U.S. DEPARTMENT OF COMMERCE
Office of Inspector General

National Telecommunications and Information Administration

NTIA Should Further Improve Digital-to-Analog Converter Box Coupon Program Internal Controls to Prevent Waste, Fraud, and Abuse

Final Audit Report No. CAR-19004-1
November 2008

November 25, 2008

MEMORANDUM FOR: Meredith Attwell Baker
Acting Assistant Secretary for Communications
and Information

FROM: Judith J. Gordon
Assistant Inspector General for Audit and Evaluation

SUBJECT: *NTIA Should Further Improve Digital-to-Analog*
Converter Box Coupon Program Internal Controls to
Prevent Waste, Fraud, and Abuse
Final Audit Report No. CAR-19004-1

This is our final audit report on the waste, fraud, and abuse prevention aspect of
the National Telecommunications and Information Administration's (NTIA's)
Converter Box Coupon Program.

In short, we found that NTIA has made significant progress in implementing a
program to deter waste, fraud, and abuse but needs to revise the plan detailing the
waste, fraud, and abuse prevention activities it is performing. Your agency has
already taken action to address many of the concerns we pointed out during the
course of our review, such as obtaining more timely information about contractor
waste, fraud, and abuse activities; revising how it documents the procedures it
performs; and tracking its own activities. Your November 7, 2008, response to our
draft report provided additional detail on NTIA's efforts to identify, deter, and
prevent waste, fraud, and abuse. We summarize the response in our report and
have included it in its entirety as appendix B.

In accordance with Department Administrative Order 213-5, please provide us with
an audit action plan within 60 days of the date of this memorandum. If you would
like to discuss the contents of the final report, please contact me at (202) 482-2754
or Chris Rose at (202) 482-5558. Please accept our thanks for the courtesies NTIA,
IBM, and its subcontractors extended to us during our audit.

cc: Bernadette McGuire-Rivera, associate administrator
            Office of Telecommunications and Information Applications
        Anita Wallgren, program director, TV Converter Box Coupon Program
        Milton Brown, NTIA audit liaison

Introduction

NTIA has made substantial progress carrying out the $1.5 billion Digital-to-Analog Converter Box Program since August 2007, when it contracted with IBM to implement the program. Authorized by the Digital Television Transition and Public Safety Act of 2005, the program provides up to two $40 coupons per household to offset the purchase price of digital-to-analog television converter boxes, which will enable consumers who do not have cable or satellite television to receive digital signals on analog TV sets after February 17, 2009. More than 32 million coupons have been distributed to consumers since February 2008, when NTIA began distribution. As of November 12, 2008, more than 14 million coupons have been redeemed for the purchase of approved converter boxes at program-certified retail outlets and online retailers.

NTIA's waste, fraud, and abuse program controls include reviewing IBM plans and reports, monitoring IBM performance, analyzing retailer reports, and evaluating retailer compliance with program regulations. NTIA detailed these activities in its June 2008 *Program Management Office Waste, Fraud, and Abuse Plan.* In addition, NTIA works with consumer web sites such as eBay and craigslist to prevent the sale of coupons. NTIA officials have also coordinated with OIG's Office of Investigations to address various complaints of possible fraud, waste, and abuse. These include the sale of converter box coupons, questionable advertisements, sales of converter boxes by noncertified retailers, certified retailers' acceptance of coupons without a corresponding converter box sale, and a potential scheme involving the transfer of coupons from nonparticipating retailers to a certified retailer for a small profit. In each instance, NTIA officials have initiated appropriate administrative action. As of September 9, 2008, NTIA had decertified 16 retailers for violating program rules.

Our audit survey, initiated in November 2007, identified some concerns with NTIA internal controls. Consequently, we began an audit in April 2008 to (1) assess the adequacy of NTIA controls to prevent waste, fraud, and abuse in the Converter Box Coupon Program and (2) determine the effectiveness of the bureau's oversight of the program, including monitoring the contract. We summarize the concerns identified in the audit survey and detail the objectives, scope, and methodology of our audit in appendix A of this report.

FINDINGS AND RECOMMENDATIONS

<u>NTIA Needs to Further Improve Digital-to-Analog Converter Box Coupon Program
Internal Controls</u>

Our review found that NTIA is providing effective oversight of the program, but
needs to further improve its internal controls to prevent waste, fraud, and abuse. In
a July 9, 2008, meeting with NTIA's Program Management Office, we outlined our
concerns about these internal controls. We discussed the need for NTIA to receive
more timely and informative data on contractor procedures, to revise the agency's
own audit plan, and to clearly document the results of its oversight. Our subsequent
work, which included site visits to the offices of the two subcontractors handling key
aspects of the program, reinforced our concerns.

NTIA had not been receiving audit results until well after the applicable month,
though it had asked IBM to provide reports approximately 2 weeks after the month-
end. For example, NTIA received the June 2008 results on August 5. The agency
informed us that IBM has subsequently improved the timeliness of its reporting: it
provided the August 2008 audit test results on September 17 and the September
2008 audit results on October 17.

Reports of contractor activities have not always provided sufficient useful
information. The contractor reports NTIA received for May 2008 included
voluminous data tables (such as a table that lists number of transactions denied by
coupon identification numbers) but provided little analysis and limited information
on any actions to be taken as a result of audit tests. We discussed our concerns with
representatives of one of IBM's subcontractors, who agreed that simple
aggregations of out-of-context data are of limited use to the agency. The
subcontractor representatives showed us tests and analyses they performed outside
of IBM's plan, which we believe would provide valuable information for NTIA. We
found that June, July, and August reports provided more meaningful data. For
example, the reports contained retailer surveillance logs that more clearly identified
the status of potential program violation reviews and provided information on the
results of onsite visits to certified retailers.

<u>NTIA's Waste, Fraud, and Abuse Plan Needs Revision</u>

NTIA should improve its own plan for reducing and preventing waste, fraud, and
abuse; fully implement the activities defined in the plan; and then clearly document
the results of its oversight. The Government Accountability Office's *Standards for
Internal Control in the Federal Government* states internal control and all
transactions and other significant events need to be clearly documented, and the

documentation should be readily available for examination. However, our review found the following:

- The original NTIA plan was incomplete. It did not include a complete listing of the bureau's activities, did not define the Project Management Office's role in the process to decertify retailers who violate program rules, and did not designate specific staff members responsible for activities.

  The plan also did not identify how often activities are performed or what resources are necessary to complete them. As a result, it is difficult to track NTIA's progress against the plan. At the July 9, 2008, meeting, we showed NTIA a spreadsheet tool we had developed for our own analysis that could be used to track its waste, fraud, and abuse prevention activities. The spreadsheet identifies each activity; owner or contact person who performed the work; date/frequency of the review; analysis or test conducted; audit process or audit steps taken; documentation of findings and results; and recommendations or corrective actions taken, if any. NTIA officials subsequently told us that they have begun using the spreadsheet to track their results and have revised the plan to address our concerns.

- Some activities the plan calls for have not been fully performed. For example, the plan states NTIA staff will make site visits to monitor contractor efforts. Although NTIA made some site visits earlier in the program, staff has not made specific visits focusing on waste, fraud, and abuse. Such visits are important because they allow real-time observation of internal controls at work. During our site visit to one subcontractor, we discovered unsecured converter box coupons. The coupons were quickly secured, and NTIA has since established a policy to deactivate returned coupons. But this incident shows how important it is for someone to go to the sites to see how the coupon program is actually being managed.

- During our site visit to the second subcontractor, we learned that the subcontractor was not conducting a test in accordance with the IBM audit plan, and we identified several actions that would enhance the retail surveillance log. This log tracks potential coupon program violations by recording the retailer involved, the type of surveillance performed (such as requests for information or secret shopper exercises), and the status and results of the surveillance.

  The subcontractor agreed that it was not conducting the test as stipulated in the audit plan and that the surveillance log should be changed to be more clear and useful. In the subcontractor's June 2008 report, the surveillance log was revised to clearly show whether incidents were closed or open.

- NTIA was not providing regular feedback on IBM's audit plans and reports. Although regular feedback was called for in NTIA's audit plan, we found only one set of formal comments on IBM's reports, dated June 24, 2008. NTIA subsequently has informed us it has begun to hold regular meetings with IBM and its subcontractors on the waste, fraud, and abuse prevention program and that since the June 2008 reports, the bureau has commented on monthly reports received from IBM.

In addition to the actions NTIA has taken to address the concerns we have raised, an important step would be to revise the plan detailing its waste, fraud, and abuse procedures and include a complete list of activities, including a detailed explanation of NTIA's role in decertifying retailers and the scheduling of regular meetings with IBM and its subcontractors on the waste, fraud, and abuse program. NTIA should identify a person accountable for each activity performed, develop a schedule of how often each activity should be conducted, and indentify the resources necessary to implement the plan. As the digital transition date draws nearer and consumers continue to request and redeem coupons, it is essential that NTIA act promptly to further strengthen its internal controls over the program.

Recommendation

NTIA should revise its *TV Converter Box Coupon Program: Program Management Office Waste, Fraud, and Abuse Plan,* to include a complete list of its activities and responsible individuals. The revised plan should also stipulate how often procedures should be performed and the resources needed. NTIA needs to track its efforts against the plan. Prompt action also should be taken to address any shortfalls in resources available to the project management office for its program to prevent/reduce converter box coupon program waste, fraud, and abuse.

NTIA Response

On November 7, 2008, NTIA responded to our draft report stating that it appreciates and accepts our findings and recommendations. NTIA noted that it works with IBM in real time, on a daily basis, to prevent and reduce instances of waste, fraud, and abuse in the coupon program. The bureau provided additional detail on internal controls that it has implemented to identify, deter, and prevent waste, fraud, and abuse. NTIA presented information on the requirements a retailer must meet to be certified in the coupon program, the process for decertifying retailers that violate program rules, and procedures for monitoring online activity involving the sale of coupons.

NTIA stated that it has revised its waste, fraud, and abuse plan and that IBM has improved the timeliness of its reporting: IBM provided the August 2008 audit test results to NTIA on September 17 and the September audit results on October 17. NTIA also noted that it now provides comments to IBM on these reports.

OIG Comments

We believe the steps NTIA has taken and plans to take are responsive to our recommendations.

APPENDIX A: OBJECTIVES, SCOPE, AND METHODOLOGY

The objectives of our audit were to (1) assess the adequacy of NTIA controls to prevent waste, fraud, and abuse in the Converter Box Coupon Program and (2) determine the effectiveness of the bureau's oversight of the program, including monitoring the contract. This audit was initiated in April 2008 following an audit survey that we performed between November 2007 and March 2008. Although NTIA had been accepting applications since January and distributing coupons to consumers since February, it had still not approved IBM's *Quality Monitoring and Control Plan,* which documents program risks, the controls established to eliminate those risks, and tests performed to verify controls are working. In addition, NTIA had not approved IBM's *Waste, Fraud, and Abuse Audit Plan* or completed an audit plan documenting its procedures to oversee contractor efforts.

We obtained an understanding of internal controls through interviews with personnel at NTIA, IBM, and subcontractors with program responsibilities. We also reviewed the August 2007 contract with IBM to administer the program and produce contract deliverables such as the *Quality Monitoring and Control Plan.* In addition, we reviewed waste, fraud, and abuse audit plans prepared by NTIA and IBM; IBM and subcontractor audit reports detailing the results of activities they performed; and documentation (e.g., retailer activity reports) relating to NTIA procedures.

We obtained information on program status and results by attending monthly program management reviews held between NTIA and IBM and by reviewing weekly status reports. We met with the NTIA program director and acting deputy for the Converter Box Coupon Program and other NTIA officials with waste, fraud, and abuse responsibilities. We also had telephone conversations with the contracting officer.

We also interviewed IBM and subcontractor personnel to obtain an understanding of the system controls and audit tests performed, the audit documentation maintained, and the reporting of audit results. Based upon this understanding, we selected those controls and tests that we felt were most critical for evaluating whether the tests had been performed consistent with IBM's audit plan and the results accurately reported.

IBM's audit plan follows the Government Accountability Office (GAO's) *Financial Audit Manual* in determining sample sizes: it evaluates a representative number of transactions per month for its tests. For most tests, we randomly selected 11 of the transactions from one month that had been tested by IBM subcontractors and retested them. In addition, for some tests we randomly selected 11 transactions that had not been tested by IBM and its subcontractor. We also reviewed five incidents

from the retailer surveillance log to determine whether the incidents had been adequately researched and resolved. Finally, we examined other procedures, such as analyses of sales increases, and we reviewed IBM and subcontractor audit reports for reasonableness and informational value.

To assess the reliability of the data provided by NTIA and IBM, we obtained a high-level understanding of the significant systems in use by the Converter Box Coupon Program. We noted that the certification and accreditation (C&A) packages for these systems were reviewed by NTIA management and were granted the authority to operate. We reviewed on a judgmental basis the system acceptance test plans, test results, and supporting documentation for reasonableness for these three systems. We concluded the computer-processed data provided by NTIA and IBM was sufficiently reliable for the purposes of our audit.

We reviewed compliance with applicable provisions of pertinent laws and regulations including the Digital Television Transition and Public Safety Act of 2005 and Digital-to-Analog Converter Box Coupon Program, 47 C.F.R. pt. 301 (2007). With respect to internal controls, we reviewed compliance with GAO's *Standards for Internal Control in the Federal Government.*

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. We conducted our review from April 2008 through August 2008 under the authority of the Inspector General Act of 1978 and Department Organizational Order 10-13. We performed our audit work at NTIA headquarters in Washington D.C.; IBM offices in Fairfax County, Virginia; and IBM subcontractor facilities in Portland, Oregon, and Wichita, Kansas.

APPENDIX B: NTIA Response to OIG Draft Audit Report

UNITED STATES DEPARTMENT OF COMMERCE
National Telecommunications and
Information Administration
Washington, D.C. 20230

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MEMORANDUM FOR:	Judith J. Gordon Assistant Inspector General for Audit and Evaluation
FROM:	Meredith Attwell Baker M A B Acting Assistant Secretary for Communications and Information
SUBJECT:	Response to OIG Report: *NTIA Should Further Improve* *Digital-to-Analog Converter Box Coupon Program* *Internal Controls to Prevent Waste, Fraud, and Abuse*, Draft Report No. CAR-19004-1

In accordance with Department Administrative Order 213-3, I am pleased to respond to the subject report on behalf of the National Telecommunications and Information Administration (NTIA). Since November 2007, the Office of Inspector General (OIG) has performed both an informal and a formal audit of NTIA's Digital-to-Analog Converter Box Coupon Program (Coupon Program). NTIA recognized early on that the Coupon Program would present opportunities for waste, fraud and abuse. In fact, NTIA approached the OIG immediately after the Digital Television and Public Safety Act of 2005 (the Act) was enacted into law to seek its advice on ways in which the agency could address waste, fraud and abuse in implementing the Coupon Program.[1] NTIA appreciates and accepts the findings and recommendations made by OIG and provides specific comments below.

NTIA's Regulations Contain Measures to Prevent Waste, Fraud and Abuse

NTIA has instituted controls that have effectively identified, deterred and prevented waste, fraud and abuse in the Coupon Program. Recognizing that the sale of the converter boxes represented a point of vulnerability for fraud, NTIA focused on establishing controls between the Coupon Program and retailers. For example, in order for a retailer to be certified in the Coupon Program, NTIA's regulations require retailers, among other things, to be willing to have their converter box sales audited at any time, to have systems in place that can be easily audited, and to only accept coupons for and receive payment resulting from the purchase of authorized converter boxes. NTIA's regulations permit NTIA to decertify retailers for non-compliance with the regulations, "with the terms of any agreement made between the Certified Retailer and NTIA, or for other actions inconsistent with the Coupon Program." 47 C.F.R. §301.6(b)(3). Moreover, before a certified retailer can become a *participating* retailer, it must provide staff training, successfully process a test redemption coupon, and demonstrate that it has an adequate inventory of converter boxes.

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[1] *See* Title III of the Deficit Reduction Act of 2005, Pub. L. 105-171, 120 Stat. 4, 23 (Feb. 8, 2008).

NTIA has an Effective Procedure to Decertify Retailers

NTIA and its contractor, IBM, have an established process for identifying retailers that appear not to be in compliance with the Program regulations and retailer agreements and to take appropriate action. NTIA moves expeditiously to decertify any retailer found not to be in compliance, notifies the retailer of its decertification, and takes steps to halt the processing of any pending requests for payment. In addition, NTIA reports certain cases to the OIG's investigative branch and refers matters to the Federal Trade Commission when retailer activity may involve misleading consumer advertising. Of the 2,409 retailers certified in the program, NTIA has decertified 16 retailers for non-compliance with program regulations or violation of the retailer agreement. In appropriate instances, NTIA has taken steps to recover overpayments to decertified retailers, which has resulted in the return of thousands of dollars to the U.S. Treasury.

NTIA has an Established Plan to Prevent the Unauthorized Sale of Coupons

NTIA also has established procedures for monitoring online activity involving the sale of coupons. For example, very early in the launch of the Coupon Program, NTIA worked with ebay Inc. so that the company's monitoring and filtering software automatically identifies and removes any posting that advertises coupons for sale. NTIA continues to monitor the site, however, and contacts ebay Inc to remove any coupon sales site that has eluded the filtering. NTIA has also worked closely with craigslist officials. At NTIA's request, craigslist amended its list of prohibited and restricted items the advertisement for sale of which is not permitted on craigslist to include "[c]oupons or gift cards that restrict transfer, and coupons or gift cards which you are not authorized to sell." See http://www.craigslist.org/about/prohibited.items. NTIA monitors postings on craigslist for violations of postings in violation of the prohibition against the sale of coupons, uses craigslist's user flagging system to identify prohibited postings, and contacts craigslist to assure that prohibited postings are taken down expeditiously. Officials at both companies have taken immediate action to remove coupon sales advertisements from their sites upon notification from NTIA.

NTIA's Internal Controls Have Improved

As part of this finding, OIG noted that NTIA has not been receiving audit results from its contractor until well after the applicable months. The time period that served as a basis for this finding, however, began in June 2008, and OIG acknowledged that since August 2008, the timeliness of these reports has improved. The August report was provided to NTIA on September 17, 2008, and the September report was provided to NTIA on October 17, 2008. Thus, IBM is now providing these reports within the two weeks after the close of the month, as NTIA had requested.

OIG also noted a review of a May 2008 contractor report revealed voluminous data tables with very limited analysis. However, OIG stated that the June and July 2008 reports provided more meaningful data. NTIA notes that the recent reports received by

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NTIA have provided more meaningful data to the program. NTIA continues to monitor contractor performance in this regard.

<u>NTIA's Waste, Fraud and Abuse Plan has been Revised to Address OIG's Concerns</u>

OIG made the following recommendations with respect to NTIA's Waste, Fraud and Abuse (WFA) Plan:

> …NTIA [should] revise its "TV Converter Box Coupon Program: Management Office Waste, Fraud and Abuse Plan" to include a complete list of its activities and responsible individuals. The Revised plan should also stipulate how often procedures should be performed and the resources needed. NTIA needs to track its efforts against the plan. Prompt action also should be taken to address any shortfalls in resources available to the project management office for its program to prevent/reduce converter box coupon program waste, fraud, and abuse.

NTIA notes that it has revised its WFA Plan to address the concerns raised by OIG. NTIA will provide a copy of the revised plan to OIG. Many of the OIG findings with respect to the plan, however, are being implemented. For example, OIG suggested that NTIA is not providing regular feedback on IBM's audit plans and activities. It also stated that although regular feedback was called for in NTIA's WFA plan, OIG found that NTIA had provided only one formal comment (June 24, 2008) on IBM reports. Since the June 2008 report, NTIA has received and commented on monthly reports from IBM. Likewise, OIG stated that some of the activities the plan calls for, such as contractor site visits, have not been fully performed. NTIA plans to make additional contractor site visits in accordance with the Revised WFA Plan. WFA is a major focus for the Program and NTIA is working with IBM in real time, on a daily basis, to prevent and mitigate instances of waste, fraud, and abuse.

I hope this response has been helpful. I would also like to take this opportunity to express NTIA's appreciation to the OIG staff for its expert advice on limiting the risk of waste, fraud, and abuse in the development of the Coupon Program's regulations, its conscientious and thorough audit of the Program, and its cooperation in investigating apparent waste, fraud, and abuse by retailers. If you have any questions, please contact NTIA's OIG liaison, Milton Brown, at (202) 482-1853.

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