



OFFICE OF INSPECTOR GENERAL

MEMORANDUM

DATE: November 6, 2000

TO: Managing Director

FROM: Inspector General

SUBJECT: Report on Follow-up Special Review of the FCC Collection System

The Office of Inspector General (OIG) has completed a Follow-up Special Review of the FCC Collection System. A copy of our final audit report, entitled "Report on Follow-up Special Review of the FCC Collection System", is attached. The objective of this review was to examine and validate the current status of findings contained in our original Collection System report, examine the process that the Commission followed to select Digital System Group's RAMIS product and evaluate the detailed schedule and plan for implementation, and evaluate the level of expenditure required to maintain the existing system to ensure that steps are being taken to minimize expenditures.

The review team found that, although the FCC has made progress in closing several of the findings over the past two years, many findings have not been addressed in a timely manner. Several findings have not been resolved to completion or the supporting documentation provided was not sufficient to allow the team to agree with closure of the finding. Specifically, the review team found that of the one hundred twenty-nine (129) original findings, the FCC has indicated that forty-two (42) are closed and eighty-seven (87) remain open. However, our review found that thirty-four (34) of the original findings are resolved and can be considered closed and that ninety-five (95) have not been adequately resolved and remain open. It should be noted that the difference between the FCC and the OIG on the status of eight of the findings do not represent nonconcurrency with the findings. All of these findings were concurred to in our original review. Nonetheless, maintaining an accurate status of the findings is critical in ensuring that the findings are ultimately resolved, and OIG will work to address both the differences in status and resolution of all of the prior findings.

The most significant concern on the status of the findings is that only fifteen (15) of the original forty-seven (47) High and Medium level risk findings have been adequately resolved. These forty-seven (47) findings represent the most risk from a security and functionality standpoint.

Additionally, the review team has concluded that the expenditure levels for maintenance and

support of the existing Collection System did not decrease during the period under review and, in fact, appear to have increased since the completion of the original review. Based on the information and documentation provided by FCC personnel, there appears to be a satisfactory process for the identification and selection of RAMIS to replace the current Collection System.

A summary of the status of the review findings is included in the section of this report entitled "Conclusions". Detailed findings are included in Appendix A of the report entitled "Status of Detailed Observations and Recommendations." Because of the sensitive nature of the detailed findings, the Appendix A is marked "Sensitive" and distribution of the Appendix will be limited to those persons with a need for the information. Those persons receiving the appendices to this report are requested not to photocopy or otherwise distribute this material.

On September 29, 2000, we provided a draft report to the Office of Managing Director (OMD) summarizing the results of our review and requesting their comments on the reported findings. We received a response from the Managing Director on October 13, 2000. OMD did not agree with the status of eight of the original review findings, as discussed above. Further, OMD provided information that indicates that the expenditure levels for maintenance and support of the existing Collection System has decreased from fiscal year 1999 to fiscal year 2000. We have incorporated OMD comments and OIG responses to those comments into the narrative of the report, where appropriate, and into the Detailed Observations and Recommendations contained in Appendix A. In addition, we have included a copy of the OMD response in its entirety (without enclosures) as Appendix B to this report. We will continue to monitor the status of our original review findings and will incorporate steps in our audit of the fiscal year 2000 financial statements to assess the effectiveness of the corrective actions in addressing the deficiencies identified.

We would be happy to meet with you to discuss the results of this audit. If you have any questions, please contact me at 418-0476.

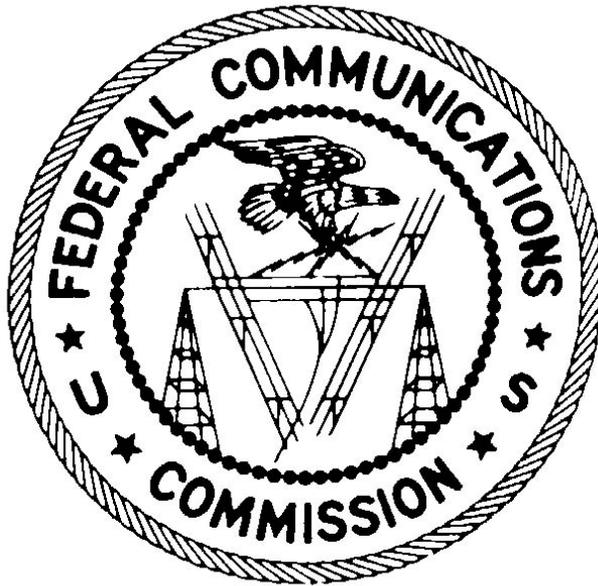
H. Walker Feaster III

Attachment

CC: Chief Financial Officer (with Appendix)
Chief, Wireless Telecommunications Bureau (w/o Appendix)

FEDERAL COMMUNICATIONS COMMISSION

OFFICE OF INSPECTOR GENERAL



Report on Follow-up Special Review of The FCC Collection System

Special Review Report No. 00-AUD-07-47
November 6, 2000

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Inspector General

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Report on Follow-up Special Review of
The FCC Collection System

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EXECUTIVE SUMMARY

On September 25, 1998, the Federal Communications Commission (FCC) Office of Inspector General (OIG) issued a Special Review report entitled “Special Review of the FCC Collection System.” The objectives of this Special Review were to examine the Commission’s operational Collection system, examine on-going modifications to the system, and to recommend alternative products. The review was conducted by a review team comprised of representatives from the OIG and computer security firm of TWM Associates, Inc. (hereafter referred to as TWM). This review resulted in one-hundred twenty-nine (129) observations in the areas of: internal controls; audit trails; programming support; database support; security; banking related matters; business process improvements; policies and procedures, and systems development lifecycle issues. Of the one hundred twenty-nine (129) observations, forty-seven (47) were considered high and medium exposure items that should be addressed immediately. The review concluded that the Collection System does not include all payment transactions, does not provide clear audit trails, does not provide for an adequate level of logical internal controls, does not reconcile to the General Ledger, and supports less than thirty percent (30%) of desired functionality. The review further revealed that it would be cost prohibitive to bring the current in-house developed Collection System to an acceptable level of functionality. As a result of the Special Review of the Collection System, the Commission is implementing the Revenue Accounting and Management Information System (RAMIS) to replace the collection system that the original review was based upon. RAMIS is a version of a commercial off the shelf (COTS) product from Digital Systems Group (DSG) modified for the FCC.

Given the significance of the issues identified during our original review, and in accordance with GAO “Yellow Book” standards¹, the OIG established a task order under our contract with TWM to conduct a follow-up of the Special Review of the Collection System. The objectives of the follow-up review were to:

- Examine the status of the FCC’s resolution of the findings detailed in the original Special Review of the Collection System;
- Evaluate the level of expenditure required to maintain the existing Collection System; and
- Evaluate the FCC’s selection of the product RAMIS and the detailed implementation plan.

The review was conducted primarily through interviews with FCC and contractor personnel and through the review of documentation provided during the interviews.

The review team found that, while progress has been made in resolving the issues raised in our original review, many findings have not been addressed in a timely manner. Several findings

¹ GAO Government Auditing Standards state “(a)uditors should follow up on significant findings and recommendations from previous audits ...to determine whether timely and appropriate corrective actions have been taken by auditee officials.”

have not been resolved to completion or the supporting documentation provided was not sufficient to allow the team to agree with closure of the finding. The review team found that of the one hundred twenty-nine (129) original findings, the FCC has indicated that forty-two (42) are closed and eighty-seven (87) remain open. Our review found that thirty-four (34) of the original findings are resolved and can be considered closed and that ninety-five (95) have not been adequately resolved and remain open. The most significant concern on the status of the findings is that only fifteen (15) of the original forty-seven (47) High and Medium level risk findings have been adequately resolved. These forty-seven (47) findings represent the most risk from a security and functionality standpoint. Many of the findings are to be resolved through implementation of RAMIS or through development of the policies and procedures. At the time our review was conducted, the RAMIS system was not operational. In fact, the RAMIS project has been delayed many times and has undergone many revisions in its design and implementation. As of the date of this report, RAMIS is scheduled to be fully operational in December 2000. Because RAMIS is not operational, we believe that these findings should be considered open until it can be demonstrated that RAMIS is able to adequately address the issues that are dependant upon the system. In addition to findings related to RAMIS findings, we identified several findings related to policies and procedures that were needed for the collections process. The necessary policies and procedures were not evident or made available during the follow-up review. Although some of the necessary documents exist, the review team was unable to confirm that the processes are being followed or used. It should be noted that some findings might now be closed that were not examined during the period of this review.

When the original special review was completed, we anticipated that it would take a significant period of time to identify, select, and implement a new collection system. Further, we realized that the existing system would require continued support until it was replaced. However, it was anticipated that the level of support and the resultant expenditures would decrease over time. Our follow-up review has disclosed that the level of expenditure required to support the current collection system has not decreased since October 1998 and, in fact, rose from an average of \$80,000 per month for the period 1997-1998 to an average of \$92,313 per month for the period 1998-1999.

As part of the follow-up review process, we examined weekly contractor meeting minutes and monthly expenditures and were unable to identify any significant new activities in the maintenance and operation of the old collection system.

Our review of the proposal and contract award process and discussions with RAMIS personnel and end-users indicate that the process used to select DSG's RAMIS product seems reasonable and logical. In-depth procedures were used to document operational requirements, and software demos were conducted.

Based on the review procedures performed, we determined that several of the findings from our original review have not been properly resolved. A summary of the findings is included in the section of the report entitled "Conclusions". Appendix A to this report contains details on the findings and the auditee responses to the findings. Because of the sensitive nature of the detailed findings, Appendix A is marked "Sensitive" and distribution of Appendix A will be limited to those persons with a need for the information.

On September 29, 2000, we provided a draft report to OMD summarizing the results of our review and requesting their comments on the reported findings. We received a response from the Managing Director on October 13, 2000. The FCC did not agree with the status of eight observations (see findings 1, 14, 23, 37, 41, 42, 54 and 125 in Appendix A for details). It should be noted that the difference between the FCC and the OIG on the status of eight of the findings do not represent nonconcurrency with the findings. All of these findings were concurred to in our original review. Nonetheless, maintaining an accurate status of the findings is critical in ensuring that the findings are ultimately resolved, and OIG will work to address both the differences in status and resolution of all of the prior findings. Further, OMD provided information that indicates that the expenditure levels for maintenance and support of the existing Collection System has decreased from fiscal year 1999 to fiscal year 2000. We have incorporated OMD comments into the Detailed Observations and Recommendations contained in Appendix A. In addition, we have included a copy of the OMD response in its entirety (without enclosures) as Appendix B to this report.

The rationale for the FCC's nonconcurrency with the status of the eight observations listed above is that there are new or alternate procedures in place that effectively resolves the findings. However, the procedures that address six of the findings (findings 1, 14, 37, 41, 42 and 125) were not provided to the OIG review team during their fieldwork, and we have not reviewed or tested the procedures to ensure that they provide effective resolution to the observations in our original report. Resolution for the remaining two findings (37 and 54) rely upon a process that was developed subsequent to our original review and is yet to be utilized. The OIG considers these eight findings to be open until we have had an opportunity to review the effectiveness of the new procedures. Additionally, the information provided by OMD to support potential reductions in the costs to maintain and support the existing Collection System was not provided during our fieldwork, and is difficult to compare to the expenditure data we reviewed. OMD provided the total expenditures for two contractors (Computech and DynCorp) for all of fiscal years 1999 and 2000. The review team reviewed monthly invoices submitted by Computech for the period October 1998 through August 1999. In our opinion, the FCC must continue to closely monitor the expense for continued support of the old collection system until it is replaced to ensure that the level of expenditure is appropriate.

OIG will continue to monitor the status of our original review findings and will incorporate steps in our audit of the fiscal year 2000 financial statements to assess the effectiveness of the corrective actions in addressing the deficiencies identified.

REVIEW OBJECTIVES

On September 25, 1998, the Federal Communications Commission (FCC) Office of Inspector General (OIG) issued a Special Review report entitled “Special Review of the FCC Collection System” which summarized the results of our review of FCC collection system. This review resulted in one hundred twenty-nine (129) observations in the areas of: internal controls; audit trails; programming support; database support; security; banking related matters; business process improvements; policies and procedures, and systems development lifecycle issues. Of the one hundred twenty-nine (129) observations, forty-seven (47) were considered high and medium exposure items that should be addressed immediately. The review concluded that the Collection System does not include all payment transactions, does not provide clear audit trails, does not provide for an adequate level of logical internal controls, does not reconcile to the General Ledger, and supports less than thirty percent (30%) of desired functionality. The review further revealed that it would be cost prohibitive to bring the current in-house developed Collection System to an acceptable level of functionality. Given the significance of the issues identified during our original review, and in accordance with GAO “Yellow Book” standards², the OIG established a task order under our contract with TWM to conduct a follow-up of the Special Review of the Collection System. The objective of this review was to examine and validate the current status of findings contained in our original Collection System report. Specifically, the objectives were to:

- Follow-up on specific observations identified in the FCC’s Special Review Report to ensure that appropriate corrective actions have been implemented;
- Evaluate the level of expenditure required to maintain the existing system to ensure that steps are being taken to minimize expenditures; and
- Examine the process that the Commission followed to select DSG’s RAMIS product and evaluate the detailed schedule and plan for implementation.

REVIEW SCOPE

This project was conducted as a special review and was not conducted in accordance with all professional auditing standards. A special review was conducted in this case because 1) our original report was based on a special review and 2) a special review is considered appropriate in performing follow-up effort.

To conduct this special review, the OIG established a task order under our contract with the computer security firm of TWM Associates, Inc. (TWM). This review consisted of three parts. The first part of the review was to examine the resolution of the findings in the original special review of the collection system. The team identified findings indicated as closed by the FCC and proceeded to gather evidence to support the closure of each finding. The objective of this step was to identify findings that the FCC had indicated as resolved and to determine whether documentation was available that

² GAO Government Auditing Standards state “(a)uditors should follow up on significant findings and recommendations from previous audits ...to determine whether timely and appropriate corrective actions have been taken by auditee officials.”

supported the closure of the findings. The fieldwork performed included interviews with FCC personnel, Mellon Bank personnel, and Computech personnel. The team reviewed documentation supporting the resolution of FCC closed findings and, in some cases, visited the locations within the FCC in order to support closure of the findings.

The second part of the review was to evaluate the expenditure level for maintenance of the current Collection System to ensure that steps are being taken to minimize expenditures. The team conducted interviews with FCC personnel, reviewed documentation provided by the FCC contractor Computech to determine expenditure levels, and reviewed Contracting Officer Technical Representative (COTR) and contractor meeting minutes.

In order to determine whether costs had been reduced, the team requested monthly Collections expenditure invoices. The team reviewed documentation provided by Computech, the company responsible for maintenance of the Collection system. Expense reports for the months of October 1998 to August 1999 were provided.

The objective of the third part of the review was to examine the process of selecting Digital Systems Group (DSG), the vendor that developed and is implementing RAMIS, and evaluate the detailed schedule and implementation plan. To accomplish this objective, we interviewed the FCC RAMIS Project Manager to discuss the proposal process, reviewed the RAMIS Operational Requirements document developed by the FCC, and reviewed the FCC Technical Evaluation Worksheet. Further, we reviewed and assessed the RAMIS implementation plan developed by DSG, reviewed and assessed sections of the proposal submitted by DSG to determine the overall approach for implementation of RAMIS, and reviewed the RAMIS implementation schedule and the CORES development and implementation schedule.

Fieldwork for this review took place at the FCC building at 445 12th Street, N.W. and at Computech facilities in Washington, DC during the period September 1999 to July 2000.

BACKGROUND

In June 1997, the OIG initiated a review of the Commission's collection system. The objectives of this review were to examine the current operational system, examine on-going modifications, and recommend alternative products. To accomplish these objectives, the OIG established a task order under our contract with TWM. An additional objective of the initial review was to assess the integrity of the data in the collection system. Ernst & Young conducted this part of the review, under subcontract to TWM. We did not follow up on the results of this portion of the original review as part of the current effort, other than to verify information contained in Proof of Cash binders. See finding number 129 in Appendix A for further details.

In a report entitled "Special Review of the FCC Collection System" and dated September 1998, the review team reported one hundred twenty-nine (129) observations in the areas of: internal controls; audit trails; programming support; database support; security; banking related matters; business process improvements; policies and procedures, and systems development lifecycle issues. Of the one hundred twenty-nine (129) observations, forty-seven (47) are considered high and medium exposure items that

should be addressed immediately. As a result of these findings, the review team recommended that the Commission: (1) evaluate, select, and implement a COTS product and; and (2) establish minimal maintenance of the existing system during the period the COTS product is being selected.

In response to this review, the Commission made a decision to replace the existing Collection system and hired staff to facilitate the selection and implementation of a new system. In July 1999, the Revenue Accounting and Management Information System (RAMIS) development team reported that the Commission had selected a COTS product to replace the existing Collection System. The RAMIS development team further indicated that the vendor, Digital Systems Group (DSG), established an aggressive schedule for “minimal modification” and implementation of the system. The schedule anticipated that use of the existing system was to be discontinued in June 2000.

CONCLUSIONS

Although the FCC has made progress over the past two years, many findings have not been addressed in a timely manner. Several findings have not been resolved to completion or the supporting documentation provided was not sufficient to allow the team to agree with closure of the finding. The following table summarizes the current status of the findings:

	FCC Reported		Review Team Verified	
	Open	Closed	Open	Closed
High	14	9	17	6
Medium	14	10	15	9
Low	<u>59</u>	<u>23</u>	<u>63</u>	<u>19</u>
Total	<u>87</u>	<u>42</u>	<u>95</u>	<u>34</u>

The review team found that of the one hundred twenty-nine (129) original findings, the FCC has indicated that forty-two (42) of them are closed and eighty-seven (87) remain open. However, our review found that thirty-four (34) of the original findings are resolved and can be considered closed. Ninety-five (95) findings have not been adequately resolved and remain open. The most significant concern on the status of the findings is that only fifteen (15) of the original forty-seven (47) High and Medium level risk findings have been adequately resolved. These forty-seven (47) findings represent the most risk from a security and functionality standpoint. Our opinion is that ample time has passed since the original report was issued in September 1998 to adequately resolve most, if not all, of these critical findings.

Many of the findings are to be resolved through implementation of RAMIS or through development of the policies and procedures. While the implementation of RAMIS should improve the Commission’s collections (assuming that RAMIS embodies all of the operational requirements developed by the FCC), the RAMIS project has been delayed many times and has undergone many revisions in its design and implementation. In our opinion, findings that will be resolved based on the implementation and functionality of

RAMIS should be considered open until it can be demonstrated that RAMIS is able to adequately address the issues that are dependant upon the system. Additionally, implementation of the policies and procedures that are needed to resolve several of the original findings were not evident or made available during this review. Although some of the necessary documents exist, the team was unable to confirm that the processes are being followed or used. It should be noted that some findings might now be closed that were not examined during the period of this review.

Upon review of the expense reports that contain the expenditures to support the current Collection System, we found that the total amount due to Computech did not decrease or seem to be declining. We reviewed expense reports that coincided with the period of time in which maintenance costs were scheduled to decline due to RAMIS coming on-line. The following graphs depict the monthly averages of money expended and the number of Computech personnel working on Collection “maintenance.”

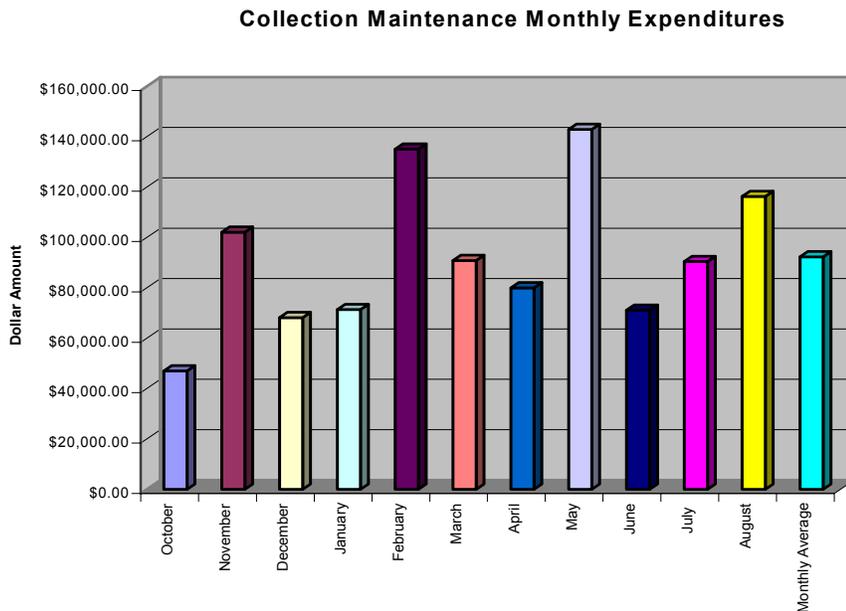


FIGURE 1

The values provided in Figure 1 were derived from invoices provided by Computech. Figure 1 includes the total expenditures for each month and the average monthly expenditure (\$92,313) during the timeframe reviewed.

Monthly Averages of Computech People Working Full-Time on Collections

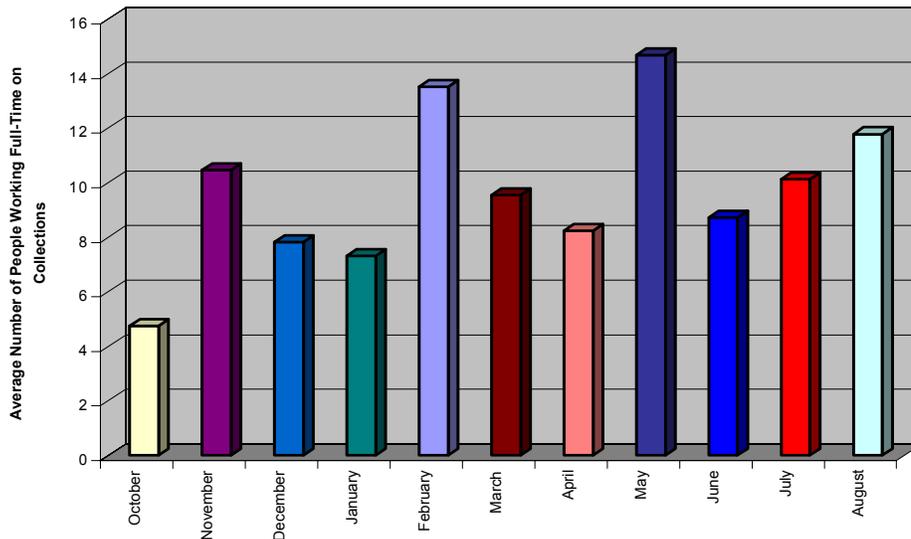


FIGURE 2

The values in Figure 2 were calculated by taking the total number of hours worked per month and dividing it by the number of billable hours per month (estimated as 173 hours per month). The graph indicates that the number of people working full time on Collection has not significantly decreased. In fact, it has increased slightly after January 1998.

The expenditure levels for the existing collection system have not decreased since the prior review. With the delay of RAMIS implementation, the team took into account that continued support and operation of the Collection system is required. The team identified that maintenance costs of the existing system have not decreased and maintenance labor seemed to increase after January 1998. In addition, the average cost per month of maintaining collections in the 1998-1999 is \$92,313, which is approximately \$10,000 more than the 1997-1998 year. The team reviewed COTR meeting minutes to determine if there was an identifiable cause for an increase of expenditures. However, the meeting minutes are vague and contain general information that does not identify a business need for an increase in expenditures, and there is no evidence of significant new activities in the Collection system. It is difficult to understand an increasing level of expenditures to support a system that is soon to be replaced. The Commission should closely monitor the expense for continued support of the old collection system to ensure that the level of expenditure is appropriate.

Based on the information and documentation provided by FCC personnel, there appears to be a satisfactory process for the identification and selection of RAMIS to replace the current Collection System. Prior to the selection of RAMIS, the Bureaus and Offices were interviewed about the current collection system and a working group was assembled to finalize the functional requirements for the Collection System. The final requirements integrated business identified during the interviews and by the FCC RAMIS development team contained 18 separate categories and 1,800 final requirements and identified data

element rules, business rules, and matrices of processes. Based on the identified requirements, the Statement of Work (SOW) went through 617 Red Teams and was sent to specific vendors on the GSA schedule. Two vendors, KPMG and Digital Systems Group (DSG), responded to the SOW. Each vendor provided documentation requested by the FCC and gave an operational capabilities demonstration for the evaluation team.

DSG provided a detailed implementation plan and schedule for RAMIS. The plan addresses key points necessary for successful execution of the plan, such as a list of deliverables for each task and information for successful equipment and software installation. While the requirements and implementation plan seem reasonable, implementation has proven to be a more difficult task. As the date of this report, RAMIS implementation has been postponed to December 2000.

Included in Appendix A is narrative supporting the review team's assessment of the open or closed status of the findings contained in the original special review report on the Collection System. Because of the sensitive nature of the detailed findings, Appendix A is marked "Sensitive" and distribution of Appendix A will be limited to those persons with a need for the information.

On September 29, 2000, we provided a draft report to the Office of Managing Director (OMD) summarizing the results of our review and requesting their comments on the reported findings. We received a response from the Managing Director on October 13, 2000. The FCC did not agree with the status of eight observations (see findings 1, 14, 23, 37, 41, 42, 54 and 125 in Appendix A for details). It should be noted that the difference between the FCC and the OIG on the status of eight of the findings do not represent nonconcurrency with the findings. All of these findings were concurred to in our original review. Nonetheless, maintaining an accurate status of the findings is critical in ensuring that the findings are ultimately resolved, and OIG will work to address both the differences in status and resolution of all of the prior findings. Further, OMD provided information that indicates that the expenditure levels for maintenance and support of the existing Collection System has decreased from \$1,281,938 in fiscal year 1999 to \$991,103 in fiscal year 2000. We have incorporated OMD comments into the Detailed Observations and Recommendations contained in Appendix A. In addition, we have included OMD comments in their entirety (without enclosures) as Appendix B to this report.

The rationale for the FCC's nonconcurrency with the status of the eight observations listed above is that there are new or alternate procedures in place that effectively resolves the findings. However, the procedures that address six of the findings (findings 1, 14, 37, 41, 42 and 125) were not provided to the OIG review team during their fieldwork, and we have not reviewed or tested the procedures to ensure that they provide effective resolution to the observations in our original report. Resolution for the remaining two findings (37 and 54) rely upon a process that was developed subsequent to our original review and is yet to be utilized. The OIG considers these eight findings to be open until we have had an opportunity to review the effectiveness of the new procedures. Additionally, the information provided by OMD to support potential reductions in the costs to maintain and support the existing Collection System was not provided during our fieldwork, and is difficult to compare to the expenditure data we reviewed. OMD

provided the total expenditures for two contractors (Computech and DynCorp) for all of fiscal years 1999 and 2000. The review team reviewed monthly invoices submitted by Computech for the period October 1998 through August 1999. In our opinion, the FCC must continue to closely monitor the expense for continued support of the old collection system until it is replaced to ensure that the level of expenditure is appropriate.

OIG will continue to monitor the status of our original review findings and will incorporate steps in our audit of the fiscal year 2000 financial statements to assess the effectiveness of the corrective actions in addressing the deficiencies identified.