that it receives from other entities. The entity providing the goods or services has the responsibility to provide the receiving entity with information on the full cost of such goods or services either through billing or other advice.

planned total cost dollars. The planned total dollar amounts of inputs aggregated from financial events in other systems reflecting time periods (monthly, current year, four prior years and inception to date).

operations accumulators. Capture the actual number of output units (i.e., number of cases processed) and the actual output unit cost (i.e., cost per case processed). Operations accumulators can then be compared to the standards.

operations unit. The unit to which outputs will be associated. Operations information such as responsibility segment, responsibility center, program, and project are captured as an operations unit.

organization unit. Organization unit is the level at which financial information is consolidated and reported within an agency or externally to central agencies.

output unit. Any product or service generated from the consumption of resources. It can include information or paper work generated by the completion of the tasks of an activity.

output unit costs. The costs for an output unit.

planned output units. A performance target usually set by senior management indicating the number of outputs (i.e., number of cases that will be processed).

planned output costs. A performance target usually set by senior management indicating the costs of the outputs (i.e., costs for the cases to be processed).

reporting entity. The level at which financial statements are produced.

responsibility segment. A significant organizational, operational, functional, or process component where (a) its manager reports to the entity's top management, (b) it is responsible for carrying out a mission, conducting a major line of activity, or producing one or a group of related products or services, and (c) for financial reporting and cost management purposes, its resources and results of operations can be clearly distinguished from those of other segments of the entity.

standards. Performance targets, which are usually set by senior management.

statement of net cost. A required financial statement whose completion is facilitated by a managerial cost accounting system.

Appendix F Acronyms

BEAMS	Budget Execution and Management System
CFO	Chief Financial Officer
FCC	Federal Communications Commission
FISCAM	Federal Information Systems Controls Audit Manual
FFS	Federal Financial System
FPPS	Federal Personnel and Payroll System
FSIO	Financial Systems Integration Office
FSOG	Office of Managing Director, Financial System Operations Group
FY	Fiscal Year
GAGAS	Generally Accepted Government Auditing Standards
GAO	Government Accountability Office
GSA	General Services Administration
NBC	National Business Center
OIG	Office of Inspector General
OMB	Office of Management and Budget
OMD	Office of Managing Director