



OFFICE OF INSPECTOR GENERAL

MEMORANDUM

DATE: December 20, 2004

TO: Inspector General *[Signature]*

THRU: Thomas Cline *TCC*
Assistant Inspector General, Audits

FROM: Walter Opaska *WPO*
Director IS, Audits

SUBJECT: Survey on Regulatory Fees

The collection of regulatory fees has been an important function of the Commission. In recent years, the commission has collected about \$250 million in regulatory fees annually. Because of the criticality of the fee collection function, the significant financial investment in the systems to automate this function, and its inclusion as a major management challenge, the OIG conducted a survey of the regulatory fee collection process.

The objective of this survey was to examine the regulatory fee process to determine if the Commission could be reasonably assured that all applicable fees are being collected. The scope of this survey was limited to the regulatory fees assessed for mass media licensees.

REASON FOR SELECTION

Although the FCC collects about \$250 million dollars in regulatory fees each year, the Commission is unable to determine if all required fees are collected. The difference between what is collected and what would be collected if all regulated parties paid their fees is deemed a revenue gap.

The FCC has made substantial improvements that provide the Commission with a record of each collection. This facilitates the generation of bills to non-payees. However, the FCC does not have a complete universe of potential regulatory fee payees. Nor can the

Commission determine the total regulatory fee subject to collection. Finally, it does not have a complete universe to facilitate regulatory fee assessment for future years¹.

BACKGROUND

In August, 1999, The United States General Accounting Office (GAO), now known as the Government Accountability Office, issued a report titled “FCC Does Not Know If All Required Fees Are Collected.” In this report, the GAO stated that the FCC does not know if it is collecting all of its required regulatory fees. Specifically, the GAO stated that the FCC does not have sufficient information to: (1) identify all the entities that should pay regulatory fees and (2) determine whether these entities have paid the full amounts required. The report recommended that the FCC take better advantage of available information to improve its oversight of regulatory fee collection².

SCOPE OF SURVEY WORK PERFORMED

This project was conducted as a survey. A survey is preliminary audit work done before an audit and is not an audit conducted in accordance with Government Auditing Standards (i.e., GAO “Yellow Book” standards). The purpose of a survey is to gather general working information on important aspects of an entity, activity, or program, and to determine the nature and extent of any subsequent audit effort.

The purpose of this survey was to assess the progress the Commission has made in ensuring that all applicable fees are being collected. OIG reviewed both manual and automated controls over the regulatory fee collection process. The scope of this survey was limited to the regulatory fees assessed for mass media licensees.

This survey did not address application fees charged for certain types of application processing or authorization services. However, to the extent that risks identified for regulatory fees are also applicable to application fees, work performed as part of this survey will be used to as a basis for assessing risks associated with application fees.

To accomplish the objectives of this survey, the OIG auditor used the following methodology. The auditor reviewed regulatory fee information, including documentation on policy, practices, roles and responsibilities, templates, checklists, and the user guide. We interviewed employees in Bureaus and Offices, including the Media Bureau and the Office of the Managing Director (OMD). Within OMD, we interviewed staff from Financial Operations (FO), the Information Technology Center (ITC) and Performance Evaluation and Records Management (PERM). Documentation related to the fee processing was analyzed. Federal government documents, including Office of Management and Budget (OMB) circulars, were reviewed. Finally, an OIG auditor analyzed the information collected.

¹ Federal Communications Commission, Office of Inspector General, Report on the Federal Communications Commission Fiscal Year 2003 Financial Statements, Major Management Challenges, December 19, 2003, p. 3.

² United States General Accounting Office, FCC Does Not Know if All Required Fees Are Collected, August 1999, p. 2.

SUMMARY OF OBSERVATIONS

Significant Progress Made

Since the GAO report, the Commission has made significant progress in upgrading the regulatory fee collection process. These improvements include:

- Implementation of the FCC's Commission Registration System (CORES). Upon registration in CORES, a business, individual, or organization conducting business with the FCC is assigned a number that is used to uniquely identify the entity in all transactions with the FCC. A filer, licensee, certificate holder, or any entity sending payments to the FCC is considered to be doing business with the FCC and must have an FRN. .
- The development of a database to track Media Bureau licensees. PERM has created a database of approximately 28,000 active licensees that included complex regulatory fee information. This database is used to track the payment and collection regulatory fees from Media Bureau licensees.
- A third improvement is the completion of the Fee Filer system. The Fee Filer system enables a licensee to submit a variety of FCC fees for payment, including annual regulatory fees.
- Another improvement is the development of the Red Light Rule. The Red Light Rule states that if a licensee is delinquent in debt owed to the FCC, the Commission will not grant its application or give other benefits until, with some exceptions, the debt to the FCC is resolved. The effective date of the Red Light Rule was November 1, 2004.
- The FCC has started billing its regulatory licensees. Annual billing has a number of advantages, to include assisting to reduce the number of late or non-payments.

Areas of Concern Remain

Despite this substantial progress, areas of concern remain. These areas include:

- Problems remain with the usage of CORES. Not all licensees use CORES or have FRNs and numerous entities have multiple FRNs. For example, six hundred and six (606) AM/FM/TV Bureau licensees did not use their FRNs when paying their FY 2003 regulatory fees.
- The billing of AM/FM/TV regulatory fees is slow and cumbersome process. The billing information is purchased from a contractor and compiled on spreadsheets that are not coordinated in real time with the licensing database.
- The management of exempt licensees is a third issue. Many AM/FM/TV licensees are non-profits that are exempt from regulatory fees. However, exemption from

regulatory fees does not necessarily coincide with the attainment of Internal Revenue Service non-profit status. As of Quarter 2, FY 2004, ten thousand, one hundred sixty five (10,165) licensees have been identified as exempt. Additionally, the administration of exempt licensees is also a cumbersome and inefficient process.

- Rebilling of unpaid fees by late payers is another problem. As of April 1, 2004, over six million five hundred fifty three thousand and six hundred twenty eight dollars (\$6,553,628) had not been collected from thirty five hundred and thirty (3,530) licensees for FY 2003. Rebilling is at best a semi-automated process. Manual intervention in this process is required to contact applicable Bureaus and Offices and to identify exempt and bankrupted licensees.
- The uncollectible rate of fees is quite high. Nearly 4% of regulatory fees billed remain uncollectible over one hundred eighty days (180). Some government organizations deem an account as uncollectible if the amount has been past due more than 180 days. Other governmental agencies deny credit when an account becomes 60 days past due. The installation of the Red Light Rule will likely reduce the severity of this problem.
- The extensive use of spreadsheets in regulatory fee processing creates a series of internal control and audit problems. It is very difficult to determine and control who has access to add or delete entries. No audit trail exists detailing the changes to the exempt list.
- The involvement of the Media Bureau in fee billing and collecting is limited. Fee collection is thought of as the responsibility of Financial Operations. Bureau representatives told OIG that their role in the fee collection process was to answer questions pertaining to licensees, give OMD a list of current mailing addresses, and provide a list of licensees and mailing addresses as of the beginning of the fiscal year. PERM manages the billing of the regulatory fees of AM/FM/TV licensees. PERM's spreadsheets are not matched with the records in the licensee databases managed by the Media Bureau. To obtain the best data available, PERM buys a database from an outside contractor and makes little use of the Media Bureau database.
- The AM/FM/TV licensing database is unable to provide additional useful information. The database uses a different key than the FRN. The Media Bureau told us did not use the FRN as a key because a corporation can have multiple FRNs. Other possible keys, such as call sign, were not used because they frequently changed. Also, the database does not keep track of exempt status.

Survey Limitations

This survey has a number of limitations. We limited the review to regulatory fees. We focused only on Media Bureau licensees, specifically AM/FM/TV. We did not review licensees for any other Bureaus or Offices. Finally, we did not perform any substantive testing.

FUTURE AUDIT COVERAGE

Regulatory fees are one of the FCC's largest revenue sources and significant financial investment has been made in the systems to automate the collection of fees. Furthermore, both the licensing function and the fee collection function are critical to the FCC's operations. Based on these facts, and the risks this survey has identified, the OIG believes that audit work is warranted.

OIG's future plans for work in the fees area include:

- In FY 2005, OIG will initiate an audit to examine the licensing fee collection process to determine if we can be reasonably assured that all applicable licensing fees are being collected. The scope of this audit will include manual and automated licensing systems.
- OIG will develop the collection of fees and the systems used to develop fees and maintain information on regulated entities into a major audit area in future years. We will develop a cycle of audits to assess the risks associated with fees, the controls over the fees collection process, and the information systems used to administer fees collections.
- We will develop corollary audits to test the compliance of regulated entities with the fee requirements and to determine the efficiency with which the fee collection processes function.

We will review prior OIG audits and the work of other auditors and technical experts to help us formulate the scope and extent of planned audits.

CONCLUSION

Based on the results of this survey, additional audit work is warranted relating to fee collection. The results of this survey will be used as a basis for planning future audit work.