



**OFFICE OF INSPECTOR GENERAL**

**MEMORANDUM**

**DATE:** October 10, 2003

**TO:** Inspector General

**THRU:** Thomas Cline  
Assistant Inspector General for Audits

**FROM:** Steve Rickrode  
Director, Financial Management Audits

**SUBJECT:** Survey of Mellon Lockbox Operations

As part of the fiscal year (FY) 2002 audit plan, we have completed a survey of the lockbox operations performed by the Commission's lockbox service provider Mellon Bank. The objectives of the survey were to: observe the lockbox process and control environment, suggest any enhancements from our review, and identify areas where additional audit work should be performed.

**REASON FOR SELECTION**

During 2001, the bank's lockbox operations became a concern after Internal Revenue Service tax returns for 2000 were intentionally misplaced by contractors. Additionally, the bank relocated its lockbox operations to a recently constructed facility adjacent to its previous location.

**OBJECTIVE**

The objectives of the survey were to: observe the lockbox process and control environment, suggest any enhancements from our review, and identify areas where additional audit work should be performed.

## **BACKGROUND**

A commercial bank conducts FCC's lockbox function by collecting FCC's regulatory and application fees, International Telecommunications Settlements, and auction installment loan payments. In addition, the bank receives 'upfront' auction deposits from potential bidders. During FY 2002, FCC received more than \$200 million of regulatory and application revenue collected through the bank. Although the lockbox operations are reviewed as part FCC's financial statement audit and are considered adequate, the bank's lockbox operations became a concern after IRS tax returns for 2000 were intentionally misplaced by contractors working under intense pressure. Additionally, the bank has relocated its lockbox operations to a new facility. The operation and internal control in place at the new facility has not been reviewed by the OIG.

## **SCOPE OF SURVEY WORK PERFORMED**

This project was conducted as a survey. A survey is the 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 particular survey was to observe the Commission's lockbox operations as provided by the contracted service provider bank and recommend the next course of action.

## **SUMMARY OF OBSERVATIONS**

As part of the Commission's financial statement audit, we observed the lockbox operations at Mellon Bank's new location in July and October of 2003. While on site, we performed a walkthrough of the lockbox process from receipt of mail at the bank through reporting of payment to FCC. Additionally, we observed other various means of payment and reporting of FCC business including wire transfer, ACH, credit card, and specific FCC-interfaced system processing. We reviewed the performance metrics for FCC processing including key stroke data and related accuracy checks noting acceptable ranges.

Our observations revealed no concerns where the risk of incorrect processing or receipt of payment to FCC was above acceptable risk levels. Additionally, the new lockbox facility is designed specifically for lockbox payment processing, of which FCC business is a small percentage in total. The risk is further mitigated due to the controls in place for Mellon Bank's Government transaction processing, which is reviewed by the Department of Treasury as part of the Federal contract and on a routine basis. Furthermore, other vendor agencies including the Department of State and the Department of Homeland Security perform transaction processing review from which any identified enhancements are also applied to FCC processing.

## **FUTURE AUDIT COVERAGE**

Since it is reviewed annually as part of the of the Commission's financial statement audit, the OIG does not plan to perform additional audit work relating to FCC lockbox processing. However, if assessed risks levels would change or controls that mitigate risk levels would become inoperative, the OIG may consider performing additional audit work.

## **CONCLUSION**

Based on the results of this survey and the coverage of lockbox operations in the annual financial statement audit, the OIG should not perform any additional audit work relating to this topic. However, should conditions change or existing controls are determined to not mitigate, to an acceptable level the risk of incorrect processing or non-receipt of payment to FCC, the OIG should consider performing specific audit work relating to FCC's lockbox operations.