



## OFFICE OF INSPECTOR GENERAL

### MEMORANDUM

**DATE:** March 18, 1996

**TO:** Chairman

**FROM:** Acting Inspector General

**SUBJECT:** Final Report on the Audit of Fiscal Year 1994 Spectrum Auction Implementation Cost

The attached audit report reflects the efforts of the Office of Inspector General(OIG) to support the conduct of successful spectrum auctions and encourage the development and implementation of strong financial management controls within the Commission. The objectives of the subject audit were to: (1) examine the system implemented by the Commission to accumulate and report auction related accounting information; (2) validate the timeliness and accuracy of the information that was reported; and, (3) identify areas where improvements could be made.

During the review, auditors identified \$297,041 in questioned cost. For purposes of this review, we have used the definition of questioned cost contained in the Inspector General Act of 1978 (P.L. 95-452) §5.(f)(1)(B) which establishes questioned cost as "a finding that, at the time of the audit, such cost is not supported by adequate documentation." Questioned costs resulted from (1)inaccuracies in reported personnel compensation expenses; and (2) inadequate support for selected personnel compensation and automation charges. During the conduct of our fieldwork, the auditors worked with management to establish mechanisms to accurately capture valid auction related expenses for FY 1995 and latter years. Three specific recommendations for corrective action are contained in the final audit report. The Managing Director has formally concurred with all three recommendations.

It should be emphasized that there is no indication that any fraud or malfeasance transpired within the scope of our audit. Rather, it is our determination that questioned costs resulted from inadvertent oversights on the part of responsible program officials and staff, operating under extreme time constraints.

H. Walker Feaster III

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

REPORT ON THE AUDIT OF FISCAL YEAR 1994

SPECTRUM AUCTION IMPLEMENTATION COST

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## EXECUTIVE DIGEST

The objective of this audit was to examine the system implemented by the Commission in FY 1994 to record and report auction cost information and to determine whether the system was providing timely, accurate and meaningful financial information to Federal Communications Commission (FCC) management. Auditors from the Office of Inspector General (OIG) identified two areas, personnel compensation and automation, in which improvements can be made in the system to ensure that it provides timely and accurate financial information. Both areas involve the lack of adequate documentation to support reported cost. For purposes of this review, we have expressed the value of inadequately supported auction cost as "questioned cost" consistent with the definition contained in the Inspector General Act of 1978.<sup>1</sup>

In performing the audit, auditors identified that FCC program officials did not have a timely and accurate mechanism in place in FY 1994, to accumulate hours and salary rates of FCC employees which were determined to be chargeable as auction expenses. The lack of accurate records has resulted in questioned costs of \$75,340. This amount reflects a summary of a number of categories to include: (1) hours charged to auctions not supported by documentation; (2) overtime hours charged for which no corresponding disbursement was made; and, (3) hourly rates charged for individuals assigned to auctions which were erroneous. In addition, FCC program officials were unable to provide OIG auditors with adequate documentation to support certain costs associated with automation initiatives which were expensed against FY 1994 auction proceeds. Questioned costs related to these transactions totaled \$221,701.

It is important to note that there is no evidence to suggest that the conditions identified in this review resulted from any deliberate attempt to circumvent accounting controls. Rather, the auditors are of the opinion that the Commission, in focusing its energy and efforts towards instituting a successful auction program in a short time frame, did not adequately address administrative issues. To address the weaknesses identified, we recommend that FCC management adopt the corrective measures enumerated in this report in the current and subsequent fiscal years. The Managing Director and Chief, Wireless Telecommunication Bureau (WTB) concurred with the audit findings and recommendations. Their responses to the Draft Audit Report are furnished in entirety as Appendix IV and V to this report.

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<sup>1</sup>The Inspector General Act of 1978 (P.L. 95-452) § 5.(3)(f)(B), defines questioned cost as "a finding that, at the time of the audit, such cost is not supported by adequate documentation."

Prior to initiating this audit, the OIG issued two audit reports<sup>2</sup> which addressed specific components of the spectrum auctions program. These reports focused upon the methodology for accepting and processing initial application receipts; tracking and reporting on round by round bidding eligibility and activity; and, the collection and deposit of down payments received from successful bidders. Based upon audit findings, the OIG developed a number of recommendations for corrective action to address limited deficiencies noted in an overall extremely successful and well conceived program.

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<sup>2</sup>Report on the Special Review of the Regional Narrowband Personal Communications Services (PCS) License Auction, OIG Report No. 95-A-1, dated January 20, 1995

Report on the Special Review of the Narrowband Personal Services (PCS) and Interactive Video Data Service (IVDS) License Auctions, OIG Report No. 94-6, dated September 22, 1994

## AUDIT OBJECTIVE

The objective of the audit was to examine the system implemented by the Commission to accumulate and report auction related accounting information and validate the timeliness and accuracy of the information that was reported. An additional objective was to identify areas where systemic improvements could be made to ensure the accuracy of future year reported cost. To accomplish our objective, we: (1) sampled reported cost elements and collected appropriate supporting documentation; (2) verified cost payment through the accounts payable system; (3) verified the accuracy of reported Bureau/Office reimbursement; and (4) interviewed managers involved in auction cost collection, recording, and reporting.

## AUDIT SCOPE

The audit was conducted in accordance with Generally Accepted Government Auditing Standards and included such analysis, interviews and testing as required to support the audit findings.

The scope of this review was limited to auction costs reported for FY 1994. The scope did not include an assessment of the Commission's interpretation of the statute<sup>3</sup> with respect to the applicability of the cost nor the basis for the determination that FCC employee auction related salaries and expenses could be recovered from auction proceeds. Thus, if the Commission reported an expenditure as an auction related cost, we attempted to verify that the expense was incurred, but did not attempt to evaluate its applicability as an auction related cost.

To support the auction process, WTB established and staffed a series GS-511 contract audit position within their organization.

As part of our fieldwork, we interviewed the WTB contract auditor to determine the extent of FY 1994 contract review, and sampled auction contract audit work to verify its accuracy. Based upon our review of the completed work, we determined that,

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<sup>3</sup>Section 309(j)(8)(B) of the Communications Act of 1934, entitled Retention of Revenues, states the following:

"Notwithstanding subparagraph (A), the salaries and expenses account of the Commission shall retain as an offsetting collection such sums as may be necessary from such proceeds for the costs of developing and implementing the program required by this subsection. Such offsetting collections shall be available for obligation subject to the terms and conditions of the receiving appropriations account, and shall be deposited in such accounts on a quarterly basis. Any funds appropriated to the Commission for fiscal years 1994 through 1998 for the purpose of assigning licenses using random selection under subsection (i) shall be used by the Commission to implement this subsection."

under GAO "yellow book" Government Auditing Standards, we could place reliance on the work being conducted by the WTB auditor. Accordingly, we were able to limit the level of audit work conducted. Although we placed audit reliance upon the WTB auditor's work, we identified a potential independence problem as defined by GAO as relates to the auditor's position and reporting responsibilities within the WTB organization. This issue was addressed to the Chief, WTB and is discussed in detail under Section A. Contract Cost of this report

Audit fieldwork was performed within OMD and WTB from January 1995 to November 1995.

#### BACKGROUND

The Omnibus Budget Reconciliation Act of 1993, as amended on August 10, 1993, added a new section 309(j) to the Communications Act of 1934. This amendment to the Communications Act gave the FCC express authority to employ competitive bidding procedures to choose from among mutually exclusive applications for initial licenses. In Fiscal Year (FY) 1994, the Commission promulgated general rules governing the spectrum auction process and specific rules governing the auction of licenses for the narrowband Personal Communications Service (PCS) and Interactive Video and Data Service (IVDS) licenses. On July, 29, 1994, the Commission completed its auction of ten narrowband PCS licenses with a total high-bid value of \$617,006,674. Concurrently with the narrowband PCS auction, the Commission conducted an auction of 594 IVDS licenses. The total value of bidding for these licenses, following adjustment for bidding credits, was \$213,892,375.

In addition to providing the Commission authority to auction licenses, the amendment gave the Commission the authority to receive reimbursement for the cost of implementing this means of allocating spectrum. Section (8)(B) of the new section 309(j), entitled Retention of Revenues, states the following:

"Notwithstanding subparagraph (A), the salaries and expenses account of the Commission shall retain as an offsetting collection such sums as may be necessary from such proceeds for the costs of developing and implementing the program required by this subsection. Such offsetting collections shall be available for obligation subject to the terms and conditions of the receiving appropriations account, and shall be deposited in such accounts on a quarterly basis. Any funds appropriated to the Commission for fiscal years 1994 through 1998 for the purpose of assigning licenses using random selection under subsection (i) shall be used by the Commission to implement this subsection."

On November 12, 1993, a memorandum was issued from the Acting General Counsel to the Associate Managing Director for Operations

(AMD-0). This memorandum, entitled "Spectrum Auction Authorization," examined the time frame for which the Commission could retain auction proceeds to offset expenses. The question at this point was whether the language of the authorizing legislation allowed long term retention of revenue or if the intent was for retention of start-up costs only. The Acting General Counsel concluded that "the Commission is authorized to retain all offsetting revenues."

On June 9, 1994, the Deputy Bureau Chief for Operations, WTB, issued a memorandum entitled "Spectrum Auction Costs" to those Bureaus and Offices participating in the auction process. This memorandum served to establish a process by which auction related costs could be accumulated and used to support requests for revenue retention. The memorandum requested that auction costs be reported in three stages. The first stage was hours and travel by staff member for the period prior to and including April 1, 1994. The second stage requested similar information for the period of April 4, 1994 through June 10, 1994. The third stage required weekly submission of hours and travel by employee, as well as, purchase order and contract information. In addition, costs incurred during stage three were to be reported by function (e.g., Management/Supervisory overhead, Marketing, Accounting, etc.) or by auction (e.g., narrowband, IVDS, etc.).

INACCURACIES IN REPORTED FY 1994 AUCTION COST

The FCC does not have adequate documentation to support all FY 1994 costs assigned to the development and implementation of spectrum auctions. The condition resulted from a number of factors including management's emphasis on successfully discharging the auction program, time constraints imposed on FCC staff, and lack of compliance by FCC staff with internal reporting procedures and applicable financial accounting requirements. The Policy and Procedures Manual for Guidance of Federal Agencies (Appendix 3 page 2-5), published by the General Accounting Office, states that "a fundamental requirement for any viable accounting system is that the financial transactions for which the system must account be adequately supported with pertinent documents and source records." The auditors have identified questioned costs in the amount of \$297,041. This amount is broken down as \$75,340 related to questioned personnel compensation and \$221,701 questioned costs identified as automation costs.

FY 1994 Spectrum Auction Costs Accumulated by the FCC

In its initial stages, the Commission used funds from central accounts (i.e., Bureau/Office accounts) to implement the requirements of the auction authority and purchase the necessary goods and services in FY 1994. A special project code was established to track and reconcile auction related cost. After the first round of auctions were conducted, in July 1994, some charges were offset directly with auction proceeds. In addition, auction costs absorbed by central accounts were "realigned" from the direct appropriation account to an offsetting account and the central accounts were, in effect, "reimbursed with auction proceeds. This system reported \$7,012,302 in auction related obligations in FY 1994. That cost is broken down as reflected in the following table on page 7:



<u>Classification</u>	<u>Reported</u>	<u>Percentage</u>
Contract Cost <sup>4</sup>	\$3,839,105	54.75%
Personnel Compensation <sup>5</sup>	1,604,903	22.89%
Automation Cost <sup>6</sup>	1,282,744	18.29%
Other Direct Cost <sup>7</sup>	<u>285,550</u>	<u>4.07%</u>
	<u>\$7,012,302</u>	<u>100.00%</u>

### Requirements for Accounting System Structure and Operation

Federal accounting principles and standards are promulgated by the Comptroller General and officially transmitted in the "Policy and Procedures Manual for Guidance of Federal Agencies" published by the General Accounting Office. Appendix III of that manual, entitled "Accounting System Standards," establishes requirements for accounting system structure and operation, as well as accounting processes and procedures. For purposes of establishing these requirements, the Appendix defines the "accounting system" as, "that part of the overall financial management system which provides the total structure of methods and procedures used to record, classify, and report information on the financial position and operations of a governmental unit or any of its funds, balanced account groups, or organizational components."

Section III cites the requirements of 31 U.S.C. 3512(a) which establishes a requirement for the head of each executive agency to establish systems of accounting and internal control which provide:

- complete disclosure of the financial results of agency

<sup>4</sup>Contract Costs - Costs associated with Contract No. RFP-FCC-94-10 with Tradewinds Realty Advisors. This classification does not include contract costs associated with automation. These costs are classified as Automation Costs.

<sup>5</sup>Personnel Compensation - Costs associated with Commission labor (including regular time and overtime), reimbursable agreements with Resolution Trust Corporation (RTC) and Federal Deposit Insurance Corporation (FDIC), and Special Acts and Performance Awards.

<sup>6</sup>Automation Costs - Costs associated with auction automation activities. These include hardware and software procurement, communication system design and installation, software programming, and computer support.

<sup>7</sup>Other Direct Cost - Miscellaneous charges including travel, equipment rental, printing expense, site design and construction, legal services, and supplies.

activities;

- adequate financial information needed for agency management purposes;
- effective control over, and accountability for, assets for which the agency is responsible; and,
- reliable accounting results and reports that will be the basis for preparing and supporting agency budget requests, controlling budget execution, and providing financial information the President requires.

In the section of Appendix III entitled "Accounting Processes and Procedures, the Comptroller General establishes requirements for transaction support. The section states the following in defining these requirements:

"A fundamental requirement for any viable accounting system is that the financial transactions for which the system must account be adequately supported with pertinent documents and source records. These transactions, and any subsequent adjustments, should be authorized and executed in accordance with management criteria by personnel acting within the scope of their authority. They should be properly accumulated and correctly classified, coded, and recorded in all affected accounts. These transactions should be recorded in the accounts promptly and accurately, in the proper amount, to permit (1) preparation of financial reports in accordance with internal needs and external requirements and (2) prompt analysis of the information by management. Thus, information should be captured in the accounting records simultaneously with or immediately following the event that gave rise to the transaction."

Selected Charges were Reported Inaccurately or were not Adequately Supported by Pertinent Documents and Source References

During our detailed review of reported auction cost, we examined 59.8% of the total reported cost of \$7,012,302 (\$4,196,658/\$7,012,302 = 59.8%). During that review, we identified \$297,041 in cost which was not adequately supported by pertinent documents and source references as required by the Comptroller General and cited above. These results are broken down as follows:

<u>Classification</u>	<u>Reported</u>	<u>Reviewed</u>	<u>Questioned</u>
Contract Cost	\$3,839,105	\$1,488,960	\$ 0
Personnel Compensation	1,604,903	1,174,711	75,340
Automation Cost	1,282,744	1,252,169	221,701
Other Direct Cost	<u>285,550</u>	<u>280,818</u>	<u>0</u>
	<u>\$7,012,302</u>	<u>\$4,196,658</u>	<u>\$297,041</u>

A. Contract Cost

To support the auction process, the WTB established and staffed a contract audit position within their organization. As part of our fieldwork, the auditors interviewed the WTB contract auditor to determine the extent of FY 1994 contract review and sampled auction contract audit work to verify its accuracy. Based upon our review of the completed work, the auditors determined that reliance could be placed on the work being conducted by the WTB auditor per GAO definition. Therefore, the auditors were able to limit the level of audit work conducted.

As previously stated, the determination to place reliance on the work of the WTB contract auditor was based upon our review of his work files. The OIG is cognizant of GAO Government Auditing Standards (commonly referred to as the "yellow book") language that recognizes that a "government auditors' independence can be affected by their place within the structure of the organization to which they are assigned." Furthermore, the "yellow book" states that "audit organizations should report the results of their audits and be accountable to the head or deputy head of the government entity and should be organizationally located outside the staff or line management function of the unit under audit." It is the opinion of the OIG that the placement of this audit position within the WTB violates the aforementioned audit standards. This determination was conveyed to the Chief, WTB, in a memorandum dated August 31, 1995 and is included as Appendix I to this report. In responding to this memorandum on October 27, 1995, the Deputy Chief, WTB, stated the following:

I have carefully considered your suggestions to establish a reporting structure outside the Auctions Division for the contract audit position(s) currently assigned to that division. I believe that it is in the best interest to have these positions continue to report administratively to the Chief of the Auctions Division.

The complete memorandum of the Deputy Chief, WTB is included as

Appendix II to this report. This matter was not resolved at the time of the issuance of this audit report.

As part of the review of reported contract cost, the auditors judgmentally selected six (6) vouchers from Contract No. RFP-FCC-94-10 with Tradewinds Realty Corporation. Tradewinds Realty Corporation was the principal contractor retained by the Commission to assist the agency in the planning and conduct of spectrum auctions in FY 1994. The vouchers selected represent 38.8% of total reported FY 1994 contract cost (\$1,488,960/3,839,105 = 38.8%). The vouchers the auditors selected are as follows:

Task Order No. 1, Invoice No. 3	\$ 299,351
Task Order No. 1, Invoice No. 6	791,183
Task Order No. 2, Invoice No. 3	105,068
Task Order No. 3, Invoice No. 3	98,839
Task Order No. 4, Invoice No. 1	62,041
Task Order No. 5, Invoice No. 4	<u>132,478</u>
	<u>\$1,488,960</u>

The six vouchers selected for review were traced back to all supporting documentation. The auditors did not find any cases where documentation was missing. The auditors also checked whether the fringe benefits, overhead, general & administrative expenses, and fees were consistent with the rates in the contract agreement and whether the amounts were correctly calculated. The auditors found the rates were consistent with the contract agreement and the amounts were calculated correctly.

#### B. Personnel Compensation

The FCC did not maintain adequate records to support all FY 1994 personnel compensation costs. In addition the FCC did not have adequate procedures in place to ensure that all costs were reimbursed. These conditions resulted primarily from the lack of compliance by FCC staff with internal reporting procedures, applicable financial accounting requirements and inadvertent errors on the part of the Cost Accountant. Federal accounting principles and standards promulgated by the Comptroller General state that "Fundamental requirement for any viable accounting system is that the financial transactions for which the system must account be adequately supported with pertinent documents and source records." The auditors have identified total questioned personnel costs of \$75,340 as reflected in the following table:

Finding	Dollar Amount For Overcharges	Dollar Amount For Undercharges	Paragraph Reference For Section B
1. Unsupportable Hours	\$20,792		1
2. Reimbursable Costs not Reimbursed to the Commission		\$14,656	2
3. Inaccurate Hourly Rate	\$13,300		3
4. Inaccurate Hourly Rates		\$1,678	3
5. Unsupportable Overtime	\$24,914		4
Totals	\$59,006	\$16,334	

As part of the audit fieldwork, the auditors requested supporting documentation from AMD-O for all direct labor hours worked and charged to auctions by FCC employees in FY 1994. These same records reportedly served as the source documentation used to support the Commission's request to Treasury for funds in the amount of \$1,604,903. These funds were reimbursed from auction proceeds.

Of the \$1,604,903, the auditors actually examined source documents totaling \$1,174,711, or 73.2% of the aggregate. The balance was composed of amounts disbursed to other Federal agencies that provided assistance to the FCC (the Resolution Trust Corporation and Federal Deposit Insurance Corporation) and Special Act and Performance Awards. These disbursements comprising approximately 26.8% of the \$1,604,903 did not fall within the scope of the auditors review.

Based upon review of source documentation, the auditors identified four finding areas as identified below:

1. Source documentation did not exist to support 752 direct labor hours for which reimbursement was obtained. These 752 hours translated to approximately \$20,792.

The auditors were informed that the condition cited above resulted from the lack of compliance on the part of FCC employees in forwarding appropriate documentation (details of hours worked by individual and salary rate) to the designated staff within AMD-O. This condition may also have resulted from insufficient control and record keeping by staff within AMD-O.

2. Through the review of detailed records, the auditors identified that a number of hours, which by FCC definition, should have been charged against auction proceeds were not. A total of \$14,656 in reimbursable costs were not reimbursed to the Commission. The \$14,656 represents 421 hours worked on spectrum auctions by 9 employees. The auditors questioned the responsible official in AMD-O to ascertain how this situation transpired. The responsible official advised the auditors that she was not aware how the hours were mistakenly omitted. The \$14,656 for which the Commission should have sought reimbursement, is considered as a questioned cost.

The responsible official within AMD-O informed the auditors that significant activity had taken place in FY 1995 to mitigate the potential for the condition cited above to have occurred in FY 1995. Specifically AMD-O has established a contact person in each Bureau/Office who is responsible for accumulating and reporting on a pay period by pay period basis, the hours worked by employees. Each contact point is responsible for submitting an auction labor hour report that includes the employees name, grade/step, and hours worked. The information is then sent to the AMD-O. Information is compiled by AMD-O officials and formatted into a consolidated report. At the time audit field work was completed, the information provided by the Bureaus/Offices was being manually recorded on a spreadsheet. The auditors were informed that a automated program using Paradox has been developed to replace the manual system. AMD-O plans to convert to this automated system in the near future. Further more, on October 1, 1995 the Commission implemented a Cost Accounting System. This system has the capability of accumulating labor hours charged to various programs including the Spectrum Auction Program.

3. FCC employee payroll records did not fully support labor hours and hourly salary rates which were used as a basis for accumulating auction related costs. The auditors have attributed this condition to inconsistent record keeping and incorrect interpretation on the part of the Cost Accountant assigned to AMD-O. Thus, the Commission is not in full compliance with source documentation requirements contained in the Policy and Procedures Manual for Guidance of Federal Agencies Appendix III, Chapter 2 § 2-5. Questioned costs in the amount of \$13,300 and \$1,678 respectively, have been developed in this finding section.

The auditors compared official FCC payroll records to auction reimbursable labor cost records maintained by the responsible AMD-O official. Inaccuracies were identified in the billing rates for 107 of the 109 employees<sup>8</sup> (98%) who charged hours to

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<sup>8</sup>An additional 12 employees charged hours to auctions. These 12 employees were not included in the sample due to

the auction program in FY 1994. The auditors found 100 out of 109 employees (92%) rates were higher than employees actual hourly rates. Actual<sup>9</sup> versus rates used in reimbursement calculations ranged from \$.03 to \$19.15 per hour. Resulting questioned costs totaled \$13,300. This amount represents the amount by which the Commission was over reimbursed.

The majority of the 100 discrepancies resulted from the calculation of hourly salary rates based upon a denominator of 2080 hours in lieu of the actual prescribed 2087 hours an employee works per year. While this resulted in relatively small billing discrepancies, the Commission inexplicably billed a rate significantly higher than that actually earned by certain employees. The most significant discrepancies are reflected in the table below:

HOURS CHARGED TO AUCTIONS	RATE CHARGED	TOTAL AMOUNT CLAIMED	ACTUAL SALARY RATE	SUPPORTABLE BILLING AMOUNT	QUESTIONED AMOUNT
222	\$41.29	\$9166.38	\$22.14	\$4915.08	\$4251.30
299	\$29.61	\$8853.39	\$16.34	\$4885.66	\$3967.53
388	\$46.88	\$18,189.44	\$43.24	\$16,777.12	\$1412.32

Additionally, the auditors identified 9 employees out of the 109 employees (8%) who had higher hourly salary rates than those rates used in actual reimbursement calculations totaling \$1,678. This amount represents an under-billing for which the Commission was entitled to reimbursement and thus, is classified as a questioned cost.

4. The Commission was reimbursed for numerous overtime hours worked for which no financial outlay was incurred by the agency. The Commission in FY 1994 did not provide salaried overtime to persons involved in the auction. And while some employees were able to earn and utilize credit hours, this was extremely limited due principally to the volume of auction related work in FY 1994.

The auditors compared official FCC payroll records to records

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insufficient employee payroll records.

<sup>9</sup>Actual rates reflect those rates appearing on Office of Personnel Management (OPM) Salary Table No. 94-DCB.

maintained by the responsible AMD-O official. The auditors identified that overtime hours worked on the auctions by FCC employees, while charged against auction proceeds as costs incurred, were in fact not consistently paid to effected employees. The auditors identified 17 employees who worked in excess of 80 hours per pay period on the auction program. For these 17 employees, the Commission was reimbursed approximately \$31,849 (rounded) for expenses related to overtime earned. Out of the \$31,849 the Commission was reimbursed from auction proceeds, the Commission only compensated the responsible employees, in credit hours that can be translated to, \$6,934 in equivalent salary. Assuming the validity of the Commission being reimbursed for credit hours, this results in a net difference of \$24,914. (See Appendix III).

C. Automation Cost

Automation cost accounted for a significant portion of the total cost of implementing the spectrum auction in FY 1994. In fact, costs associated with automation efforts accounted for 18.3% of the total FY 1994 cost of \$7,012,302 ( $\$1,282,744/\$7,012,302 = 18.3\%$ ). As part of our review, the auditors judgmentally selected twenty-seven (27) automation line items with a total value of \$1,252,163. The selected charges represent 97.6% of the total FY 1994 auction automation cost of \$1,282,744 ( $\$1,252,163/\$1,282,744 = 97.6\%$ ).

For each selected charge, the auditors requested all available documentation supporting obligation creation, procurement, and vendor payment. In addition, the auditors obtained and reviewed documentation supporting the reimbursement of individual Bureaus and Offices with auction proceeds. During the detailed review of the supporting documentation, the auditors identified the following transactions in which cost information was not adequately supported by pertinent documentation:

<u>Product/Service</u>	<u>Purchase Order Number</u>	<u>Line Item</u>	<u>Reported Dollar Value</u>	<u>Reference</u>
CBIS	43-3JJ5-4-1033G	03	\$ 70,482	1
CBIS	43-3JJ5-4-2431	03	54,477	1
CBIS	43-3JJ5-4-1187G	02	54,117	1
CDSI	43-3JJ5-4-0078		32,625	2
Bell Atlantic	43-3JJ5-4-0878	01	10,000	3
			<u>\$ 221,701</u>	

1. The auditors selected a series of charges incurred as part of an interagency agreement with an organization under contract with the Department of Justice (DOJ). This organization, Cincinnati Bell Information Systems, Inc. (hereafter referred to as "CBIS"), was being used to perform programming support to "application maintenance, development and conversion efforts." For each selected charge we attempted to



verify that work had, in fact, been performed and that the work was clearly auction related. Although in some cases the auditors were able to obtain accounting records which indicated payment against the respective purchase orders, these records did not provide a level of detail necessary to verify that the specific line items established for auction related efforts had been billed.

The auditors were informed by a representative for the office of the Associate Managing Director for Information Management (AMD-IM) that "(f)or billing purpose, the DOJ receives the invoices from CBIS for services rendered, the FCC receives a status report in accordance with the terms of the DOJ contract and the interagency agreement." AMD-IM went on to report that "FCC maintains records of these status reports." The auditors obtained and reviewed the status reports provided by the contractor through DOJ for the selected charges. A detailed review indicated that, although references to specific auction related tasks were made in the reports, cost information was provided at the purchase order level. Therefore, because the purchase order contains auction and non-auction work, reported auction cost could not be supported.

2. The auditors selected a charge attributed to "Facilities Management Services and Programming Support for Fiscal Year 1994" incurred by Computer Data Systems, Inc. (hereafter referred to as "CDSI") in the amount of \$32,625. Although AMD-IM was reimbursed for the amount reported, the auditors were unable to obtain any documentation supporting this charge including documentation supporting the creation of the charge (e.g., Data Automation Service Request, Request for Property or Services, etc.). The auditors were informed by an AMD-IM representative that "(t)his PO represents the services of one individual who performed services considered auctionable. His records are available." We obtained a copy of the referenced records and determined them to be inadequate as they did not separately report auction and non-auction work. Instead, these records reported only total contract activity for each month.

3. The auditors selected a charge attributed to "(s)ervices of a technician to perform repairs, moves, changes and installations on current telephone systems for 6 months." This charge, incurred by Bell Atlantic, was in the amount of \$10,000. Although AMD-IM was reimbursed for the amount reported, we were unable to obtain any documentation supporting payment of this charge with auction proceeds.

The auditors were informed by a representative from the AMD-O that this was "an estimated cost provided by Information Management", and that, as was often done during the final weeks of closeout, "this was done verbally to expedite the action." AMD-O went on to state that "(a) number of Information Management

line items were based on their best estimates of the pro rata share of funds reflected on an existing Commission contract which had been used to support Auction activities. The Budget Staff did not have the criteria used for these prorations. Information Management should address the methodology which was used."

We contacted a representative from AMD-IM and were informed that "the allocation for 43-3JJ5-5-0878 was made based on an estimate of the anticipated workload for phone work (new equipment, relocations etc.)." Although we requested documentation to support the estimate, this documentation was not provided.

D. Other Direct Cost

Other Direct Cost (ODC) accounted for 4.1% of the total FY 1994 cost of \$7,012,302 ( $\$285,549/\$7,012,302 = 4.1\%$ ). As part of our review, the auditors judgmentally selected fifteen (15) ODC line items with a total value of \$280,817. The selected charges represent 98.3% of the total FY 1994 ODC cost of \$285,549 ( $\$280,817/\$285,549 = 98.3\%$ ).

For each selected charge, the auditors requested all available documentation supporting obligation creation, procurement, and vendor payment. In addition, the auditors obtained and reviewed documentation supporting the reimbursement of individual Bureaus and Offices with auction proceeds. During the detailed review of the supporting documentation, the auditors observed that all reported charges were adequately supported.

## RECOMMENDATIONS AND MANAGEMENT RESPONSE

In order to address the conditions cited in the body of the report, the OIG has developed three recommendations for corrective action as appear below. The Managing Director concurred with each of the three recommendations. The complete text of his response to recommendations 1 and 3 respectively, are incorporated below. Due to the length of his response to recommendation 2, only an excerpt is provided in this report section. The full text of the response of the Managing Director is included as Appendix IV to this report.

The OIG recommends that the Managing Director:

1. Formally document the process by which auction related expenditures are created, approved, processed, recorded, and reported. This document should clearly establish the requirement for supporting documentation and establish specific responsibilities for each organization involved in the auction accounting process. This document should be distributed to all organizations involved in the process.

**Management Response:** Copies of Spectrum Auctions: Auction Cost Recovery Guidelines and Procedures were distributed in July, 1995.

2. Review the questioned labor and automation costs charged against auction proceeds and reach a determination as to the appropriate treatment of these questioned costs and institute appropriate action.

**Management Response:** There were "questioned costs" in two areas, Personnel Compensation and Automation. Each of these questioned costs have been reviewed and have been determined to be accurate and appropriately treated, but lacking adequate records or backup documentation.... The new formal cost accounting system implemented on October 1, 1995 should resolve for the future the appropriate level of personnel compensation to be charged to auctions.

3. Review auction automation contracts to determine if cost reports, provided by contractors, separately report auction cost information. If not, take steps to ensure that future procurement actions contain provisions to ensure that this information is provided.

**Management Response:** In FY 1995, all automation contracts were modified to provide specific cost accounting procedures for all auction-related tasks. These cost reports are currently being provided by the contractors involved.

In responding to the draft report, the Chief, WTB, stated:

With regard to the comments contained in the report concerning the establishment of an outside reporting structure for the auctions Division's contract auditor, I believe that the Bureau has fully responded to this issue in a memorandum dated October 27, 1995 and signed by our Deputy Bureau Chief....

The complete response of the Chief, WTB, is provided as Appendix V to this report.

## APPENDIX III

<b>OVERTIME HOURS WORKED</b>	<b>EMPLOYEE HOURLY RATE USED</b>	<b>TOTAL OVERTIME REIMBURSED</b>	<b>CREDIT HOURS EARNED</b>	<b>CREDIT HOURS IN DOLLARS</b>	<b>QUESTIONED AMOUNT</b>
17	\$31.21	\$530.57	12	\$374.52	\$156.05
20	\$56.03	\$1120.60	10	\$560.30	\$560.30
15	\$43.39	\$650.85	4	\$173.56	\$477.29
19	\$46.88	\$890.72	10	\$468.80	\$421.92
5	\$31.22	\$156.10	5	\$156.10	\$0
3	\$43.39	\$130.17	3	\$130.17	\$0
16	\$34.05	\$544.80	10	\$340.50	\$204.30
20	\$43.39	\$867.80	10	\$433.90	\$433.90
6	\$13.93	\$83.58	0	\$0	\$83.58
165	\$25.62	\$4227.30	16	\$409.92	\$3817.38
137	\$43.39	\$5944.43	38	\$1648.82	\$4295.61
50	\$43.39	\$2169.50	0	\$0	\$2169.50
134	\$43.39	\$5814.26	22	\$954.58	\$4859.68
55	\$56.03	\$3081.65	0	\$0	\$3081.65
15	\$41.17	\$617.55	13	\$535.21	\$82.34
170	\$20.78	\$3532.60	36	\$748.08	\$2784.52
36	\$41.29	\$1486.44	0	\$0	\$1486.44
885		\$31,848.92	189	\$6,934.46	\$24,914.46

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H. Walker Feaster III  
Acting Inspector General

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Paul Brachfeld  
Director of Audits

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Tom Bennett  
Senior Auditor

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Stephanie Dunscomb  
Auditor