



UNITED STATES GOVERNMENT
FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF INSPECTOR GENERAL

MEMORANDUM

DATE: December 6, 2010

TO: Steven VanRoekel, Managing Director

FROM: David L. Hunt, Acting Inspector General

SUBJECT: Reissuance of Report on the Audit of FCC's Property Management System

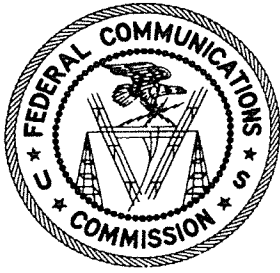
The Office of Inspector General ("OIG" or "Office") issued the subject audit report on May 18, 2010. Subsequent to the report's issuance, we were contacted by the Office of Managing Director and informed that management wanted to submit a supplemental response on the results of the audit. The supplemental response was provided on August 25, 2010.

OIG has reviewed the supplemental response and determined that the information provided does not require a supplemental audit report. Therefore, the audit report is being reissued in its entirety, along with the supplemental information. OIG notes that the supplemental response provides management's concurrence on additional findings that were not concurred with in management's original response to the draft report. This supplemental information results in management's concurrence to five out of six findings contained in the audit report.

Please contact me or Tom Cline of my Office on 202-418-7890 if you have any questions.

Attachment

cc: Wanda Sims, Associate Managing Director, Administrative Operations
Walt Boswell, Performance Evaluations and Records Management



Office of the Managing Director

MEMORANDUM

Date: August 24, 2010

To: David L. Hunt, Acting Inspector General

From: Steven VanRoekel, Managing Director

Subject: Management's Supplemental Response to the Independent Auditors' Report on the 2009 Compliance Audit of the FCC's Property Management System.

Thank you for the opportunity to review and comment on the draft report entitled Audit of the Federal Communications Commission Property Management System's Compliance with Financial Systems Integrations Office Requirements. We appreciate the efforts of your team and the independent auditor, Lani Eko & Company, to work with the Federal Communications Commission (FCC or Commission) throughout the audit process. The results of this audit were due to the commitment and professionalism that both the Office of Managing Director and the Office of Inspector General in conjunction with its independent auditors demonstrated during the audit process. The Commission worked closely with your office and the independent auditors' team to provide necessary and timely information to facilitate an efficient audit process.

We appreciate the feedback that we have received from this draft audit report and look forward to implementing additional improvements to the Commission's property management system and the related internal control environment. The Commission's management and staff have worked very hard to strengthen the internal control environment and to put into place an efficient and effective process for property management at the Commission.

The independent auditors' report states in Finding 1 that the current property management system lacks the mandatory functionality to distinguish between property expensed and property capitalized and therefore is not in compliance with the Financial Systems Integration Office (FSIO) requirements. This finding is interpreted to be essentially the same as Finding 4. Management concurs with the auditor's finding that the property management system does not have the ability to communicate directly with the existing financial system as required by FSIO. However, the FCC is implementing a new Core Financial System, known internally as Genesis, which will be placed into service on October 14, 2010. Once the system is operational, Financial Operations will evaluate the functionality of the system and work directly with Administrative Operations towards either integrating the current property management system or designing/purchasing a new system.

With regard to Finding 1 management notes that assets equal to or greater than \$25,000 are capitalized in Bar/Scan, which is part of the FCC's current Property Management System. Those assets are delineated by General Ledger Codes. Additionally, property is distinguished by dollar threshold and is recorded for each asset. Monthly Capital Depreciation Reports are supplied to the Financial Statement Policy Group (FSPG) containing data elements from Bar/Scan which contain the financial information for posting to the General Ledger. FSPG prepares journal entries to record capitalized property in the FCC's current financial system based on this information

The independent auditors' report states in Finding 2 that the FCC did not submit timely to the General Services Administration (GSA) Worldwide Inventory System, the required Annual Real Property Inventory Report. That report provides an inventory of all land, buildings, and other structures owned by the FCC throughout the world and all real property that the FCC leases from private individuals, organizations, municipal, county, state, and foreign governments by the annual deadline of November 15. Management concurs with this finding. The FCC submitted the final Annual 2009 Real Property Inventory Report to GSA on March 22, 2010. Initially, FCC Management was informed by GSA representatives that the FCC was not included in the list covered under the Chief Financial Officer's (CFO) Act and, therefore, would not be required to submit to GSA their Annual Real Property Inventory information. However, in December 2009, well after the due date for submissions had passed, the FCC was informed by GSA representatives that the FCC in fact would be required to file an Annual Real Property Inventory Report for 2009. Going forward, FCC management has established procedures that will ensure timely filing.

The independent auditors' report states in Finding 3 that the FCC did not meet the mandatory general requirement for conducting and documenting a condition assessment survey for property tracked in Bar/Scan because the condition of the property item tracked in the PMS is not supported by a documented condition assessment survey. Management concurs that we do not have policies and procedures in place to perform condition assessment surveys. However, management does annually gather data on the condition of FCC properties and tracks the status of the condition of FCC properties for financial management purposes. Management will research the requirements surrounding condition assessment and document its policies and procedures associated with condition assessment activities and reporting.

In Finding 4, the independent auditors found that the Commission lacks a fully integrated financial management system. Management concurs with this finding as Bar/Scan does not currently have the ability to communicate directly with the existing financial management system. In designing future phases of the core financial system, management will evaluate a variety of property management systems that will meet these requirements.

In Finding 5, the independent auditors' report states that the FCC's property management system does not have the mandatory functional capability for property accountability to capture the current user of a property item (e.g., the agency, contractor, grantee, etc.). Management does not concur with this finding. Bar/Scan has fields for capturing current users. However, in accordance with the FCC's Asset Management Policies and Procedures, non-sensitive items are assigned to locations, not individuals. Items of a sensitive nature (easily converted to personal use like a cell phone, laptop computer or similar item) are assigned directly to an individual and

reported annually on a self-certification form (A535). The FCC has consistently utilized this approach as its interpretation of the controls required by the JFMIP's Property Management System Requirements, which the independent auditors cited in their report. Management will research the current standards for property management systems as they evolve, and, if applicable, amend our policies and procedures to incorporate the current user on each non-sensitive property item.

In Finding 6, the independent auditors' report notes that the bi-annual Report of Survey, as prepared by the FCC's Administrative Services Center, identified 43 property items currently not located, of which 29 had been in the custody of two FCC officials and a contractor. In addition, the auditors' report identified 14 property items not inventoried or located since FY 2007 and certain sensitive property items not self-certified by the custodians as required by FCC policies and procedures. Management concurs with this finding. We note that all 43 items in question were assigned to the Information Technology Center (ITC). Fifteen of these items were laptops. Two of these laptops have been found and inventoried. The Property Manager will meet with ITC management to discuss adherence to the agency's Asset Management Procedures and Policies regarding deployment of accountable property. Additionally, ITC management is in the process of identifying those users in possession of the above referenced items. The specific items identified were issued prior to recent implementation of improved control procedures. More recently acquired ITC items are managed through enhanced, automated custody control procedures.

The Commission is committed to continually strengthening the internal controls of our property management system and implementing a property management system that is both feasible and cost effective. This commitment includes developing procedures and using technology in a way that will reduce costs and duplicate work as well as improve the accuracy and timeliness of information. In this way we will ensure that the funds that the Commission has stewardship over will be used in the most effective and efficient way. We look forward to working with you to resolve the audit findings in this report and to enhance the operation of our property management system.



Steven VanRoekel
Managing Director

cc: Wanda M. Sims, Associate Managing Director, Administrative Operations
Bridget Gauer, Chief Contracts and Purchasing Center
Daniel Daly, Chief of Staff
Mark Stephens, Chief of Financial Operations
Andrew Martin, Chief Information Officer
Walt Boswell, Performance Evaluations and Records Management



OFFICE OF INSPECTOR GENERAL

MEMORANDUM

DATE: May 18, 2010

TO: Steven VanRoekel, Managing Director

FROM: David L. Hunt, Acting Inspector General (C)

SUBJECT: Report on the Audit of the FCC's Property Management System
(Audit Assignment No. 09-AUD-09-26)

The Office of Inspector General is providing the report on the Performance Audit of the FCC's Property Management System. The Office of Inspector General engaged Lani Eko & Company, PLLC (Lani Eko) to conduct the audit.

The two objectives of the performance audit were to determine whether FCC's Property Management System is compliant with the Financial Systems Integration Office (FSIO) *Federal Financial Management System Requirements for Property Management Systems*, and to evaluate the design and implementation of internal controls related to the Property Management System for the fiscal year ending September 30, 2009.

The Property Management System uses a combination of manual and automated processes to create and maintain master property records on all inventory items. The automated portion of the system is known as the Asset Information System/BarScan and consists of a database that contains an inventory of all property. The master property record consists of all documents and related information concerning the asset, including purchase documents, receiving reports, invoices, property custody/transfer forms, and bar coding information.

The audit report identified six conditions where the Property Management System did not comply with FSIO requirements. Management concurred with three of the auditor's findings and recommendations and did not concur with the other three findings and recommendations.

Lani Eko is wholly responsible for the enclosed report dated May 7, 2010.

Attachment

cc: Wanda Sims, Associate Managing Director
PERM

**AUDIT OF THE FEDERAL
COMMUNICATIONS COMMISSION
PROPERTY MANAGEMENT SYSTEM'S
COMPLIANCE WITH *FINANCIAL
SYSTEMS INTEGRATIONS OFFICE*
REQUIREMENTS**

FY 2009

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EXECUTIVE SUMMARY

The objectives of our audit of the Federal Communications Commission (FCC) Property Management System (PMS) were to:

- Determine whether the FCC's property management system met the Financial Systems Integrations Office (FSIO) (formerly Joint Financial Management Improvement Program) *Federal Financial Management System Requirements for Property Management Systems (JFMIP-SR-00-4)*.
- Evaluate the design and implementation of internal control related to the property management system.

We conducted this performance audit of the FCC's PMS for the fiscal year ended September 30, 2009, in accordance with standards applicable to performance audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

During our audit, we noted the following matters relating to compliance with the financial management system requirements of FSIO and internal control over the property management system:

- The FCC PMS did not meet three of the 12 mandatory general requirements for property management systems as follows:
 1. The current system lacks the mandatory functionality to distinguish between property expensed and property capitalized.
 2. The FCC did not submit to the General Services Administration's (GSA's) Worldwide Inventory System the required *Annual Real Property Inventory* report. This is a report of all land, buildings, and other structures owned by the FCC throughout the world and all real property FCC leased from private individuals, organizations, municipal, county, state, and foreign governments. This report was due to be submitted to the GSA's, Office of Governmentwide Policy, Office of Real Property (MP), no later than November 15, 2009.¹
 3. The condition of a property item tracked in the PMS is not supported by a documented *condition assessment survey*.

¹ A draft report/matrix was submitted to GSA on January 22, 2010 and the final report/matrix was submitted on March 22, 2010.

- The FCC PMS also did not meet certain mandatory system requirements for “Managing and Accounting for Property”, as follows:
 1. The FCC lacks a fully integrated financial management system. Asset information in the BarScan² is posted to Federal Financial Management System (FFS) via a manual ad-hoc process.
 2. BarScan does not capture the current user of a property item.
 3. The bi-annual *Report of Survey*³ identified 43 property items as not inventoried or located, of which 29 had been in the custody of two FCC officials and a contractor. In addition, 14 property items had not been inventoried or located since FY 2007. These reports also identified sensitive property items not self-certified by the custodians as required by FCC policies and procedures.

We evaluated management’s comments and considered those comments in preparing our final report. See Appendix D-*Management’s Response*.

² The automated portion of the Property Management System is known as the “Asset Information System/BarScan” (AIS/BarScan) and consists of a database that contains an inventory of all property.

³ It is the FCC’s policy that in the event that property and/or equipment is lost, damaged, or stolen, a survey should be conducted to identify property and/or equipment affected. The individual discovering the loss/theft/damage is responsible for completing the FCC Form 103, *Report of Survey*. All *Report of Survey* steps and decisions shall be noted in a timely fashion on the FCC Form 103. The survey will institute corrective actions which will (1) fix responsibility, (2) establish procedures for disposition of damaged property, and (3) identify processes to avoid future losses and decrease damages and destruction.

BACKGROUND

The Federal Communications Commission (FCC) is an independent United States government agency directly responsible to Congress. The FCC was established by the Communications Act of 1934 and is charged with regulating interstate and international communications by radio, television, wire, satellite, and cable. It is directed by five Commissioners appointed by the President of the United States and confirmed by the Senate. The Commissioners supervise all FCC activities, delegating responsibilities to Bureaus, Offices, and staff units.

The FCC's Office of the Managing Director, (OMD) is responsible for developing policy regarding asset management and for implementing, enforcing, and complying with applicable regulations governing the management of inventory, property, plant, equipment, and software. The Associate Managing Director – Administrative Operations (AMD-AO) is designated as the Property Management Officer (PMO) and is responsible for developing procedures to implement the policies developed by the OMD. The Administrative Service Center (ASC) resides within the Office of Managing Director (OMD) and the Manager, ASC is designated as the Assistant Property Management Officer (APMO). The ASC has developed and is maintaining a comprehensive and uniform property management program that covers the acquisition, maintenance, use, protection, and disposition of all FCC property.

This property management system uses a combination of manual and automated processes to create and maintain master property records (MPR) on all inventory items. The automated portion of the system is known as the "Asset Information System/BarScan" (AIS/BarScan) and consists of a database that contains an inventory of all property. The MPR consist of all documents and related information concerning the asset, including purchase documents, receiving reports, invoices, property custody/transfer forms, and bar coding information. The manual portion of the system consists of the performance of physical inventories, the application of bar code stickers, the reconciliation of property discrepancies, and recognizing and recording capitalized assets.

The Financial Statement and Policy Group, within Financial Operations, uses the information generated from BarScan to record and recognize capital assets and the related depreciation for reporting on the FCC financial statements. The FCC has a \$25,000 capitalization threshold for all property items, except for bulk purchases and software. The FCC capitalizes bulk purchases where the item, if priced individually, is less than \$25,000 and where the aggregate cost is greater than \$250,000. The FCC capitalizes software if its cost is \$50,000 or greater.

The FSIO *Federal Financial Management System Requirements for Property Management Systems* reflects both functional and financial systems requirements associated with property management systems and addresses the goals of the Chief Financial Officers (CFO) Act of 1990, the Government Management Reform Act (GMRA) of 1994, and the Federal Financial Management Improvement Act (FFMIA) of 1996, which strongly reaffirm the need for the

Federal Government to provide financial systems that facilitate the effective management of Government programs and services and the proper stewardship of public resources.

The FSIO requirements for property management systems state that agencies must use these functional requirements in planning their property management systems improvement projects, and may develop additional technical and functional systems requirements as needed to support unique mission responsibilities. Agencies must also develop strategies for interfacing or integrating property management systems with their core financial management system and other applicable systems.

FSIO property management systems functions are designated as mandatory or value-added. Mandatory requirements describe what the system must do and consist of the minimum acceptable functionality necessary to establish a system, and are based on Federal laws, regulations, directives, or judicial decisions. In addition, mandatory requirements are those against which agency heads evaluate their systems substantial compliance with systems requirements under the FFMIA. Value-added requirements describe features or characteristics and may consist of any combination of the following: (1) using state-of-the art technology, (2) employing the preferred or best business practices, or (3) meeting the special management needs of any individual agency. The need for value-added features in agency systems is left to the discretion of each agency head.

RESULTS OF AUDIT

The FCC PMS did not meet three of the 12 mandatory general requirements, and we noted exceptions with the FSIO mandatory system requirements for “Acquiring/Receiving of Property” and “Managing and Accounting for Property”. We also noted findings related to the design and implementation of internal controls over the tracking and monitoring of accountable property.

The FY 2009 independent auditor’s report on internal control over financial reporting identified the FCC’s lack of a single, integrated financial management system as a significant deficiency⁴. The data in BarScan is posted to the FFS via system generated reports and manually prepared Excel spreadsheets.

FSIO Property Management System General Requirements

Mandatory general requirements are system functional capabilities required for all property management systems. The FCC PMS did not meet three of the 12 mandatory general requirements.

FINDING NO. 1

One of the mandatory general requirements is that the PMS distinguish between capitalized and expensed property items. The current system lacks the mandatory functionality to distinguish between property expensed and property capitalized and, therefore, is not in compliance with FSIO requirements.

The BarScan inventory system, a component of the PMS, is not structured to capture general ledger accounting data for property items that meet the FCC’s capitalization threshold. The Financial Statement and Policy Group (FSPG) is responsible for reviewing and reconciling the monthly report of acquisitions, disposals and transfers of software in progress. On a monthly basis, the FSPG staff prepares manual journal entries to record capitalized property in the FFS.

Property capitalized and recorded in property management systems are individual property items, items acquired separately but consolidated to represent one item, or items purchased in bulk, whose acquisition or fair market values meet agency-established capitalization thresholds. Such items are recorded in the PMS to maintain physical accountability over the property.

⁴ A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity’s financial statements will not be prevented, or detected and corrected on a timely basis.

Property expensed and recorded in property management systems includes sensitive or controlled property that is expensed when acquired because the cost is below the agency-established capitalization threshold. Agencies record and maintain expensed property for accountability and management purposes.

The FSIO *Federal Financial Management System Requirements for Property Management Systems* states, “Financial management systems in the Federal Government must be designed to support the vision articulated by the Government’s financial management community. This vision requires financial management systems to support the partnership between program and financial managers and to assure the integrity of information for decision-making and measuring performance. This includes the ability to: collect accurate, timely, complete, reliable, and consistent information; facilitate the preparation of financial statements and other financial reports in accordance with Federal accounting and reporting standards; ...”. It also states that a Systems’ mandatory functionalities are prescribed by Federal laws, regulations, directives, or judicial decisions; and used by agency heads to evaluate their systems substantial compliance with systems requirements under the Federal Financial Management Improvement Act.

Because BarScan is not structured to capture this information, the FCC PMS may be inadequate to assist management in collecting and maintaining timely information for financial reporting in accordance with accounting principles generally accepted in the United States.

RECOMMENDATION

- 1.1 We recommend that the FCC make modifications to its property management system to ensure that it complies with mandatory system functionality, including the functionality to distinguish between capitalized property and expensed property.

FINDING NO. 2

The FCC did not submit timely to the GSA’s Worldwide Inventory System the required annual real property inventory report of all land, buildings, and other structures owned by the FCC throughout the world and all real property FCC leased from private individuals, organizations, municipal, county, state, and foreign governments that was due by November 15, 2009.⁵

The FCC Property Management Officer (PMO) did not ensure that the FCC meet the Federal requirement for submitting the Annual Real Property Inventory report that is due to the GSA by November 15 of each year.

Executive Order 12411, *Government Work Space Management Reforms*, dated March 29, 1983, states that the Heads of all Federal Executive agencies shall (a) Produce and maintain a total inventory of work space and related furnishings and declare excess to the Administrator of General Services all such holdings that are not necessary to satisfy existing or known and verified planned programs and (b) Establish information systems, implement inventory controls

⁵ A draft report/matrix was submitted to GSA on January 22, 2010 and the final report/matrix was submitted on March 22, 2010.

and conduct surveys, in accordance with procedures established by the Administrator of General Services, so that a government-wide reporting system may be developed. Also, 41 C.F.R. 102.84 states that each agency that carries real property on its financial statement as of September 30 each year has the responsibility for submitting the real property inventory information.

Per the FCC *Asset Management Policies and Procedures (AMP&P)*, the PMO is responsible for periodically evaluating the Commission's personal property programs and systems to determine the status of compliance with the Commission's directive and standards and procedures established by the GSA in the FPMR for the Government-wide personal property program.

The FCC's failure to submit the GSA *Annual Real Property Inventory* report to the GSA's Worldwide Inventory System in a timely manner may impair the GSA's ability to (a) Maintain a centralized source of information on Federal real property holdings; (b) Track space utilization of reporting agencies; (c) Provide support for consolidated Federal financial statements on real property assets; and (d) Establish a reference for answering inquiries from the Congress, general public and other stakeholders in a timely manner.

RECOMMENDATION

- 2.1 We recommend that the PMO or designated FCC official comply with the Federal requirement that an *Annual Real Property Inventory* report be submitted to GSA by November 15 of each year.

FINDING NO. 3

The FCC did not meet the mandatory general requirement for conducting and documenting a *condition assessment survey* for property tracked in BarScan because the condition of the property item tracked in the PMS is not supported by a documented *condition assessment survey*. The property condition captured in the FCC PMS is based on employees' physical observation of the property items.

The Statement of Federal Financial Accounting Standards No. 6, *Accounting for Property, Plant and Equipment*, states, "Condition assessment surveys are periodic inspections of all Property, Plant and Equipment to determine their current condition and estimated cost to correct any deficiencies. It is desirable that condition assessment surveys be based on generally accepted methods and standards consistently applied."

Because the ASC has not developed a formal and standardized process for conducting and documenting a *condition assessment survey* for FCC property, the FCC is susceptible to the risk that property value is overstated due to the failure to capture and recognize permanent decline in the value of property. In addition, a property item with a useful economical life may be disposed or retired improperly due to improper categorization of the condition of the property.

RECOMMENDATIONS

We recommend that:

- 3.1 FCC’s management seek the opinion of the GSA or other governing body as to the requirements for completing *condition assessment surveys* on real property and/or general property, plant and equipment.
- 3.2 FCC develop and implement a formal process for conducting and documenting *condition assessment surveys* for heritage assets, stewardship land, national defense Property, Plant and Equipment (PP&E), and general PP&E, as applicable.

The matrix in Appendix A identifies the results of our testing for each of the 12 FSIO mandatory general requirements.

FSIO Requirements for Acquiring/Receiving Property

This function addresses assumption of initial physical control when property is delivered or real property is placed in service. Property is recognized as accountable when title passes to the entity obtaining the property or when goods are delivered. Property may be purchased, leased, loaned, granted, transferred, constructed, or donated. Upon receipt of property, the property management system should capture confirmation information about physical receipt and forward the information to the acquisition system and the core financial management system.

The BarScan system did not forward physical receipt information, including quantity and date of physical receipt, to the acquisition system and Core Financial System. This deficiency, however, is discussed below in “Managing and Accounting for Property.” See the matrix that identifies the results of our compliance testing for the mandatory requirements for “Acquiring/Receiving Property”⁶.

FSIO Requirements for Managing and Accounting for Property

These FSIO requirements address capturing and providing data to assist property managers and officials in performing their duties. Property management responsibilities and activities supported by property management systems include monitoring maintenance, utilization, overhaul, retirement, transfer, or disposal of property. See the matrix that identifies the results of our compliance testing for the mandatory requirements for “Managing and Accounting for Property”.⁷

⁶ See Appendix B

⁷ See Appendix C

FINDING NO. 4

The FCC lacks a fully integrated financial management system between the Federal Financial Management System (FFS) and the BarScan inventory system. BarScan does not have the functionality to post the asset's acquisition cost, accumulated depreciation/amortization, and the amount of gain or loss to the FCC's FFS at the time of asset transfer, disposal, or retirement.

Office of Management and Budget (*OMB Circular A-127, Financial Management Systems*) requires that agencies establish and maintain a single, integrated financial management system. The FCC's annual financial statement audit for fiscal year 2009 identified this lack of integration as a significant deficiency with OMB Circular A-127. This significant deficiency could lead to the FCC's recording of erroneous property records through human error, as well as fraud.

Lack of an integrated financial management system may impair the ability of the financial management system to process and record financial events effectively and efficiently, and to provide complete, timely reliable and consistent information for FCC decision makers, Congress and public.

RECOMMENDATION

- 4.1 We recommend that the FCC establish a plan for system integration between the new Core Financial System and the BarScan inventory system.⁸

FINDING NO. 5

The FCC property management system does not have the mandatory functional capability for property accountability to capture the current user of a property item (e.g., the agency, contractor, grantee, etc.).

The FSIO *Federal Financial Management System Requirements for Property Management Systems* states that the PMS must capture the current user (e.g., the agency, contractor, grantee, etc.) to ensure adequate physical control, which is a critical property management function.

Because the property management system does not capture the current user of a property item, property accountability may be ineffective and this exposes the FCC to the risk of loss or misuse of property.

RECOMMENDATION

- 5.1 We recommend that the FCC incorporate functionality for capturing the current user of property in its property management system.

⁸ The FCC has plans to replace its financial management system. This is an opportunity to deliver on its strategic goal of modernizing the Agency, improving the efficiency and effectiveness of financial operations, and to replace disparate financial systems with a single integrated financial system. In FY 2008, the Commission selected a vendor to supply the new core financial system and provide integration services. The FCC also selected a vendor to assist with change management, data clean-up, and improvements to business process flows. The FCC plans to complete implementation of the new Core Financial System in October 2010.

Design and Implementation of Internal Control

FINDING NO. 6

The FY 2009 bi-annual *Report of Survey* prepared by the ASC Manager identified 43 property items as not inventoried or located, of which 29 had been in the custody of two officials and a contractor. In addition, 14 property items had not been inventoried or located since FY 2007. The report also identified sensitive property items not self-certified by the custodians as required by FCC policies and procedures.

As of February 2010, issues identified in the bi-annual *Report of Survey* had not been addressed by the OMD and no determination regarding the 43 property items had been made by FCC's Appointing Authority.

In March 2010, we received an executed bi-annual *Report of Survey* that showed two missing property items had been recovered and a determination had been made by the FCC's Appointing Authority to conduct investigations on 27 of the 41 property items identified in the *Report of Survey*. The *Report of Survey* for the remaining 14 property items that were reported missing or unlocated since FY 2007 was signed by the Appointing Authority; however, there was no indication of the action FCC would take on the matter.

The FCC's *AMP&P* states, "If FCC property and/or equipment are lost, damaged, stolen or otherwise cannibalized, a survey should be conducted to identify property and/or equipment affected and to ensure that proper control of FCC assets is maintained. The survey will enhance the fixing of responsibility, disposition of damaged property, avoidance of future losses, damages and destruction by instituting corrective actions." Also, Federal regulations, specifically 31 U.S.C. 3512, require that agencies establish internal auditing and administrative controls for the purpose of ensuring effective controls and accountability for assets for which they are responsible. OMB Circular A-123, *Management's Responsibility for Internal Control*, states that management controls must provide reasonable assurance that assets are safeguarded against waste, loss, unauthorized use, and misappropriation.

Because the FCC was not enforcing control procedures identified in OMB Circular A-123 and the FCC *Asset Management Policies and Procedures*, FCC is exposed to increase risk of theft, loss, and unauthorized use of property items. Also, the FCC master property records have not been adjusted for the property items identified on the *Report of Survey*.

RECOMMENDATION

- 6.1 We recommend that the FCC management enforce the requirements outlined in the FCC's *Asset Management Policies and Procedures* regarding the annual inventory process for sensitive property items and for reporting and accounting for lost, damaged or destroyed FCC property.

OBJECTIVES, SCOPE, AND METHODOLOGY

We conducted a performance audit and evaluated internal control to meet the following objectives:

- Determine whether the FCC’s PMS met the Financial Systems Integrations Office (FSIO) (formerly Joint Financial Management Improvement Program) *Federal Financial Management System Requirements for Property Management Systems (JFMIP-SR-00-4)*.
- Evaluate the design and implementation of internal control related to the PMS.

Conformance with FSIO requirements and compliance with laws, regulations, and FCC policy and procedures was determined through interviewing appropriate management and technical personnel, reviewing supporting documentation, observing system activities, and testing the adequacy of controls.

In accomplishing the audit objectives, we performed, but were not limited to, the following procedures:

1. Reviewed and became knowledgeable of applicable laws and regulations and FCC policies and procedures relevant to the PMS.
2. Obtained or prepared transaction cycle memoranda to document transaction processes/cycles and applicable internal controls.
3. Assessed the design and implementation of internal controls for the FCC’s PMS.
4. Reviewed the data maintained in BarScan and the Master Property Records (MPR) for a sample of accountable property items.

In planning and performing our audit, we obtained an understanding of the FCC’s internal control over real⁹ and accountable property¹⁰, reviewed FCC procedural manuals and directives, and performed tests to determine compliance with the FSIO mandatory property management systems requirements. We believe that the tests performed and the evidence obtained provides a reasonable basis for our findings and conclusions.

⁹ FCC's real property includes land, buildings, leasehold improvements, and other structures (monitoring stations).

¹⁰ Accountable property is all assets with a purchase price greater than \$1,500 and software with purchase price or development cost greater than \$50,000, which is bar-coded, scanned and recorded in BarScan. .

We performed the above procedures at FCC Headquarters and at the main warehouse in Maryland. We did not conduct testing at the Field Offices or Monitoring Stations, but we confirmed that an annual physical inventory for FY 2009 had been completed at each Field Office, Regional Office, and Resident Agent locations.

The FCC has three Regional Offices, 16 Field Offices, and nine Resident Agent locations. All FCC property and equipment items are received and processed at the main warehouse in Capital Heights, MD except when a waiver has been granted. We obtained the total population of land, buildings, computer equipment, non-computer equipment, and sensitive property as recorded in BarScan. We then selected a random sample of 258 property items to test the PMS' compliance with the FSIO *Federal Financial Management System Requirements for Property Management Systems*.

In addition, we tested the internal controls over the Property Management System by reviewing the information and data in BarScan and the "cradle to grave" files maintained at the main warehouse for a random selection of 45 accountable property items. These MPR/"cradle to grave" files should contain the related purchase order or credit card purchase form (Form A-521, Credit Card Purchase Form), a properly executed receiving report, transfer related forms (Form A-480), the inbound and outbound BarScan reports, and other pertinent property tracking information.

Appendix A – GENERAL REQUIREMENTS

Does the Mandatory Requirements:	Yes	No
1. Record beginning balances, acquisitions, and withdrawals and calculate ending balances expressed in values and physical units, except for heritage assets and stewardship land for which all end-of-period balances are expressed in physical units only.	X	
2. Capture the condition of the asset for heritage assets, stewardship land, national defense property, plant and equipment (PP&E), and general PP&E for which a condition assessment survey was performed.		X
3. Provide edits (controls) to prevent duplication and reduce the likelihood of creating erroneous property documents and records to ensure the integrity of data recorded in the system.	X	
4. Permit only authorized users to enter, modify, or otherwise alter property records.	X	
5. Provide an audit trail for entries to a property record, including identification of individuals entering or approving information and data.	X	
6. Identify the type of transaction affecting the property item, e.g., initial acquisition, change in location, and disposal.	X	
7. Incorporate adequate security features that prevent unauthorized access to the property system by unauthorized individuals.	X	
8. Enable the transfer of responsibility for property from one authorized manager to another authorized manager.	X	
9. Capture real property information for GSA's worldwide inventory system as directed in Federal Property Management Regulation (FPMR) 102-84 (property management only).		X
10. Produce reports in accordance with user-defined criteria. Such reports may: <ul style="list-style-type: none"> ❖ Provide property information to allow appropriate users to conduct an inventory of current holdings or any subset of those holdings at any time. ❖ Allow users to access both summary data and more detailed data. 	X	
11. Capture the fact that an environmental or hazardous substance is located on or contained within a property item, in accordance with 41 CFR 101-42.202.	X	
12. Distinguish between capitalized property and expensed property tracked in the property management system.		X

Appendix B – ACQUIRING/RECEIVING PROPERTY

Does the Mandatory Requirements:	Yes	No
1. Create a skeletal property record or other mechanism for capturing information on property in-transit from the providing entity (e.g., vendor, donator, loaner, grantor, etc.). For example, the skeletal property record or other mechanism may identify the following on newly acquired property: <ul style="list-style-type: none"> • Name and address of the shipper/vendor; • Estimated date of delivery; • Shipping address (“ship to” address); • Item identification (e.g., quantity, description, model/serial number); • Requisition information (e.g., contract/purchase order, name and address of requisitioning organization); and • Order Date. 	X	
2. Complete the skeletal property record, or create a property record for items with no skeletal property record, upon assuming possession of the item, placing the real property asset in service, or initiation of real estate instrument/grant.	X	
3. Capture the method of acquiring each property item or bulk property items (e.g. direct purchase, completed work-in-process, capital lease, donation, non-reciprocal transfer or reciprocal transfer) and the date of acquisition.	X	
4. Capture quantity, date of physical receipt or date real property is available for use or placed into service, and condition of item received when a condition assessment survey was made.	X	
5. Forward physical receipt information, including quantity and date of physical receipt, to the acquisition system and Core Financial System.		X

Appendix C – MANAGING and ACCOUNTING FOR PROPERTY

Does the Mandatory Requirements For:	Yes	No
<p>1. Capitalized property and stewardship assets:</p> <ul style="list-style-type: none"> a. Classify PP&E by asset type. b. Distinguish between heritage assets and multi-use heritage assets. c. Capture changes in quantities, including unit of measure, where applicable, for beginning balance adjustments, additions, and deletions, and compute ending balances by asset category. d. Provide an audit trail for all adjustments to quantities and units. e. Capture the acquisition cost of an asset and any changes in the valuation, where applicable for reporting purposes. 	<p>X</p> <p>X</p> <p>X</p> <p>X</p> <p>X</p>	
<p>2. Capitalized property only:</p> <ul style="list-style-type: none"> a. Capture the estimated value of donated assets. b. Provide an audit trail for all adjustments to property values. c. Classify PP&E according to the Standard General Ledger Accounts. d. Generate data for the journal entries necessary for recording changes in the valuation including any associated gains or losses. 	<p>X</p> <p>X</p> <p>X</p> <p>X</p>	
<p>3. Depreciation, Amortization, or Depletion of Capitalized Assets</p> <ul style="list-style-type: none"> a. Capture the estimated useful life, depreciation/amortization/depletion method, and salvage/residual value for each asset or group of assets, when applicable. b. Calculate depreciation/amortization/depletion based on a management prescribed method. c. Accumulate amortization, depletion, and depreciation expense. d. Provide an audit trail for amortization, depletion, and depreciation expense. e. Allow authorized users system access to change the estimated useful life of an asset, the depreciation method, and estimated salvage value, and make adjustments to PP&E asset and contra-asset accounts on an exception basis. 	<p>X</p> <p>X</p> <p>X</p> <p>X</p> <p>X</p>	

Appendix C – MANAGING & ACCOUNTING FOR PROPERTY (Cont'd)

Does the Mandatory Requirements For:	Yes	No
<p>4. Transfer, Disposal or Retirement of Assets</p> <ul style="list-style-type: none"> a. Identify excess property or property held for disposal/retirement. b. Transfer property record data to the property disposal organization or receiving entity. Capture date of transfer, transferring entity, and recipient organization. c. Capture all essential information related to excess property and disposal as required by Federal Management Regulations 102-36 for applicable agencies. d. Capture type of disposal action, final disposition, and date of disposal. e. Capture property retirement or disposal status. f. Capture deletions. g. Calculate gain or loss at time of disposal or retirement, sale, exchange, donation. h. Transfer the asset's acquisition cost, accumulated depreciation/amortization, and the amount of gain/loss to the Core Financial System at the time of asset transfer, disposal, or retirement. i. Maintain an audit trail of transfer, disposal, and retirement actions. 	<p>X</p> <p>X</p> <p>X</p> <p>X</p> <p>X</p> <p>X</p> <p>X</p> <p>X</p>	<p>X</p>
<p>5. Deferred Maintenance and Condition</p> <ul style="list-style-type: none"> a. Capture management's estimate of deferred maintenance. b. Capture management's assessment of property condition. c. Capture the fact that an environment or hazardous substance is located on or contained within a property item in accordance with 41 CFR 101-42.202. 	<p>N/A</p> <p>N/A</p> <p>N/A</p>	<p>N/A</p> <p>N/A</p> <p>N/A</p>
<p>6. Clean-up Costs</p> <ul style="list-style-type: none"> a. Capture the total estimated clean-up cost when the item is placed in service if the PP&E meets the criteria established in paragraph 88 of SFFAS NO. 6. b. Capture environmental liabilities associated with PP&E when an event has occurred and the liability is probable and estimable. c. For general PP&E, calculate the annual amortization of estimated material, clean-up costs, and the unamortized balance. 	<p>N/A</p> <p>N/A</p> <p>N/A</p>	<p>N/A</p> <p>N/A</p> <p>N/A</p>

Appendix C – MANAGING & ACCOUNTING FOR PROPERTY (Cont'd)

Does the Mandatory Requirements For:	Yes	No
7. Property Accountability		
a. Capture property identification number, which may be the item's serial number.	X	
b. Capture location.	X	
c. Capture an item's current ownership status.	X	
d. Capture the current user (e.g., the agency, contractor, grantee, etc.).		X
e. Capture an item's current use status whether in-use, in storage, in-transit, etc.	X	
f. Capture identity of property custodian and/or the accountable organization.	X	
g. Capture in-transit information to establish/maintain accountability and control over Governmental property.	X	

Appendix D – MANAGEMENT’S RESPONSE

The FCC’s *Management’s Response* is provided as an attachment and includes management’s concurrence with Findings No. 2, 4, and 6. However, management does not concur with Findings No. 1, 3, and 5. Lani Eko & Company has evaluated and assessed the validity of the auditee’s comments.

FCC’s management has a different interpretation of the FSIO system requirements in regards to the property management system’s capability to capture the current user of a property item, for conducting and documenting a Condition Assessment Survey, and to distinguish between property expensed and property capitalized. However, in regards to Finding No. 3, FCC management will contact GSA and OMB to request a determination of compliance with the Condition Assessment Survey (CAS). This response is in agreement with our recommendation.



OFFICE OF MANAGING DIRECTOR

Memorandum

Date: May 6, 2010

To: David L. Hunt, Acting Inspector General

From: Wanda Sims, Associate Managing Director for Administrative Operations

CC: Steven VanRoekel, Mark Stephens, Roy Connor, Ginger Weasenforth

Subject: Management's Response to the Independent Auditors' Report on the 2009 Compliance Audit of the FCC's Property Management System.

Thank you for the opportunity to review and comment on the draft report entitled Audit of the Federal Communications Commission Property Management System's Compliance with Financial Systems Integrations Office Requirements. We appreciate the efforts of your team and the independent auditor, Lani Eko & Company, to work with the Federal Communications Commission (FCC or Commission) throughout the audit process. The results of this audit were due to the commitment and professionalism that both of our offices and the independent auditors demonstrated during the audit process. During the audit process the Commission worked closely with your office and the independent auditors' team to provide necessary and timely information to facilitate an efficient audit process.

We appreciate the feedback that we have received from this draft audit report and look forward to implementing additional improvements to the Commission's Property Management System and the related internal control environment. Commission's management and staff have worked very hard to strengthen the internal control environment and to put into place an efficient and effective process for property management at this Commission.

During the audit, Lani Eko & Company found that the Commission lacks a fully integrated financial management system. Management concurs with this finding as Bar/Scan does not currently have the ability to communicate directly with the existing financial management system.

The independent auditors report and the bi-annual Report of Survey identified 43 property items currently not located, of which 29 had been in the custody of 2 FCC officials and a contractor. In

addition, the auditors report identified 14 property items not inventoried or located since FY 2007 and certain sensitive property items not self-certified by the custodians as required by FCC policies and procedures. Management concurs with this finding. We note that all 43 items in question were assigned to the ITC. Fifteen of these items were laptops. Two of these laptops have been found and inventoried. The Property Manager will meet with ITC management to discuss adherence to the agency's Asset Management Procedures and Policies regarding deployment of accountable property.

The independent auditors report identified that the FCC did not submit timely to the GSA's Worldwide Inventory System the required annual real property inventory report of all land, buildings, and other structures owned by the FCC throughout the world and all real property FCC leased from private individuals, organizations, municipal, county, state, and foreign governments by the deadline of November 15. Management concurs with this finding. The FCC submitted the final Annual 2009 Real Property Inventory Report to GSA on March 22, 2010. Initially, FCC Management was informed by GSA Representatives that the Federal Communications Commission was not included in the list covered under the Chief Financial Officer's Act and, therefore, would not be required to submit to GSA their Annual Real Property Inventory information. However, in December 2009, well after the due date for submissions had passed Management was informed by GSA representatives that the FCC in fact would be required to file an Annual Real Property Inventory Report for 2009. Going forward, FCC management has established procedures that will ensure timely filing.

The independent auditors report states that the current property management system lacks the mandatory functionality to distinguish between property expensed and property capitalized and, therefore, is not in compliance with FSIO requirements. Management does not concur with this finding. Bar/Scan does make a distinction between capitalized and expensed property. In accordance with FCC Asset Management Policies and Procedures (AMP&P), Property is distinguished by dollar threshold; Capitalized (\$25K and above) and all other property by their respective costs. Dollar values are recorded for each asset. The monthly reports (CDR's) supplied to the Financial Statement Processing Group (FSPG) contain the data elements from Bar/Scan which contain the financial information for posting to the General Ledger, such as the funding data for capital assets. FSPG does not manually identify property items that should be capitalized. FSPG receives monthly reports on prior year and current year capitalized property, which have been identified as capitalized prior to entry into the Bar/Scan database. Capital assets are delineated in Bar/Scan by a filter in the report module which selects those items which have a listed purchase cost that is equal to, or greater than \$25,000. Capital Depreciation Reports (CDRs) are generated by Bar/Scan, exported in an Excel format, and forwarded to FSPG staff. FSPG prepares journal entries to record capitalized property in FFS based on information contained in the Capital Depreciation Reports generated by Bar/Scan.

The independent auditors report states that the FCC did not meet the mandatory general requirement for conducting and documenting a condition assessment survey for property tracked in Bar/Scan because the condition of the property item tracked in the PMS is not supported by a documented condition assessment survey (CAS). Management does not concur with this finding. A Deferred Maintenance Schedule is prepared annually and that information is included

in the preparation of the FCC Annual Performance and Accountability Report in compliance with the CFO Act and Statement of Federal Financial Accounting Standards No. 6. The preparation of a yearly Deferred Maintenance Schedule fulfills the Joint Financial Management Improvement Program (JFMIP) requirement for Condition Assessment Reporting. FCC Management will contact GSA and OMB to request a determination of Compliance with the CAS requirements.

Finally, the independent auditors report states that the FCC property management system does not have the mandatory functional capability for property accountability to capture the current user of a property item (e.g., the agency, contractor, grantee, etc.). Management does not concur with this finding. Bar/Scan has fields for capturing current users. However, in accordance with the Asset Management Policies and Procedures, non-sensitive items are assigned to locations, not individuals (See JFMIP, Page 18, Property Accountability). Items of a sensitive nature (easily converted to personal use like a cell phone, laptop computer or similar item) are assigned directly to an individual and reported annually on a self-certification form (A535).

The Commission is committed to continually strengthening the internal controls of our property management system and implementing a property management system that is both feasible and cost effective. This commitment includes developing procedures and using technology in a way that will reduce costs and duplicate work as well as improve the accuracy and timeliness of information. In this way we will ensure that the use of the funds that the Commission has stewardship over will be used in the most effective and efficient way. We look forward to working with you to resolve the audit findings in this report and to enhance the operation of our property management system.

Wanda Sims
Associate Managing Director

