



## OFFICE OF INSPECTOR GENERAL

### MEMORANDUM

**DATE:** August 10, 1998

**TO:** Chairman

**FROM:** Inspector General

**SUBJECT:** Final Report on the Follow-up Audit of the FCC Auctions Cost Recovery System

Attached please find a copy of the subject audit report. The primary objectives of this audit were (1) to follow-up upon the status of the four recommendations contained in OIG Audit Report No. 95-6 entitled "Spectrum Auction Implementation Cost Audit," issued on March 18, 1996 and, (2) ascertain the timeliness, accuracy and functionality of the cost accounting methodology now in place.

The auditors identified that the four aforementioned recommendations had been fully adopted with resulting improvement to the cost accounting methodology. This improvement was most notable with regard to retention of supporting documentation for auction labor and equipment expenditures.

This report also contains two new recommendations pertaining to the auction cost accounting system. OIG auditors reported that FCC bureau and offices were not consistently charging auction cost codes for labor hours expended on auction related tasks to the financial detriment of the Commission. In addition, the FCC did not update applicable auction guidelines and procedural manuals to reflect the migration of the FCC from the National Finance Center financial system to that of the Federal Financial System. Management concurred with both recommendations and initiated appropriate action to address both recommendations.

H. Walker Feaster III

Attachment

cc: Chief of Staff  
Managing Director  
Chief, WTB

**REPORT ON THE FOLLOW-UP AUDIT OF THE  
FEDERAL COMMUNICATIONS COMMISSION  
AUCTIONS COST RECOVERY SYSTEM**

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## **EXECUTIVE DIGEST**

As a result of our audit, we determined that FCC management adopted the corrective measures enumerated in our March 18, 1996 audit report. On January 1, 1996, the Associate Managing Director, Performance Evaluation and Records Management (PERM), closed-out the audit recommendations as completed in the Commission's audit recommendation tracking system.

During the conduct of this follow-up audit, the auditors identified two conditions that warranted audit recommendations for corrective action as follows:

- FCC management did not update its FCC Auction Cost Recovery Guidelines and Procedures manual (Guidelines) to reflect the Commission's 1996 change from the National Finance Center (NFC) system to the Denver Administrative Service Center Federal Financial System (FFS); and,
- FCC Bureaus and Offices were not consistently charging Auctions for auctions related work performed by their employees.

Additionally, the OIG identified that the Commission's method for allocating costs to cost objectives through its Cost Reporting System (CRS) caused a disproportionate share of "leave taken" costs to be charged for reimbursement from Spectrum Auctions revenues. Management concurred with the OIG finding and implemented appropriate corrective action during the conduct of the audit. Therefore, no audit recommendation is addressed in this report.

## **AUDIT OBJECTIVE**

The primary objective of the audit was to re-examine the FCC ACRS in order to determine whether management corrected the deficiencies reported in the OIG's, "Audit of Fiscal Year 1994 Spectrum Auction Implementation Cost Report," dated March 16, 1996. In that report, the OIG recommended that the Managing Director:

- Formally document the policies and procedures for creating, approving, processing, recording, and reporting auctions related expenditures;
- Review all audit questioned labor costs and determine the appropriate treatment for those costs;
- Review all audit questioned automation costs and determine the appropriate treatment for those costs; and,

- Review its auction automation contracts to determine whether contractor provided cost reports separately report auction cost information.

To accomplish our objective, we: (1) sampled reported cost elements and reviewed pertinent supporting documentation; (2) verified cost payment through the accounts payable system; (3) verified the accuracy of reported Bureau/Office reimbursements; (4) interviewed employees and managers involved in auction cost collection, recording, and reporting; and, (5) reviewed the FCC's new managerial cost accounting system, the CRS.

#### **AUDIT SCOPE**

Except as noted in the last paragraph of this section, we conducted our audit in accordance with generally accepted government audit standards (GAGAS). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the ACRS is free of material misstatement. An audit includes:

- Assessing control risk to use as a basis for planning the nature, timing, and extent of testing;
- Examining, on a test basis, evidence supporting the amounts and disclosures in the data and records reviewed;
- Assessing the accounting principles used and significant estimates made by management;
- Evaluating the overall data and records presentation;
- Obtaining an understanding of the ACRS; and
- Determining if the internal controls are adequate and in operation.

We evaluated the ACRS using the applicable requirements contained in:

- 47 USC §309(j), Communications Act of 1934, as amended by the Omnibus Budget Reconciliation Act of 1993;
- Auction Cost Recovery Guidelines and Procedures; and
- Statement of Federal Financial Accounting Standards (SFFAS) No. 4, *Managerial Cost Accounting Concepts and Standards for the Federal Government*.

The scope of our audit was limited to reviewing auction costs reported in FY 1997 and FY 1998 year to date through March 31, 1998. Additionally, the audit was limited to a review of unallocated and allocated reimbursable costs charged against Spectrum Auction revenues and did not encompass an in depth examination of the CRS.

### **BACKGROUND**

Congress authorized the FCC to recover costs of developing and implementing spectrum auctions by retaining auctions revenues as an offset when it amended the *Omnibus Budget Reconciliation Act of 1993* on August 10, 1993.<sup>1</sup> To support the resulting spectrum auctions program and encourage Commission development of strong financial management controls over this program, the OIG conducted the Spectrum Auction Implementation Cost audit of FY 1994 auction costs and issued a final report to the Chairman on March 18, 1996. In that report, OIG auditors cited three conditions with the following recommendations for the Managing Director to:

- Formally document the policies and procedures for creating, approving, processing, recording, and reporting auctions related expenditures;
- Review all audit questioned labor costs and determine the appropriate treatment for those costs;
- Review all audit questioned automation costs and determine the appropriate treatment for those costs; and,
- Review its auction automation contracts to determine whether contractor provided cost reports separately report auction cost information.

Management concurred and responded to the audit recommendations by reviewing each questioned personnel compensation and automation cost for accuracy and appropriate treatment and modifying all automation contracts requiring contractors to separately report auction cost information. Management also responded to the OIG's preliminary audit findings by issuing its "Auction Cost Recovery Guidelines and Procedures" in July 1995.

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<sup>1</sup> 47 USC §309(j)(8)(B), *Retention of Revenues*, authorized the Commission to "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."

In addition, management reported that the Commission changed from the National Finance Center (NFC) financial accounting and reporting system to the Federal Financial System (FFS). On October 1, 1995, the FCC implemented its new formal cost accounting system, the CRS. The FFS system permits the Commission to establish specific charge codes for employees to directly charge their labor to projects, such as Auctions. The CRS:

- Accumulates unallocated FFS data by cost code (codes beginning with "A" for auctions and "N" for non-auctions direct projects);
- Allocates costs identifiable to two or more final cost objectives (e.g., 51S51 for Auctions) to projects using a causal beneficial basis, such as direct labor dollars or hours; and,
- Allocates indirect costs for overall Commission operation and management (e.g., administrative costs, such as the Chairman and Commissioner's costs) to final cost objectives using a causal beneficial basis, such as total direct and allocated project costs.

Management also designed the CRS to report cost data for FCC organizations in cost and full time equivalent (FTE) reports to its users, primarily the: System Administrator, OMD Cost Data Viewer, and Bureau Cost Data Viewer.

The FCC implemented the CRS to serve as a tool for the Commission to achieve cost effective mission performance and provide full accountability for taxpayer resources and comply with legislative mandates<sup>2</sup> and Federal requirements<sup>3</sup>.

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<sup>2</sup>The *Chief Financial Officers (CFO) Act of 1990* prescribes that an agency's CFO should develop and maintain an integrated accounting and financial management system that provides for the development and reporting of cost information.

The *Government Performance and Results Act (GPRA) of 1993* requires federal agencies to report annually on actual performance compared to its annual performance plan and five-year strategic plan goals.

The *Federal Financial Management Improvement Act (FFMIA) of 1996* requires agencies to incorporate accounting standards and reporting objectives into their financial management systems so that all assets, liabilities, revenues, and expenses of programs and activities can be consistently and accurately recorded, monitored, and uniformly reported throughout the federal government.

## OTHER MATTERS TO BE REPORTED

As part of our follow-up audit, we reviewed the costs accumulated and allocated to Auctions by the CRS in FY 1997 through March 31, 1998. We found that, overall, the Commission's CRS complies with the managerial cost accounting system requirements prescribed by the Joint Financial Management Improvement Program (JFMIP)<sup>4</sup>. However, during the course of our review, we found that the Commission's method for allocating costs to cost objectives caused auctions to receive a disproportionate share of "leave taken" costs. For example, in FY 1997 the New Media Division - Television (Code 0610), Mass Media Bureau, provided \$2,494.96 in labor with \$6,562.91 of leave taken costs allocated to Spectrum Auctions. This amounted to a 263% leave taken allocation percentage of labor charged to auctions. In other words, for each \$1.00 of labor submitted to auctions on a reimbursable basis by this Division in FY 1997, \$2.63 in leave costs was also reimbursed by auction funds.

After reviewing this CRS leave taken allocation methodology with OMD Financial Operations Division (FOD) personnel, we found that the CRS excluded labor charged to the Commission's "N37" Source Project Code (non-auctions - Other) from the "Leave Taken" allocation base.

In response to this finding, OMD-FOD officials immediately addressed the problem by changing the CRS "Leave Taken" allocation base to include labor charged to the N37 Source Project Code and restated the FCC FY 1998 cost reports from October 1997 through March 1998, using the new allocation methodology. This change resulted in reducing FY 1998 leave taken costs claimed against auction revenues by \$65,006.

As stated in the scope paragraph, we limited our CRS review to reimbursable costs charged against auction revenues and did not perform an in depth examination of the Commission's CRS.

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<sup>3</sup>OMB and GAO issued Statement of Federal Financial Accounting Standards (SFFAS) No. 4, *Managerial Cost Accounting Concepts and Standards for the Federal Government* in July 1995 and required federal entities to implement these managerial cost accounting standards by October 1, 1997.

<sup>4</sup> JFMIP was statutorily authorized by the Budget and Accounting Procedures Act of 1950 (31 USC 65) and is a joint and cooperative undertaking of the U.S. Department of the Treasury, the General Accounting Office, the Office of Management and Budget, and the Office of Personnel Management.

## CONCLUSION AND FINDINGS

Office of Inspector General (OIG) auditors found that, overall, FCC management adopted the corrective measures enumerated in its March 18, 1996 audit report. However, as a result of the OIG follow-up audit, we identified the two following areas where improvements can be made to enhance the system's integrity and provide more useful cost information to management:

1. FCC management never updated the FCC Auction Cost Recovery Guidelines and Procedures manual (Guidelines) to reflect the Commission's October 1, 1995 change from the NFC to the FFS financial accounting and reporting system.

An internal control system's policies and procedures must provide users with current, accurate, and complete guidance before it can be effective. The existing Guidelines are not current as they still require employees and managers to:

- Complete Form A-78's when requesting reimbursable auction's services, equipment, supplies, etc. Under the FFS system, requestors complete "AQs" for reimbursable auction's goods and services, not A-78's.
- Accumulate and report all auction activity labor hours to the Office of Associate Managing Director for Operations (AMD-O) on a bi-weekly basis. Under the FFS system, Commission employees charge specific codes on their bi-weekly time and attendance reports for Auction activities, which are directly input into the FFS system by Bureau and Office administrative personnel.

2. The OIG used the Commission's FFS labor reports for FY 1998 to identify FCC employees who worked on auction billable projects during the period encompassed within the scope of our audit. We randomly and judgmentally selected sixteen non-Auctions Division FCC employees from pay periods 2 and 3 (January 18 through February 14, 1998) to interview about their reimbursable auction labor charging practices. We interviewed each of the sixteen employees in order to identify what project they specifically worked on, how they kept track of their hours, and whether they obtained supervisory approval to work on auctions projects.

Of the sixteen employees interviewed, we found that two employees recorded their hours under the old NFC "91N37" charge code and one employee did not charge an auctions cost code even when performing tasks for the Auctions Division.

The employees charging the "91N37" cost code stated that their labor charging system had not been changed to reflect the FFS



auctions charge codes. The employees' supervisor confirmed this and stated that they will be updating their Branch's labor reporting system by July 31, 1998.

When the one employee was asked why she did not charge Auctions cost codes for Auctions related work, the employee responded that she had transferred from the Auctions Division in mid-January 1998 and began charging her new Division's cost code even though she was still performing Auctions Division work. The employee stated that she plans to talk to management about charging auctions charge codes for auctions related work.

Also, several of the sixteen interviewed employees stated that they tended to undercharge the labor hours they charge to auctions, primarily by conservatively estimating the percentage of time they spend on auctions related matters. During our meetings with both employees and supervisors, we discussed possible methods for more accurately accounting for their auctions work, including informally exception reporting on their calendars. For example, if employees primarily work on non-auctions related matters, they would only record auctions related hours spent each day on their calendar. Conversely, if they worked primarily on auctions matters, they would only record the non-auctions effort each day.

Accurately reporting auctions effort is important not only for compliance with 47 USC §309(j)(8)(B), but also for budgeting purposes. Beginning with FY 1998, the WTB Auctions Division was required to prepare annual budgets for the Commission's estimated annual reimbursable auction expenditures. Accordingly, it is critical for Commission employees and management to accurately account for any auctions related activities. In fact, on June 12, 1998, after completion of our audit fieldwork and in response to a detailed memorandum detailing the OIG's audit findings, the Managing Director issued a Time and Attendance Reporting e-mail to all headquarters personnel. This e-mail reminded FCC employees of the importance of accurately reporting all hours worked by project and budget activity and provided detailed guidance for Spectrum Auction time reporting.

## RECOMMENDATIONS/MANAGEMENT RESPONSE

The OIG recommends that the Managing Director and WTB Chief:

### Recommendation 1 of 2

Update the Commission's "Auction Cost Recovery Guidelines and Procedures" manual by deleting the old NFC requirements and incorporating the FFS requirements.

**Management Response:** The Managing Director concurs with this finding and recommendation and has begun updating the FCC Auction Cost Recovery Guidelines Procedures Manual. These updates will reflect all policy and procedural changes. The Managing Director anticipates completing the updates in mid-August 1998.

### Recommendation 2 of 2

Instruct FCC management and supervisors to review the projects they assign to each of their employees. If determined that any of the work relates to Spectrum Auctions, managers and supervisors should insure their employees charge the appropriate auction codes.

**Management Response:** The Managing Director and Chief WTB concur with this finding. To address this issue, OMD and WTB initiated the following respective actions:

- OMD
  - Issued e-mails to Commission supervisory staff and employees reminding them of their responsibilities for reliable time and attendance reporting and accurate record keeping;
  - Training new employees on Commission procedures for accurate time reporting by project and budget activity during new employee orientation training sessions; and,
  - Tasking Human Resources to prepare a time and attendance training module for FCC supervisors.
- WTB
  - Held an all-hands meeting with the Managing Director, WTB front office and senior management to explain the time and attendance deficiencies and instruct staff to examine and correct their time and attendance reporting;

- Began providing quarterly reports to all WTB senior managers to ensure that all corrective measures continue; and,
- Began providing training for supervisors and timekeepers where needed. The first session for supervisors was held on Tuesday, July 7, 1998.