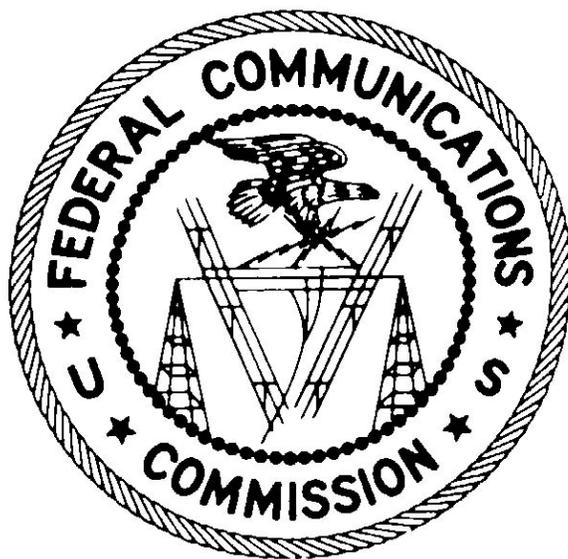


FEDERAL COMMUNICATIONS COMMISSION

OFFICE OF INSPECTOR GENERAL



Report on the Audit of the Federal Communications Commission's Auction-Related Accounting

Audit Report No. 01-AUD-09-34
January 4, 2005



OFFICE OF INSPECTOR GENERAL

MEMORANDUM

DATE: January 4, 2005

TO: Chairman

FROM: Inspector General

SUBJECT: Report on the Audit of the Federal Communications Commission's Auction-Related Accounting

We have completed our audit of the Commission's auction-related accounting activities. Attached is a copy of the report titled "Report on the Audit of the Federal Communications Commission's Auction-Related Accounting." The objectives of this audit were (1) to identify possible duplicative activities occurring in both the FCC's auction-related accounting and FCC's salaries and expenses-related accounting, and (2) to evaluate the annual Auctions Expenditure Report submitted to Congress in relation to the Reports Consolidations Act of 2000 and other reporting requirements of FCC.

During our review, we found two similar accounting activities occurring in both the Wireless Telecommunications Bureau and the Office of the Managing Director: (1) the budget preparation process, and (2) expenditure report data accumulation and reporting. Duplication of these activities has been inefficient and can lead to unreliable reporting. However, during FY 2002, at the Office of Management and Budget's request, the budget preparation process was removed from WTB and subsumed by OMD. Some weaknesses continue because of the timing of the budget development process, causing a duplicate budgeting process, unreliable auction cost recovery estimates being reported to Congress, and the potential for mismanagement of auctions funds.

In addition, we observed significant deficiencies in the annual Auctions Expenditure Report submitted to Congress. For an activity that consumes nearly 25 percent of FCC's resources, we found the report to be untimely, and providing little information that could enlighten Congress about how those resources are used.

On August 3, 2004, we provided a copy of a draft report to the Managing Director for review and comments. In the September 30, 2004 response, the Managing Director concurred with all of the recommendations, except number 7 to which partial

concurrence was provided. A copy of management's response has been attached as Appendix VI.

If you have any questions, please contact Thomas Cline, Assistant Inspector General for Audits at (202) 418-7890.


H. Walker Feaster III

cc: Chief of Staff
Managing Director
Chief, Wireless Telecommunications Bureau
Chief Financial Officer

Attachment

Report on the Audit of the FCC's Auction-Related Accounting

EXECUTIVE SUMMARY

The Office of Inspector General (OIG) has reviewed the Federal Communication Commission's auction-related accounting activities to identify possible duplicative activities and to report on duplications or inefficiencies that adversely affect agency operations.

The Omnibus Budget Reconciliation Act of 1993 authorized the Federal Communications Commission (FCC) to auction licenses for the use of portions of the electromagnetic spectrum. FCC held its first round of auctions in 1994. At the end of the of fiscal year (FY) 2004, FCC completed 53 auctions with total receipts exceeding \$14 billion and plans to hold more auctions in the future.

The Commission has been authorized to retain a portion of auction revenues to recover the expenses in developing and implementing the auction program. These additional funds are not required to go through FCC's annual budgeting process for appropriated funds. Instead, they are annually apportioned to FCC by the Office of Management and Budget (OMB). However, before the FCC is allowed to access these funds, the Commission is required to issue an itemized statement of each expenditure in support of conducting auctions in its annual report to Congress.

Since FY 1997, FCC has been receiving Auction Cost Recovery funds as allowed by legislation. However, each year the funding requests had been increasing noticeably and the Auction Cost Recovery funds now comprise nearly 25 percent of FCC's total annual funding resources.

The objectives of this review were: (1) to identify possible duplicative activities occurring in both the FCC's auction-related accounting activities and FCC's salary and expenditures-related accounting activities, and (2) to evaluate the annual Auctions Expenditure Report submitted to Congress in relation to the Reports Consolidations Act of 2000 and other reporting requirements of FCC.

This review, conducted from August 2001 to February 2004, included historical review and analysis of FCC's Auction Budget requests to OMB, and the FCC's Budget Estimates submitted to Congress. We also reviewed FCC's Auctions Expenditure Reports submitted to Congress. To explore alternatives for inclusion of auctions expenditures, we reviewed FCC's financial and performance reports and several congressionally mandated reports specific to auctions activities.

To gain an understanding of the budget development processes and expenditure report development process, we interviewed cognizant staff from FCC's Wireless Telecommunications Bureau (WTB) and the Office of Managing Director (OMD). In

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addition, we interviewed staff at OMB to gain an understanding of the OMB's expectations related to the auctions budget.

We conducted this review in accordance with generally accepted government auditing standards including review of management controls related to the objectives of this audit.

During our review, we found two similar accounting activities occurring in both WTB and OMD: (1) the budget preparation process, and (2) expenditure report data accumulation and reporting. Duplication of these activities has been inefficient and can lead to unreliable reporting. However, during FY 2002, at OMB's request, the budget preparation process was removed from WTB and subsumed by OMD. Although this strengthens the Auction Cost Recovery budget development process, some weaknesses continue because of the timing, causing duplicative budgeting processes, unreliable auction cost estimates reported to Congress, and the potential for mismanagement of auction funds.

In addition, we observed significant deficiencies in the annual Auctions Expenditure Report submitted to Congress. For an activity that consumes nearly 25 percent of FCC's resources, we found the report to be untimely, and providing little information informing Congress about how those resources have been applied.

Overall, our audit disclosed three findings and makes ten recommendations regarding auction-related accounting and financial management.

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FCC's Auction-Related Accounting

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BACKGROUND

The Office of Inspector General (OIG) has reviewed the Federal Communication Commission's auction-related accounting activities to identify possible duplicative activities and to report on duplications or inefficiencies that adversely affect agency operations.

The Omnibus Budget Reconciliation Act of 1993 authorized the Federal Communications Commission (FCC) to auction licenses for the use of portions of the electromagnetic spectrum. FCC held its first round of auctions in 1994. At the end of the of fiscal year (FY) 2004, FCC completed 53 auctions with total receipts exceeding \$14 billion and plans to hold more auctions in the future.

In addition to extending FCC's auction authority to September 30, 2007, the Balanced Budget Act of 1997 (PL 105-33) authorizes the Commission to retain a portion of auction revenues to recover the expenses in developing and implementing the auction program. These additional funds are not required to go through FCC's annual budgeting process for its Salaries and Expenses (S&E) appropriated funds. Instead, the Auction Cost Recovery funds are annually apportioned to FCC by the Office of Management and Budget (OMB). However, before the FCC is allowed to access these funds, the Balance Budget Act requires the Commission to include an itemized statement of each expenditure in support of conducting auctions in its annual report to Congress beginning in FY 1997.

FCC's Wireless Telecommunications Bureau (WTB) is responsible for implementing the spectrum auctions. This bureau also prepares annual auction revenue estimates for FCC's budget submission and until recently, compiled and prepared the budget for Auctions Cost Recovery funds. In addition, this division tracks and reports to Congress the auction expenditures as required by the Balanced Budget Act. Some of these financially-related auction activities are similar to those conducted for the agency by the Financial Operations Center within the Office of Managing Director (OMD).

Since FY 1997, FCC has been receiving Auction Cost Recovery funds as allowed by the legislation. However, each year the funding requests had been increasing noticeably. Over time, the agency recognized many post-auction costs directly related to earlier auction activities. Many of these post-auction costs are associated with collecting auction proceeds and licensing. For example, a significant post-auction cost is management, including related litigation costs, of the auction loan portfolio installment payments established to allow small entity and others to participate in the spectrum auctions. More recently, FCC has recognized the need for additional pre-auction activities conducted outside of WTB to ensure that spectrum to be auctioned is available prior to auctioning.

As pre and post-auction costs were identified, they were added to the Auction Cost Recovery budget. Many of these costs were identified by the offices and bureaus directly managing the specific activities, rather than by WTB. The expanded use of auction funds contributed to

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rapidly growing budget requests. Table 1, below, summarizes the increasing auction fund requests submitted to OMB for apportionment from FY 1998 to FY 2003.

Table 1. Auction Cost Recovery Budget Estimates Submitted Each Year to the Office of Management and Budget for Apportionment

Fiscal Year	Budget Date	Estimated Cost
1998	2/3/98	\$ 31,753,385
1999	10/30/98	\$ 38,694,161
2000	9/5/01	\$ 47,790,092
2001	9/15/02	\$ 65,319,229 ¹
2002	10/25/02	\$ 100,470,712
2003	8/19/02	\$ 112,446,958

At the beginning of FY 2002, OMB questioned the reasonableness of the Auction Cost Recovery request, because of the significant growth rate in FCC's auction budget. OMB observed that between fiscal years 1998 and 2002, the auction program budget grew at a faster rate than the S&E and that by FY 2002, the auction budget had grown to greater than 25 percent of FCC's combined appropriations and auction apportionment resources.²

Figure 1 in Appendix I demonstrates the difference in growth rates between FCC's appropriated S&E budget and the apportioned-only Auction Cost Recovery budget.

OBJECTIVES, SCOPE AND METHODOLOGY

The objectives of this review were: (1) to identify possible duplicative activities occurring in both the FCC's auction-related accounting activities and FCC's salary and expenditures-related accounting activities, and (2) to evaluate the annual auctions expenditure report submitted to Congress in relation to the Reports Consolidations Act of 2000 and other reporting requirements of FCC.

This review, conducted from August 2001 to February 2004, included historical review and analysis of FCC's Auction Budget requests to the OMB for FY 1997 to FY 2003 and the FCC's Budget Estimates submitted to Congress for FY 1998 to FY 2004. We also reviewed FCC's Auctions Expenditure Reports submitted to Congress in accordance with the Balanced Budget Act of 1997, for FY 1997 to the most recent report for FY 2003. To explore alternatives for inclusion of auctions expenditures, we reviewed FCC's financial and performance reports and several congressionally mandated reports specific to auctions activities.

¹ For consistency, this table reflects the original FY 2001 Auctions Budget amount from September 2000 budget submission. However, this amount was later amended to \$70,306,781.

² In response to OMB's concerns, OIG issued an audit report titled, "Report on Audit of Auctions IT Capital Investment Practices," Report number 02-AUD-03-12, dated September 12, 2003. This report details many of the expenditures that are driving the increases.

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To gain an understanding of the budget development processes and expenditure report development process, we interviewed cognizant staff from FCC's WTB and OMD. In addition, we interviewed cognizant staff at OMB to gain an understanding of the OMB's expectations related to the auctions budget.

We conducted this review in accordance with generally accepted government auditing standards including review of management controls related to the objectives of this audit.

FINDINGS AND RECOMMENDATIONS

During our review, we found two similar accounting activities occurring in both WTB and OMD: (1) the budget preparation process, and (2) expenditure report data accumulation and reporting. Duplication of these activities has been inefficient and can lead to unreliable reporting. However, during FY 2002, at OMB's request, the budget preparation process was removed from WTB and subsumed by OMD. Although this strengthens the Auction Cost Recovery budget development process, some weaknesses continue because of the timing, causing duplicative budgeting processes, unreliable auction cost estimates reported to Congress, and the potential for mismanagement of auction funds.

In addition, we observed significant deficiencies in the annual Auctions Expenditure Report submitted to Congress. For an activity that consumes nearly 25 percent of FCC's resources, we found the report to be untimely, and providing little information provided to Congress about how those resources have been applied.

Overall, our audit disclosed three findings and makes ten recommendations regarding auction-related accounting and financial management.

Finding 1: Timing of Auction Cost Recovery Budget Development

The timing of the Auction Cost Recovery budget is not synchronized with FCC's S&E budget. This has created duplicative budgeting processes, unreliable auction cost estimates reported to Congress, and allows for mismanagement of auction funds.

Initially, the Auction Cost Recovery budget development process was primarily coordinated by WTB because the auction program was managed as a relatively small project of the agency. At the time, most of the costs were directly related to preparing specific auctions and were generated by WTB. Because the funds were considered project-oriented, management of the funding resources was left at the bureau's discretion and did not go through the same control processes used for appropriated funds. In addition, the use of auction proceeds was not recorded or tracked using the same processes as FCC's appropriated funds.

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Through FY 2002, WTB prepared and compiled the agency's auction budget as a unique³ program. Each bureau and office would submit its budget estimates to WTB requesting funding for specific projects, information technology, training, travel, and full time equivalents (FTEs) needed for the fiscal year. OMD estimated and added the human resource costs of auction-related FTEs, summarized the information, and submitted the auction budget to OMB for apportionment. (See flowchart and process description the auction budget process in Figure 2 of Appendix II.)

Starting with the FY 2003 budget preparation, the auction budget development process was modified in response to OMB's request that FCC strengthen its controls over the use of auction funds by treating them in the same manner as S&E funds are handled. FCC now prepares and tracks the use of the auction funds using the same processes it uses for the S&E budget which is coordinated by OMD.

However, OMB did not request that the auctions budget be prepared on the same cycle as FCC's S&E budget. Because the Auction Cost Recovery estimates are not prepared in the same cycle as the S&E estimates, auction costs included in the annual S&E estimates submitted to Congress had been significantly lower than the amounts requested for apportionment at the start of each fiscal year. For example, in the April 2001 *Fiscal Year 2002 Budget Estimates* [for the S&E appropriation] submission to Congress, the estimated Auction Cost Recovery amount was approximately \$59 million. However, in October 2002, the FY 2002 Auction Cost Recovery request to OMB for apportionment was for \$82 million.⁴ The April 2001 estimates were based on current year expenditures plus an inflation factor. Congress would not have been aware of the \$23 million increase in the October OMB apportionment request, which was approximately 39 percent more than April 2001 estimate.

Auction Cost Recovery Estimates

Document	Issued	Funding Request
FY 2002 S&E Estimates to Congress	Apr. 2001	\$ 59 million
<u>FY 2002 Apportionment request to OMB</u>	Oct. 2002	<u>\$ 82 million</u>
<i>Difference</i>		<i>\$ 23 million</i>

The auction budget process remains completely separate from the S&E budget preparation. For example, for the FY 2002 appropriations, the S&E budget call was made in July 2000 so it could be reviewed by senior agency management before being submitted to OMB. After the OMB's "pass back," the FY 2002 budget was submitted to Congress in April 2001 for enactment. In comparison, the Auction Cost Recovery budget for FY 2002 was submitted to OMB for review and apportionment in October 2002, after the fiscal year started and without going through congressional review and approval. Figure 3 in Appendix III illustrates the timing lags between the two budget development processes.

³ The auction program is treated as a unique program to FCC, because it occasionally requires funding flexibility in the case of an emergency during an auction, or for last minute changes mandated by Congress.

⁴ The total request was for more than \$100 million, which included carryover funds and credit reform costs. For comparison with the earlier budget estimates to Congress, the \$100 million has been adjusted to \$82 million by eliminating \$12 million of credit reform costs and \$6 million of carryover funds, which were not combined in the budget submission to Congress.

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Not only is it inefficient to prepare these budgets at two different times, but this duplicative process also has the potential for inefficient use of funds. For example, it is possible for a bureau or office to request auction funding for items either not approved during the earlier budget process, for cost reasons, or for items already approved, duplicating the request. In addition, there is no agency-wide coordination for using Auction Cost Recovery and/or S&E funds. Instead, each office and bureau is responsible for preventing duplicate requests.

When OMB requested FCC to strengthen its budget process, it was assumed that the auction program could not prepare a budget earlier and needed the flexibility to prepare a budget closer to the apportionment. Although there are some occasions where direct auction activities need this funding flexibility,⁵ there are many routine pre and post-auction activities funded by auction proceeds that can, and should, be budgeted at the same time the S&E budget is prepared. Many of these administrative-type costs are independent of the level of auction activities, and should be predictable concurrent with the S&E budget preparation. For example, administration of the loan portfolio is a routine process which is not dependent on the level of auction activities during the fiscal year.

Simultaneously preparing each budget would not only streamline the budget process, but should also strengthen the controls and reduce the possibility of unnecessary duplicating costs. However, if significant unexpected changes occur prior to apportionment of auction funds, the agency could modify its apportionment request to OMB with justification.

Recommendations

To ensure that the Auction Cost Recovery and Salaries and Expenses budgets are coordinated to eliminate inefficiencies and prevent potential mismanagement of funding, and to ensure that Congress is provided with relevant Auction Cost Recovery estimates, we recommend that the Managing Director:

1. Coordinate the development of the Auction Cost Recovery budget with the S&E budget so they are concurrent processes,
2. Ensure that the Auction Cost Recovery estimates included in the S&E estimate submission to Congress are developed using this process, and
3. Develop and implement an agency-wide overview step or process that ensures duplicative requests are identified and prevented.

Finding 2: Data Accumulation for the Auctions Expenditure Report

The data accumulation process used for creating the annual Auctions Expenditure Report is independent of the financial systems of record. As a result, this duplicative process is inefficient, can lead to unreliable reporting, and is not subject to financial statement audit procedures.

⁵ For example, during FY 2002, FCC had to make last minute changes to its auction systems to reflect changes in the spectrum to be auctioned.

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Beginning in FY 1997, an annual itemized expenditure report on the use of auction proceeds was required by the Balanced Budget Act of 1997 to be included in FCC's annual report. Inclusion of this report was the only mandate FCC must meet in order to retain and use auction funds. FCC has complied with this reporting requirement by preparing and issuing an itemized expenditure report annually and submitting it directly to members of Congress.

Although the legislation authorizing the use of auction proceeds explicitly states that the expenditure report is to be included in FCC's annual report, in FY 1999 FCC was no longer required to issue an annual report to Congress. The Reports Elimination Act of 1995 (PL 104-66) eliminated FCC's annual reporting requirement beginning with FY 1999. However, no changes were made on how FCC was to satisfy the auction expenditure reporting requirements.

Preparation of the Auctions Expenditure Report is a laborious process coordinated by WTB. A detailed description of each auction cost is recorded and tracked for reporting. For example, the details of contracted services, purchases, and travel are tracked for reporting. Because no existing financial system at FCC could provide the level of detail describing each cost, a unique "Auctions Database" was developed by WTB to track the cost and description of each auction funded non-personnel cost. However, all auction funded personnel costs are tracked and compiled by the OMD, since these do not need a unique descriptor.

Most auction funded non-personnel costs are entered into the Auctions Database at the commitment or obligation stages of the spending cycle.⁶ Each cost, regardless of the bureau or office that initiated it, is entered by WTB into the Auctions Database for tracking. In addition, the commitment or obligation is entered into the FCC's official financial system, Federal Financial System (FFS). However the Auctions Database does not feed the FFS database; each item is entered into each system independently, resulting in redundant efforts and delays in entering data into FCC's official financial system.

The Auctions Database is updated when WTB receives information about an auction cost. The FFS database is updated as expenditures are made reducing each obligation.

Because the two databases (Auctions and FFS) are not linked, nor receive downloads from one or the other, they do not always reflect the same data. In addition, many costs such as those from purchase cards may not be recognized by WTB as auction funded costs until later during the expenditure report preparation process.

After the accounting records in FFS are closed at the end of each fiscal year, WTB updates the Auctions Database to reflect the auction expenditures made for the year. A list is printed and manually compared to an FFS printout of auction fund expenditures. The manual line-by-line comparison can take about two months to match costs and identify differences between the two reports. During this process, the Auctions Database is adjusted for any differences. According to WTB, some costs are also reclassified in FFS as a result of the comparison after the FCC has made its final adjustments for the financial statement audit. However, the extent of the changes made or impacts, if any, to the financial statements could not be determined.

⁶ For the purposes here, the spending cycle is defined in the following four stages:
(1) Commitment, (2) Obligation, (3) Expenditure, and (4) Deobligation of unexpended balances.

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When the Auctions Database year-end total reconciles with FFS, a draft expenditure report is prepared, reviewed, and edited by WTB management prior to issuing the final version to Congress.

Accumulating data on detailed Auction Cost Recovery expenditures is time consuming, duplicative and an inefficient use of resources. In addition, because of the report preparation process, FFS data can be modified after it has already been included in other external reports such as the financial statements, producing unreliable reports.

Recommendations:

To eliminate the inefficiencies of duplicative data tracking and accumulation, and increase the reliability of the data in the Auctions Expenditure Report, we recommend that the Managing Director:

4. Assess methods and/or alternative formats for streamlining the auction expenditure reporting process, eliminating the manual comparison process, and eliminating the duplicative data tracking processes. For example, some modifications (not all-inclusive) that should be considered include:
 - a) Assess the level of detail each auction expenditure needs to be described and modify the database and collection process accordingly;
 - b) Download FFS data and run a software model to compare the auction expenditures from the auction expenditure database against FFS data electronically, rather than manually;
 - c) Modify FFS to include a common field shared by the Auctions Database for streamlined electronic comparisons, or
 - d) Modify FFS to include the detailed descriptor field, thus eliminating the need for a separate auction expenditure database entirely and pull data directly from FFS for the Auctions Expenditure Report.
5. Include specific data collection requirements for preparing an Auctions Expenditure Report in the development of the new managerial cost accounting system, Budget Execution and Management System (BEAMS), eventually replacing the Auctions Database.
6. Develop a process to ensure that all financial data is entered into FCC's official financial system of record, FFS, prior to being entered into other unaudited system(s), ensuring the reliability and accuracy of the official system so that data will not be changed unnecessarily.

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Finding 3: Auctions Expenditure Report

During our review of the Auctions Expenditure Report, we noted significant deficiencies. For any report to be useful, the information should be relevant and presented in a meaningful package. The standalone Auctions Expenditure Report, which represents the use of approximately 25 percent of FCC's resources does not possess either of these characteristics. It has been untimely and generally uninformative.

Relevancy of the Standalone Report

Issuance of the Auctions Expenditure Report is nearly a year after the end of the fiscal year, making the information irrelevant. On the average, the process to prepare the Auctions Expenditure Report takes about 11 months. Its release to Congress tends to coincide with congressional review and deliberation of budgets related to the year subsequent to the current fiscal year. For example, the Auctions Expenditure Report for FY 2002 was issued in September 2003, while Congress deliberated on FY 2004 appropriations (see explanation D for Figure 3 in Appendix III.)

In addition, although the report is issued to OMB as a courtesy, OMB has not found it useful for assessing current year apportionment requests and did not review or use the then currently released report on FY 2000 expenditures for making the FY 2002 apportionment.

Legislative requirements do not specify a due date for the report because it was to be incorporated in the agency's annual report, starting with FY 1997 annual report. However, most agencies' performance and audited financial statement reports have replaced the need for annual reports.⁷ The due dates for these reports are specified by OMB guidance. Furthermore, to increase the usefulness of financial and performance information, the OMB due dates have been compressed from six months to 45 days after the fiscal year, starting with the FY 2004 reports, to increase the relevancy of the information provided in these reports.

Table 2, below, summarizes the annual auction costs and when the reports were issued to Congress over the last seven years. On average, the Auctions Expenditure Reports have been issued 11 months after the end of the fiscal year.

⁷ The Reports Consolidation Act of 2000 (PL 106-531) authorizes and encourages the consolidation of financial and performance management reports, eliminating the duplication of efforts and uncoordinated reports.

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Table 2. Auction Costs Reported Each Year to Congress

Fiscal Year	Report Date	Reported Costs
1997	8/28/98	\$ 25,151,173
1998	8/5/99	\$ 36,178,451
1999	7/27/00	\$ 47,873,724
2000	8/24/01	\$ 57,667,546
2001	9/10/02	\$ 75,539,157
2002	9/10/03	\$ 93,561,114
2003	9/30/04	\$120,871,936 ⁸

Quality of the Standalone Report

Although the report minimally meets the legislative requirements by providing an itemized list of costs, its content is not presented in a meaningful package and may provide unnecessary detail. The report does not provide any summaries of projects or activities that would make the information useful. It is primarily a list of expenditures with more detail than is required from FCC's official financial systems. For example, the following expenditure was the last item reported in the FY 2000 report (randomly selected):

Document Control Number: NC00072710003

BOCC⁹: 3132

Description: Photographs of FCC Trade Show Booth in Chicago, Illinois

Vendor: Oscar and Associates

Total Obligation: \$114

The reports do not summarize any auction-related activities during the year, or projected auction activities where costs may have been expended during the year. Instead, the reports provide a graphic overview of expenses compared to receipts. For example, in the overview in the FY 2001 report the graph compares FY 1994-2001 expenses against cash receipts for the same period. See Figure 4 in Appendix IV for a reconstruction of the pie graph, where total auction revenues of \$14 billion collected since 1994 was compared against two expense slices. One slice is the combined cost of approximately \$216 million for fiscal years 1994 to 2000, and the smaller slice represents approximately \$75 million for FY 2001 costs.

Absent from the presentation is any discussion describing the funded activities. Without adequate explanations, one can make misleading conclusions. For example, FCC conducted 41 auctions from FY 1994 to FY 2001 making the average cost per auction approximately \$7 million and average receipt per auction \$351 million. This conclusion does not take into account the unique aspects of each auction, where the expenditures and receipts can vary dramatically. Nor does the report demonstrate the irregular flow of auction receipts, which is presented in Table 3, below.

⁸ For comparability with all the Auction Expenditure Report totals presented in this table, the FY 2003 total includes \$24 million of Credit Reform Costs which were presented as separate line items outside the detailed report for Auction Cost Recovery funds of \$96.8 million. This was the first year these amounts were separated.

⁹ BOCC stands for the Budget Object Classification Code

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Table 3. Reported Annual Auction Receipts from FY 1995 to FY 2002

Fiscal Year	Auction Receipts
1995	\$ 7,644,221,531
1996	\$ 227,193,989
1997	\$ 3,525,037,876
1998	\$ 783,689,813
1999	\$ 1,052,124,096
2000	\$ 150,000,000
2001	\$ 1,024,281,687
2002	\$ 0
Total	\$ 14,406,548,992

In addition, the FY 2001 expenses were approximately 26 percent of the total costs of \$291 million from FY 1994 to FY 2001. However, no explanation is provided to clarify the circumstances or activities that may have caused this significant increase in spending.

Inconsistent Terminology

The report has been issued using the incorrect term for the costs being displayed. For example, the FY 2000 transmittal letter refers to the report as, "...Auctions Expenditure Report for fiscal year 2000..." The Balanced Budget Act requires that FCC report its expenditures. However, in the attached 3-page overview and in the detailed lists that follow, the costs are labeled "Obligations" instead of "Expenditures." According to WTB preparers, these have been mislabeled as Obligated, when the costs being reported are actually Expenditures. This mislabeling has been in every Auctions Expenditure Report issued to date.

Inconsistent Classification Schemes

There are three different classification schemes used for auction accounting, which can lead to inefficient budgeting, tracking, and reporting. Although two of the classification schemes were developed internally by FCC for budgeting and accounting, neither is used to report auction expenditures to Congress. Each classification scheme and its purpose is described below.

➤ Budget Object Class Code (OMB-developed)

In the FY 2001 Auctions Expenditure Report, as well as all of the other reports, the pie graph is followed by a summarized analysis of the reporting year expenditures and pages of itemized expenditures sorted using OMB's Budget Object Class Code (BOCC) framework of the following nine categories:

1. Personnel Compensation
2. Personnel Benefits
3. Travel and Transportation of Persons
4. Transportation of Things
5. Rents, Communications, Utilities
6. Printing
7. Contracts – Other Services

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8. Supplies and Materials
9. Equipment

➤ Auction Cost Recovery for Budgeting (FCC-developed)

The Auction Cost Recovery budget calls (requests) sent from WTB to the offices and bureaus requested estimates to be classified in one of the following 9 categories.¹⁰ Each category was defined or described to help classify each cost when preparing the FY 2003 budget estimates:

1. Collections
2. General:
 - a. Administrative Operations
 - b. Information Technology
 - c. Human Resources
3. Internal Support
4. Auctions Conduct
5. Telecom
6. Information Technology – Bureau/Office Specific
7. IT Maintenance
8. Licensing – Shared
9. Licensing – Bureau Specific

➤ The Auction Cost Recovery for accounting (FCC-developed)

In addition, the *Auction Cost Recovery Guidelines and Procedures*,¹¹ formalizing FCC's procedures for accounting for auction costs, requires that auction costs be accounted for using the following pre-defined four categories:

1. Direct Auction Program Costs
2. Direct Commission Support
3. Information Systems Integration Costs, and
4. Post Auction Contract Assistance

These last two classification schemes were created by FCC to use in preparing the budget and/or to track and report auction cost quarterly to FCC management. Because both contain auction-related definitions, they are more useful for understanding how expenditures were related to supporting the auctions program than is the BOCC classification scheme used in the Auctions Expenditure Report. However, neither of these internally created classification schemes has been used for the annual Auctions Expenditure Report.

A copy of the internally developed classification scheme and definitions used for the FY 2002 auction budget (similar to the one used for FY 2003 Auction Cost Recovery for Budgeting, above) was shared with an OMB representative to obtain an opinion on its usefulness. The representative felt the well-defined scheme (with definitions included) would be more useful than seeing each itemized cost presented by BOCC. The FCC internal classifications give the reader a better understanding of how the funds were being applied.

¹⁰ Because the classifications vary somewhat from FY 1998 to FY 2002, the FY 2003 budget classifications have been used as an example for this discussion.

¹¹ Revised 1999

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However, the OMB representative would prefer to see specific projects identified in the expenditure report, but believed that is not possible without a good cost accounting system.

Relationships between the Auctions Expenditure Report and Other Agency Reports

Since FY 1999, because of its large loan portfolio and its auction activities, FCC has prepared audited financial statements following OMB guidance and issued the statements in an annual financial report. In addition, as required by Government Performance and Results Act of 1993, FCC prepares and issues a 5-year strategic plan, annual performance plans, and performance reports following OMB guidance. We reviewed the financial and performance reports for FY 2001 to see how the auction activities were discussed and if any information could be related to the Auctions Expenditure Report and found little discussion in either of these two reports on auction activities, although each included the number of auctions held during the reporting year. Neither report included a discussion of projected auction activities, nor auction-funded activities that would provide a better understanding of those expenditures itemized in the Auctions Expenditure Report, which have grown to approximately 25 percent of FCC resources.

The financial and performance reports are prepared by OMD, while the Auctions Expenditure Report is prepared by WTB. Until the FY 2002 Auctions Expenditure Report was issued, neither the Managing Director, nor the Chief Financial Officer were included in the concurrence review to ensure consistency between the three reports.

In addition to the financial and performance reports, we reviewed other auction-related reports to Congress to see if they might provide some information supporting the expenditures reported in the Auctions Expenditure Report. Most of the reports were limited to specific items and did not appear to provide good vehicles for linking auction expenditures with activities. However, they did provide more auction-related information than either the financial report or the performance report.

The Reports Consolidation Act of 2000 emphasizes consolidating similar reports increasing their usefulness. In addition, accelerating the financial statement due dates emphasizes the need for timely financial information which are now required to be issued with the annual performance report in a Performance and Accountability Report (PAR). Currently the standalone Auctions Expenditure Report provides neither relevant nor meaningful information. In addition, the reliability of the information is reduced by not being developed through the financial system of record, which is subjected to annual audits.

Recommendations:

To improve the quality of the Auctions Expenditure Report, we recommend that the Managing Director reassess the reporting process to include:

7. Identifying from the users of the report, members of Congress, OMB, and others, if they still need the report and/or what they need from the report. Specifically, determine if each expenditure described at a level of detail currently being tracked for each auction expenditure is needed, or rather, would combined BOCC totals be adequate. Determine whether the expenditure report should be included in the PAR now that the annual report requirement has been discontinued. The

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FCC should make a request to Congress to amend the legislation regarding the reporting requirements, if needed.

8. Identifying from FCC managers what they need from auction expenditure data and incorporate those needs into the managerial cost accounting system (BEAMS). For example, what information is useful for day-to-day management of auction resources.
9. Coordinating the issuance of the Auctions Expenditure Report with issuance of FCC's audited financial statements making the report more timely and part of the financial audit process. Incorporate the report with FCC's annual Financial Report and/or Performance and Accountability Report and include a discussion about activities related to the expenditures being incurred increasing the meaningfulness of the report.
10. Including the Chief Financial Officer and the Managing Director on concurrence of the draft report to ensure consistency and awareness of all FCC financial reports submitted to Congress

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Appendix I. Growth Rate Comparisons between the Auction Cost Recovery Budget and the Salaries and Expenses Budget

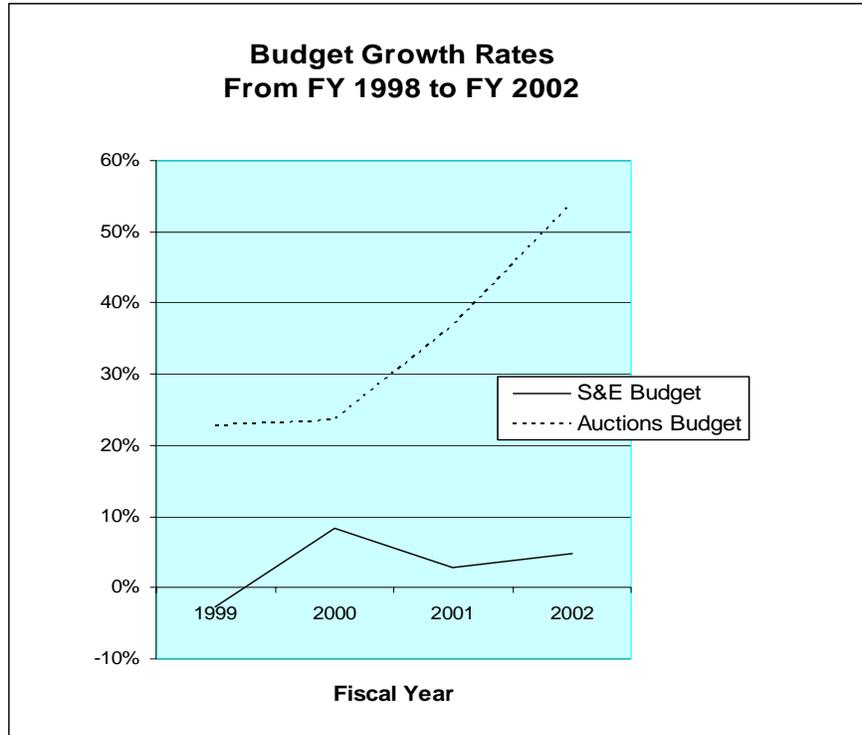


Figure 1

This figure demonstrates the difference in growth rates between FCC's appropriated Salaries and Expenses (S&E) budget and the apportioned-only Auction Cost Recovery (Auctions) budget.

Between fiscal years 2000 and 2001, while the S&E growth rate decreased to nearly zero, the auction budget growth rate exceeded 30 percent. The auction growth rate exceeded 50 percent between fiscal years 2001 and 2002, while the S&E rate remained fairly stable. By FY 2002, the Auction Cost Recovery budget had grown to greater than 25 percent of FCC's combined appropriations and auction apportionment resources.

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Appendix II. Flowchart of FCC's Auction Budget Preparation Process
(Prior to Fiscal Year 2002)

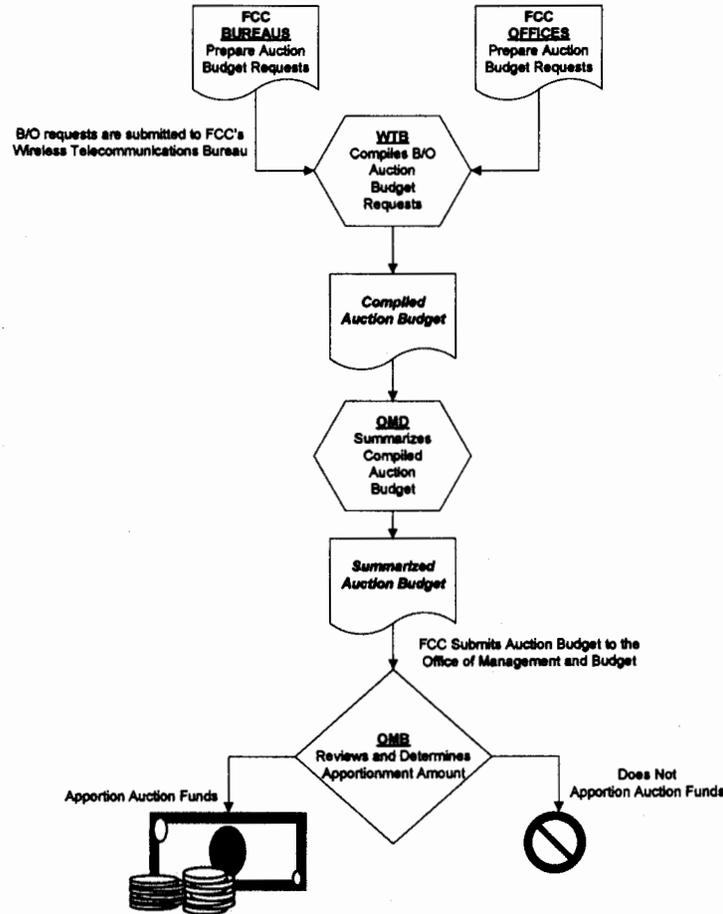


Figure 2

Prior to FY 2002, the Wireless Telecommunications Bureau (WTB) annually collected all auction budget requests from Bureaus and Offices (B/O), compiled the data, and provided it to the Office of Managing Director (OMD). OMD summarized the auction budget, added human resource estimates in FTEs, and submitted a request for apportionment of Auction Cost Recovery funds to the Office of Management and Budget (OMB). OMB reviews and analyzes the request, then apportions auction recovery funds to FCC.

After FY 2002, this process was modified. Instead of WTB receiving B/O requests and compiling the information, OMD collects and compiles the auction budget requests, eliminating this additional step.

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Appendix III. Budget and Reporting Time Line for Auction Costs

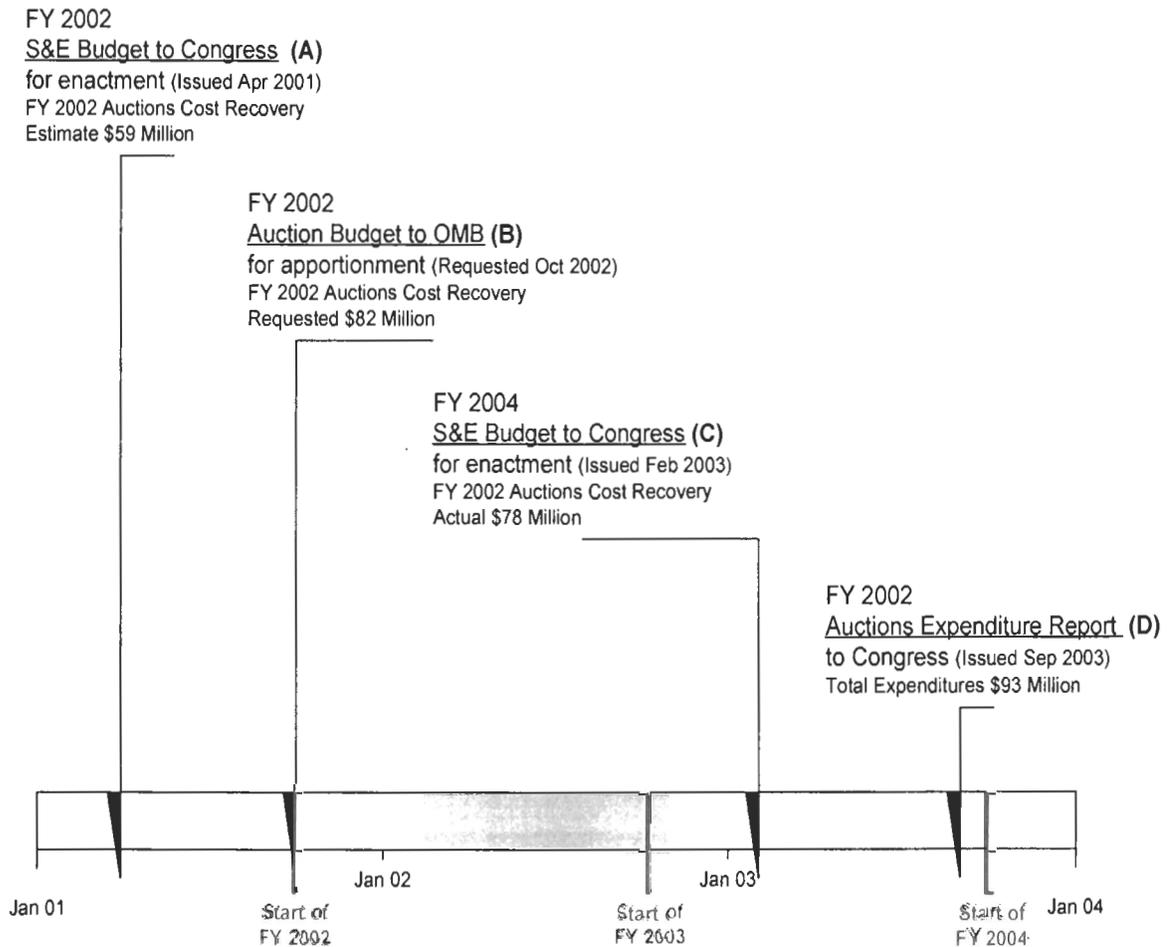


Figure 3

This timeline illustrates the time lags between development of FCC's appropriated Salaries and Expenses (S&E) Budget and the development of FCC's apportioned Auction Cost Recovery Budget using fiscal year (FY) 2002 as an example. The timeline also demonstrates the relation between issuing FCC's Auctions Expenditure Report to Congress compared to other documents Congress would be considering. Each document in the timeline has been labeled with a letter and is discussed below using the corresponding letter.

- (A) In April 2001, FCC submitted its *S&E Budget Estimates for FY 2002* to Congress, which included Auctions Cost Recovery estimates of approximately \$59 million.
- (B) Six months later, at the beginning of FY 2002 during October 2001, FCC submitted its FY 2002 Auction Cost Recovery request to OMB for an apportionment of approximately \$82 million¹² Congress is not a part of this process, so would not be aware of the \$23 million increase.

¹² To enable the reader to make relative comparisons, the FY 2002 dollar amounts have been adjusted to exclude carryover and credit reform amounts.

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- (C)** In February 2003, FCC submitted its *S&E Budget Estimates for FY 2004* to Congress with FY 2002 Auctions Cost Recovery “actual” amounts reported of approximately \$78 million.
 - (D)** The FY 2002 Auctions Expenditure Report was issued in September 2003 while Congress deliberated over enacting the FY 2004 budget requests. The report detailing \$93 million of expenditures was issued nearly seven months after earlier reporting actual expenditures to Congress in its *FY 2003 S&E Budget Estimates* noted in item C above, of which \$78 million was only from one resource.
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Appendix IV. Graphic Overview from the FY 2001 Auctions Expenditure Report

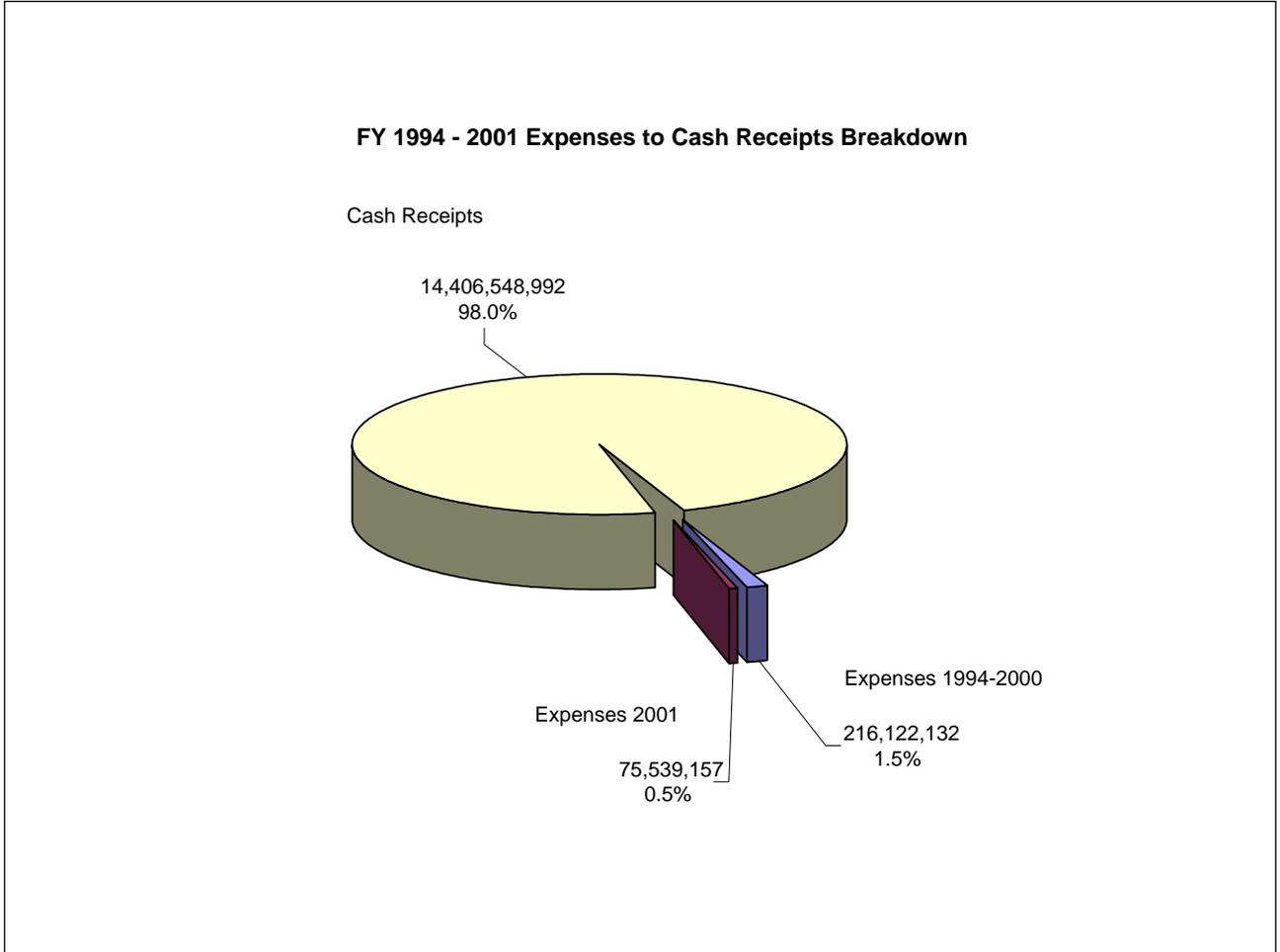


Figure 4

Figure 4 is a reconstruction of the graphic presentation included in the FY 2001 Auctions Expenditure Report. The pie graph represents FY 1994-2001 expenses compared against cash receipts for the same period. Total auction revenues of \$14 billion collected since 1994 has been compared against two expense slices. One slice is the combined cost of approximately \$216 million for fiscal years 1994 to 2000 and the smaller slice represents approximately \$75 million for FY 2001 costs. The FY 2001 expenses were approximately 26 percent of the total costs of \$291 million accumulated from fiscal years 1994 to 2001.

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Appendix V. Acronyms and Abbreviations

B/O	Bureaus and offices
BEAMS	Budget Execution and Management System
BOCC	Budget Object Class Code
FCC	Federal Communications Commission
FFS	Federal Financial System
FTE	Full-time equivalent
FY	Fiscal year
OIG	Office of Inspector General
OMB	Office of Management and Budget
OMD	Office of Managing Director
PAR	Performance and Accountability Report
S&E	Salaries and Expenses budget
WTB	Wireless Telecommunications Bureau

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Appendix VI. Memorandum from the Managing Director:

Management Comments to the Draft Report on the Audit of FCC's Auction-Related Accounting

Memorandum

DATE: September 30, 2004

TO: Inspector General

FROM: Managing Director

SUBJECT: Draft Report on the Audit of the Federal Communications Commission's Auction-Related Accounting

Thank you for the opportunity to comment on the draft report on the audit of the FCC's auction-related accounting. The Office of Managing Director (OMD) has developed the following comments on the draft report's recommendations in consultation with the Wireless Telecommunications Bureau (WTB).

Finding 1: Timing of Auction Cost Recovery Budget Development

Recommendation 1: Coordinate the development of the Auction Cost Recovery budget with the S&E budget so they are concurrent processes.

Concur. This is currently being done. Our experience has been that this transition is working smoothly and has improved the process agency wide.

Recommendation 2: Ensure that the Auction Cost Recovery estimates included in the S&E estimate submission to Congress are developed using this process.

Concur. This is currently being done effective with the FY 2005 budget developed last year and enhanced in the FY 2006 process this year.

Recommendation 3: Develop and implement an agency-wide overview step or process that ensures duplicative requests are identified and prevented.

Concur. As part of the implementation of the two items noted above, requests for auctions funding in the IT or other central service functions are reviewed by the IT or central service functions prior to funding. The Wireless Telecommunications Bureau (WTB) has agreed in principle and has no objection to this recommendation. In fact, the WTB has been operating under a version of this recommendation for FY 2004 without substantial problems.

OMD and WTB will continue to work towards streamlining and improving the existing process in FY 2005.

Finding 2: Data Accumulation for the Auctions Expenditure Report

Recommendation 4: Assess methods and/or alternative formats for streamlining the auction expenditure reporting process, eliminating the manual comparison process, and eliminating the duplicative data tracking processes.

Concur. However, with respect to the auction expenditure reporting process, we do not believe that it could be streamlined without modifications to the FFS. We also believe a further constraint with respect to streamlining is that the report, at a minimum, must include all of the information specifically requested by Congress. We support eliminating the manual comparison process provided that an alternative electronic verification mechanism that interfaces with FFS is identified, and none currently exists. We believe that the current manual comparison process, although time-consuming and resource-intensive, is a necessary and effective verification vehicle to assure these reports total to the FFS totals. With respect to the suggestion that "duplicative data tracking processes" be eliminated, WTB believes that the auction expenditures tracking process and the FFS are not completely duplicative because FFS does not capture all the descriptive fields and information currently required for the Auction Expenditures Report. If, however, FFS were modified to capture all this information, then WTB would be of the opinion that its independent auctions expenditures tracking process may no longer be needed. This option will be studied in the FFS replacement study currently being conducted by Perot and Co. (PEROT). With respect to the specific examples of modifications suggested by the draft IG Report, we believe that they are worth exploring and we support any modifications to or interfaces with FFS which would result in resource savings to WTB in connection with the preparation of the Auctions Expenditures Report. As noted above, OMD has initiated a study to determine which of the six available JFMIP-certified accounting systems best match the FCC accounting requirements. Since AMS has begun to withdraw support for FFS, the FCC recognizes it will need to move to an alternative accounting system in the near future. To determine all the necessary interfaces and requirements OMD has hired PEROT to conduct the study. PEROT will include the current auctions Congressional reporting requirements in the systems review and requirements determination. This effort is likely to take multiple fiscal years to complete. In the meantime, OMD and WTB will work together to review existing procedures and pursue improvements where possible.

Recommendation 5: Include specific data collection requirements for preparing an Auctions Expenditures Report in the development of the new managerial cost accounting system, Budget Execution and Management System (BEAMS), eventually replacing the Auctions Database.

Concur. While we acknowledge that implementation of this recommendation would result in significant time and resource savings, WTB nonetheless believes that it should continue to have responsibility for and input into the preparation of the Auctions Expenditure Report due to its administration of the Commission's auctions program. Furthermore, it is not clear that BEAMS is the best product to provide this tracking. PEROT has been hired to review the FCC consolidated accounting needs and review those needs against the six JFMIP-certified products to determine in order of priority which is the best match to serve the needs of the FCC. At that time we will revisit and review any opportunities to review workflow between OMD and WTB.

Recommendation 6: Develop a process to ensure that all financial data is entered into FCC's official financial system of record, FFS, prior to being entered into other unaudited system(s), ensuring the reliability and accuracy of the official system so that data will not be changed unnecessarily.

Concur. WTB supports any process that would ensure the reliability and accuracy of the FCC's official financial system of record. Along these lines, WTB is interested in working with OMD to implement this recommendation. In this connection, WTB believes that such process should ensure that all financial data is entered into FFS as expeditiously as possible and allow tracking of financial information on a real-time basis. Realistically the best chance to implement this recommendation will be through the PEROT study currently under way. We will incorporate this item and ensure it is studied and that WTB is a full participant as the process proceeds.

Finding 3: Auctions Expenditure Report

Recommendation 7: [To improve the quality of the Auctions Expenditure Report, we recommend that the Managing Director reassess the reporting process to include:] Identifying from the users of the report, members of Congress, OMB, and others, if they still need the report and/or what they need from the report. Specifically, determine if each expenditure described at a level of detail currently being tracked for each auction expenditure is needed, or rather, would combined BOCC totals be adequate. Determine whether the expenditure report should be included in the PAR now that the annual report requirement has been discontinued. The FCC should make a request to Congress to amend the legislation regarding the reporting requirements, if needed.

Partially concur. WTB does not believe that the Commission should initiate discussions with Congress or OMB on the sufficiency of or continued need for the Auctions Expenditure Report, as we have received no indication that there are questions about the adequacy of or need for this report. WTB also believes that additions or modifications to the Report should be left to the discretion of the Commission. However, OMD will consult with the Commission's Office of Legislative Affairs to determine whether discussions should be initiated with Congress concerning elimination of or modifications to the Report.

Recommendation 8: [To improve the quality of the Auctions Expenditure Report, we recommend that the Managing Director reassess the reporting process to include:] Identifying from FCC managers what they need from auction expenditure data and incorporate those needs into the managerial cost accounting system (BEAMS). For example, what information is useful for day-to-day management of auction resources.

Concur. WTB and OMD will jointly pursue this issue.

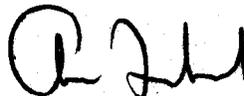
Recommendation 9: [To improve the quality of the Auctions Expenditure Report, we recommend that the Managing Director reassess the reporting process to include:] Coordinating the issuance of the Auctions Expenditure Report with issuance of FCC's audited financial statements making the report more timely and part of the financial audit process. Incorporate the report with FCC's annual Financial Report and/or Performance and Accountability Report and include a discussion about activities related to the expenditures being incurred increasing the meaningfulness of the report.

Concur. OMD will discuss with OLA and OGC the feasibility of altering the current due date of the Auctions Expenditure Report to coincide with the issuance of the agency's financial statements. The timing of this conversion will be based on OGC's and OLA's guidance.

Recommendation 10: [To improve the quality of the Auctions Expenditure Report, we recommend that the Managing Director reassess the reporting process to include:] Including the Chief Financial Officer and the Managing Director on concurrence of the draft report to ensure consistency and awareness of all FCC financial reports submitted to Congress.

Concur. This is already being done since the Commission adopted a rule (47 CFR 0.5(e)) requiring Commission organizations to confer with OMD when taking an action that has financial impact. Currently, WTB provides a copy of the draft report to OMD's Budget Office for review and comment prior to finalization. All input received by WTB from the Office of Managing Director as a result of such review is either incorporated into the report or discussed.

If you have any questions please contact Mark Reger, the Chief Financial Officer, at 418-1924.



Andy Fishel

Cc: John Muleta
Cathy Seidel
D'wana Terry
Mark Reger